**NEW ISSUE**
BOOK-ENTRY-ONLY

# PRELIMINARY OFFICIAL STATEMENT

# $4,275,000*
# JEFFERSON COUNTY, TENNESSEE
# General Obligation Refunding Bonds, Series 2016

OFFERED FOR SALE NOT SOONER THAN

Thursday, April 14, 2016 at 10:15 A.M. E.D.T.
Through the Facilities of ***PARITY***®
and at the offices of
Cumberland Securities Company, Inc.
Knoxville, Tennessee

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

April 6, 2016

*Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 6, 2016

NEW ISSUE — Rating: Moody's – "Aa3"
BOOK-ENTRY-ONLY — (See "MISCELLANEOUS-Rating" herein)

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

# $4,275,000*

# JEFFERSON COUNTY, TENNESSEE

## General Obligation Refunding Bonds, Series 2016

Dated: Date of delivery (Assume May 13, 2016). — Due: June 1, as shown below.

The $4,275,000* General Obligation Refunding Bonds, Series 2016 (the "Bonds") are issuable in fully registered form in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on December 1, 2016 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry-only system, principal of and interest on the Bonds are payable at the principal corporate trust office of the Registration Agent.

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

The Bonds maturing June 1, 2022 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2021.

| Due (June 1) | Amount* | Interest Rate | Yield | CUSIP** | Due (June 1) | Amount* | Interest Rate | Yield | CUSIP** |
|---|---|---|---|---|---|---|---|---|---|
| 2017 | $ 205,000 | | | | 2028 | $ 335,000 | | | |
| 2018 | 15,000 | | | | 2029 | 345,000 | | | |
| 2019 | 15,000 | | | | 2030 | 355,000 | | | |
| 2020 | 15,000 | | | | 2031 | 370,000 | | | |
| 2021 | 15,000 | | | | 2032 | 385,000 | | | |
| 2022 | 15,000 | | | | 2033 | 400,000 | | | |
| 2023 | 15,000 | | | | 2034 | 410,000 | | | |
| 2024 | 15,000 | | | | 2035 | 425,000 | | | |
| 2025 | 15,000 | | | | 2036 | 440,000 | | | |
| 2026 | 15,000 | | | | 2037 | 455,000 | | | |
| 2027 | 15,000 | | | | | | | | |

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

The Bonds are offered when, as and if issued, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the County by Rainwater, Drinnon & Churchwell, PLLC, counsel to the County. It is expected that the Bonds will be available for delivery through the facilities of Depository Trust Company in New York, New York, on or about May __, 2016.

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

April __, 2016

*Preliminary, subject to change.

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

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

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

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

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

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

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

JEFFERSON COUNTY, TENNESSEE

**OFFICIALS**

| | |
|---|---|
| *County Mayor* | Alan Palmieri |
| *County Clerk* | R.E. Farrar III |
| *Finance Director* | Langdon Potts |
| *Director of Schools* | Dr. Charles Edmonds |
| *County Trustee* | Ginger Franklin |
| *County Attorney* | Rainwater, Drinnon & Churchwell, PLLC |

**BOARD OF COUNTY COMMISSIONERS**

| | |
|---|---|
| Randy Bales | John McGraw |
| Randy Baxley | Rita Musick |
| Robert Beeler | John Neal Scarlett |
| Robert Blevins | David Seal |
| Jimmy Carmichael | Tim Seals |
| Terry Dockery | Barbara Jean Sheets |
| Steve Douglas | Sammy Solomon |
| Ralf "Gene" Eslinger | Donnie Tabor |
| David Gaut | Robert Tucker |
| Katy Fox Huffaker | Russell Turner |
| Todd Kesterson | |

**BOND REGISTRAR AND PAYING AGENT**

Regions Bank
Nashville, Tennessee

**BOND COUNSEL**

Bass, Berry & Sims PLC
Knoxville, Tennessee

**FINANCIAL ADVISOR**

Cumberland Securities Company, Inc.
Knoxville, Tennessee

# TABLE OF CONTENTS

# SUMMARY STATEMENT

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

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

Securities Offered..........................$4,275,000* General Obligation Refunding Bonds, Series 2016 (the "Bonds") of the County, dated the date of issuance (assume May 13, 2016). The Bonds mature each June 1 beginning June 1, 2017 through June 1, 2037, inclusive. See section entitled "SECURITIES OFFERED" herein for additional information.

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

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

Optional Redemption ....................The Bonds maturing June 1, 2022 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2021. See Section entitled "SECURITIES OFFERED – Optional Redemption".

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

Bank Qualification.......................The Bonds will be treated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.

Rating.............................................Moody's: "Aa3". See the section entitled "MISCELLANEOUS - Rating" for more information.

Financial Advisor ..........................Cumberland Securities Company, Inc., K[illegible]ction entitled "MISCELLANEOUS-Financial Advisor; Related parties; Other" herein.

Underwriter...................................________________.

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

*Preliminary, subject to change.

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

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

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

Disclosure ...................................... In accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as amended, the County will provide the Municipal Securities Rulemaking Board (the "MSRB") through the operation of the Electronic Municipal Market Access system ("EMMA") and the State Information Depository ("SID"), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports, see the section entitled "MISCELLANEOUS-Continuing Disclosure."

Other Information.......................... The information in this *Preliminary Official Statement* is deemed "final" within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof except for the omissions of certain pricing information allowed to be omitted pursuant to such Rule 15c2-12. For more information concerning the County or this *Preliminary Official Statement*, contact The Honorable Alan Palmieri, County Mayor, 1244 Gay Street, Dandridge, TN 37725, Telephone: (865) 397-3800,; or the County's Financial Advisor, Cumberland Securities Company, Inc., P.O. Box 24508, Knoxville, Tennessee 37933, Telephone: (865) 988-2663. Additional information regarding BiDCOMP™/PARITY® may be obtained from PARITY®, 1359 Broadway - 2nd Floor, New York, NY 10018, Telephone: 800-850-7422.

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

| | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|
| Beginning Fund Balance | $5,069,192 | $5,205,740 | $6,068,814 | $6,099,083 | $6,261,169 |
| Revenues | 17,849,184 | 19,676,869 | 19,491,866 | 19,510,459 | 20,343,503 |
| Expenditures | 17,826,809 | 18,318,688 | 19,126,308 | 19,948,115 | 20,023,823 |
| Excess (Deficiency) of Revenues Over Expenditures | | | | | |
| Insurance Recovery | 112,888 | 43,939 | 41,786 | 164,553 | 74,147 |
| Transfers In | 103,185 | - | 225,000 | 742,500 | 373,200 |
| Transfers Out | (101,900) | (539,046) | (602,075) | (391,008) | (927,906) |
| Restatement | - | - | - | 83,697 | - |
| **Ending Fund Balance** | **$5,205,740** | **$6,068,814** | **$6,099,083** | **$6,261,169** | **$6,100,290** |

*Source:* Comprehensive Annual Financial Reports of the County.

SUMMARY NOTICE OF SALE

# $4,275,000*

## JEFFERSON COUNTY, TENNESSEE
## General Obligation Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the County Mayor of Jefferson County, Tennessee (the "County") will receive electronic or written sealed bids until **10:15 a.m. E.D.T.** on **Thursday, April 14, 2016** for the purchase of all, but not less than all, of the County's $4,275,000* General Obligation Refunding Bonds, Series 2016 (the "Bonds"). Electronic bids must be submitted through ***PARITY***® as described in the "Detailed Notice of Sale". In case of written sealed bids, bids will be received by the County's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the County reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY***® System not later than 9:30 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours' notice via Bloomberg News Service and/or the ***PARITY***® System.

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

The Bonds will be issued in book-entry-only form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume May 13, 2016). The Bonds will mature on June 1 in the years 2017 through 2042, inclusive, with term bonds optional, with interest payable on June 1 and December 1 of each year, commencing December 1, 2016, and will be subject to optional redemption prior to maturity on or after June 1, 2021 at par plus accrued interest. Bidders must bid not less than ninety-nine percent (99.00%) of par or more than one hundred and twenty-five percent (125%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the County by Bass, Berry & Sims PLC, Bond Counsel, Knoxville, Tennessee. No rate or rates bid for the Bonds shall exceed five percent (5.00%) per annum. Unless bids are rejected, the Bonds will be awarded by the Mayor of the County on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

Additional information, including the PRELIMINARY OFFICIAL STATEMENT in near final form and the Detailed Notice of Sale, may be obtained through www.prospectushub.com or from the County's Financial Advisor, Cumberland Securities Company, Inc., Knoxville, Tennessee (865) 988-2663. Further information regarding ***PARITY***® may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

/s/ Alan Palmieri
County Mayor

*Preliminary, subject to change.

# DETAILED NOTICE OF SALE
# $4,275,000*

## JEFFERSON COUNTY, TENNESSEE
## General Obligation Refunding Bonds, Series 2016

NOTICE IS HEREBY GIVEN that the County Mayor of Jefferson County, Tennessee (the "County") will receive electronic or written sealed bids until **10:15 a.m. E.D.T.** on **Thursday, April 14, 2016** for the purchase of all, but not less than all, of the County's $4,275,000* General Obligation Refunding Bonds, Series 2016 (the "Bonds"). Electronic bids must be submitted through *PARITY*® as described in the "Detailed Notice of Sale." In case of written bids, bids will be received by the County's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863 Prior to accepting bids, the County reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth herein, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the ***PARITY***® System not later than 9:30 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours' notice via Bloomberg News Service and/or the ***PARITY***® System.

Description of the Bonds. The Bonds will be issued in fully registered book-entry-only form (except as otherwise described herein) without coupons, be dated the date of issuance (assume May 13, 2016), bear interest payable each June 1 and December 1, commencing December 1, 2016, be issued, or reissued upon transfer, in $5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable, and will mature and be payable as follows:

| YEAR (June 1) | AMOUNT* | YEAR (June 1) | AMOUNT* |
|---|---|---|---|
| 2017 | $ 205,000 | 2028 | $ 335,000 |
| 2018 | 15,000 | 2029 | 345,000 |
| 2019 | 15,000 | 2030 | 355,000 |
| 2020 | 15,000 | 2031 | 370,000 |
| 2021 | 15,000 | 2032 | 385,000 |
| 2022 | 15,000 | 2033 | 400,000 |
| 2023 | 15,000 | 2034 | 410,000 |
| 2024 | 15,000 | 2035 | 425,000 |
| 2025 | 15,000 | 2036 | 440,000 |
| 2026 | 15,000 | 2037 | 455,000 |
| 2027 | 15,000 | | |

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

Registration and Depository Participation. The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry-only system maintained by DTC (the "Book-Entry-Only System"). One fully-registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC. The Book-Entry-Only system will evidence beneficial ownership interests of the Bonds in the principal amount of $5,000 for the Bonds and



*Preliminary, subject to change.

any integral multiple of $5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The County will not be responsible or liable for such transfer of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. Notwithstanding the foregoing, if the winning bidder certifies that it intends to hold the Bonds for its own account and has no present intent to re-offer the Bonds, the use the Book-Entry-Only system is not required.

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

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

Municipal Bond Insurance. The County has provided information to prospective bond insurance companies in order to qualify the Bonds under their respective optional bidding programs. If the successful bidder or bidders for the Bonds desires to purchase a municipal bond insurance policy insuring payment of all or a portion of the debt service payable on the Bonds, the successful bidder or bidders does so at its own risk and expense and the obligation of the successful bidder to pay for such series Bonds shall not be conditioned on the issuance of a municipal bond insurance policy. The County will cooperate with the successful bidder(s) in obtaining such insurance, but the County will not enter into any additional agreements with a bond insurer. Without limiting the generality of the foregoing, the successful bidder(s) will be responsible for all costs, expenses and charges associated with the issuance of such insurance, including but not limited to the premium for the insurance policy, and excluding only the fees of Standard & Poor's that will be paid by the County.

Purpose. The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, certain Outstanding Bonds of the County as defined herein; and (ii) payment of the costs related to the issuance and sale of the Bonds.

Optional Redemption. The Bonds maturing on June 1, 2022 and thereafter are subject to optional redemption prior to maturity at the option of the County on or after June 1, 2021 in whole or in part at any time at the redemption price of par plus accrued interest as provided herein.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds ("Term Bonds") bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such

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

Bidding Instructions. The County will receive electronic or sealed written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-nine percent (99.00%) of par or no more than one hundred and twenty-five percent (125%) of par.

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

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

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

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

The County reserves the right to reject all bids for the Bonds and to waive any informalities in the bids accepted.

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

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

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

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

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

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

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

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

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

1. The offering prices or yields for the Bonds (expressed as a price or yield per maturity, exclusive of any accrued interest, if applicable);

2. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields as provided above);

3. The identity of the underwriters if the successful bidder is part of a group or syndicate; and

4. Any other material information necessary to complete the *Official Statement* in final form but not known to the County.

In addition, within two hours of the award of the Bonds, the successful bidder shall furnish to the County a certificate acceptable to Bond Counsel stating: (i) the reoffering prices (as shown in the bidder's winning bid); (ii) that the successful bidder will make a bona fide public offering of all of the Bonds at such reoffering prices; and (iii) that the successful bidder reasonably expects that the Bonds (or at least 10% of each maturity of the Bonds) will be sold to the public (excluding bond houses, brokers and other intermediaries) at those reoffering prices.

As a condition to the delivery of the Bonds, the successful bidder will be required to deliver a certificate to the County confirming that nothing has come to the bidder's attention that would lead it to believe that its certification with respect to the reoffering prices of the Bonds given in connection with the award of the Bonds is inaccurate, and addressing such other matters as to the reoffering prices of the Bonds as bond counsel may request.

Legal Opinion. The approving opinion of Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel along with other certificates including, but not limited to, a tax certificate and a continuing disclosure certificate dated as of the date of delivery of the Bonds will be furnished to the purchaser at the expense of the County. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Bonds will state that interest on the Bonds will be excluded from gross income for federal income tax purposes; is not an item of tax preference for purposes of the federal law alternative minimum tax imposed on individuals and corporations; and is taken into account in determining adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. As set forth in the *Preliminary Official Statement*, the owners of the Bonds, however, may be subject to certain additional taxes or tax consequences arising with respect to ownership of the Bonds. Reference is hereby made to the *Preliminary Official Statement* and the form of the opinion contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the County will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the County by not later than twelve months after each of the County's fiscal years (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through the operation of the Electronic Municipal Market Access system (the "EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the County is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The notices of material events will be filed by the County either with the MSRB and the SID. The specific nature of the information to be contained in the Annual Report or the notices of events will be summarized in the County's *Official Statement* to be prepared and distributed in connection with the sale of the Bonds.

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

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

Official Statements; Other. The County has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The County will furnish the successful bidder at the expense of the County a reasonable number of copies of the *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds within seven (7) business days. Acceptance of the bid will constitute a contract between the County and the successful bidder for the provision of such copies within seven business days of the sale date.

Further Information. Additional information, including the *Preliminary Official Statement*, the Detailed Notice of Sale and the Official Bid Form, may be obtained from the County's Financial Advisor, Cumberland Securities Company, Inc., P.O. Box 24508, Knoxville, Tennessee, 37933, Telephone: 865-988-2663. Further information regarding ***PARITY***® may be obtained from i-Deal LLC, 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone: 212-849-5000.

/s/ Alan Palmieri, County Mayor

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BID FORM

Honorable Alan Palmieri, County Mayor
1244 Gay Street
Dandridge, TN 37725

April 14, 2016

Dear Mr. Palmieri:

For your legally issued, properly executed $4,275,000* General Obligation Refunding Bonds, Series 2016 (the "Bonds") of Jefferson County, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of ___________________________________ ______________________ ($_______________________).

The Bonds shall be dated the date of issuance (assume May 13, 2016) and shall be callable in accordance with the Detailed Notice of Sale. The Bonds shall mature on June 1 and bear interest at the following rates:

| Maturity (June 1) | Amount* | Rate | Maturity (June 1) | Amount* | Rate |
|---|---|---|---|---|---|
| 2017 | $ 205,000 | ___ | 2028 | $ 335,000 | ___ |
| 2018 | 15,000 | ___ | 2029 | 345,000 | ___ |
| 2019 | 15,000 | ___ | 2030 | 355,000 | ___ |
| 2020 | 15,000 | ___ | 2031 | 370,000 | ___ |
| 2021 | 15,000 | ___ | 2032 | 385,000 | ___ |
| 2022 | 15,000 | ___ | 2033 | 400,000 | ___ |
| 2023 | 15,000 | ___ | 2034 | 410,000 | ___ |
| 2024 | 15,000 | ___ | 2035 | 425,000 | ___ |
| 2025 | 15,000 | ___ | 2036 | 440,000 | ___ |
| 2026 | 15,000 | ___ | 2037 | 455,000 | ___ |
| 2027 | 15,000 | ___ | | | |

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

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

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

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

Accepted for and on behalf of the
Jefferson County, Tennessee, this
14th day of April, 2016.

___________________________________
Alan Palmieri, County Mayor

Respectfully submitted,

_____________________________________________

_____________________________________________

Total interest cost from
May 13, 2016 to final maturity $___________________
Less: Premium /plus discount, if any $_____________
Net Interest Cost ............................... $_____________
True Interest Rate ............................. ______%

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

*Preliminary, subject to change.

# $4,275,000*
# JEFFERSON COUNTY, TENNESSEE
## General Obligation Refunding Bonds, Series 2016

SECURITIES OFFERED

**AUTHORITY AND PURPOSE**

This PRELIMINARY OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto, is furnished in connection with the offering by Jefferson County, Tennessee (the "County") of $4,275,000* General Obligation Refunding Bonds, Series 2016 (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Sections 9-21-101 et. seq., *Tennessee Code Annotated,* and other applicable provisions of law and pursuant to a resolution duly adopted by the Board of Commissioners of the County on March 17, 2016 (the "Resolution").

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

**REFUNDING PLAN**

The County intends to refinance its outstanding General Obligation Bonds, Series 2007, dated December 21, 2007, maturing June 1, 2017 and June 1, 2028 through June 1, 2037 to the June 1, 2016 call date (the "Outstanding Bonds").

As required by Title 9, Chapter 21, Part 9 of *Tennessee Code Annotated* as supplemented and revised, a plan of refunding (the "Plan") for the Outstanding Bonds was submitted to the Director of State and Local Finance for review and that office's report on the Plan was submitted to the County.

**DESCRIPTION OF THE BONDS**

The Bonds will be dated and bear interest from their date of issuance and delivery (assume May 13, 2016). Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2016. The Bonds are issuable in book-entry-only form in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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



*Preliminary, subject to change.

**SECURITY**

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

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

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

**QUALIFIED TAX-EXEMPT OBLIGATIONS**

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

**OPTIONAL REDEMPTION OF THE BONDS**

The Bonds maturing June 1, 2022 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2021 in whole or in part at any time at a redemption price of par plus accrued interest.

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

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

(ii) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the

Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

**MANDATORY REDEMPTION**

The bidders have the option of creating term bonds pursuant to the Detailed Notice of Sale. If term bonds are created, then the following provisions will apply. Subject to the credit hereinafter provided, the County shall redeem Bonds maturing June 1, 20__, and June 1, 20__ on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds within a maturity to be so redeemed shall be selected in the same manner as is described above relating to optional redemption.

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

| Maturity | Redemption Date | Principal Amount of Bonds Redeemed |
| --- | --- | --- |

*Final Maturity

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

**NOTICE OF REDEMPTION**

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

**PAYMENT OF BONDS**

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

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# BASIC DOCUMENTATION

## REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the County will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as follows. However, if the winning bidder certifies to the County that it intends to hold the Bonds for its own account and has no present intent to reoffer the Bonds, then the use of the Book-Entry-Only System is not required.

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

## BOOK-ENTRY-ONLY SYSTEM

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

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

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

*DTC and its Participants*. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry-only transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

**DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM**

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

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

Advisor will have any responsibility or obligation to the Participants, DTC or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the Beneficial Owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

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

**DISPOSITION OF BOND PROCEEDS**

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

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

(b) an amount, which together with investment earnings thereon and legally available funds an amount, which together with legally available funds of the County, if any, and investment earnings thereon, will be sufficient to pay principal of, premium, if any, and interest on the Outstanding Bond until and through the redemption date therefor shall be transferred to the Escrow Agent under the Refunding Escrow Agreement to be deposited to the Escrow Fund established thereunder to be held and applied as provided therein or with respect to the Outstanding Bond to be held to the earliest optional redemption date; and

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

**DISCHARGE AND SATISFACTION OF BONDS**

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

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

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

when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice); or

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

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

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

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

**REMEDIES OF BONDHOLDERS**

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

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

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

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# LEGAL MATTERS

## LITIGATION

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

## TAX MATTERS

### Federal

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

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

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

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

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

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

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Bonds or affect the market price of the Bonds. See also "CHANGES IN FEDERAL AND STATE TAX LAW" below in this heading.

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

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

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

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

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

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

**State Taxes**

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

## CHANGES IN FEDERAL AND STATE TAX LAW

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

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

## CLOSING CERTIFICATES

Upon delivery of the Bonds, the County will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the County Mayor acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the County since the date of the *Official Statement*, in final form, and having attached thereto a copy of the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) certificates as to the delivery and payment, signed by the County Mayor acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the County Mayor and County Clerk acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure Certificate regarding certain covenants of the County concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

**APPROVAL OF LEGAL PROCEEDINGS**

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

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## MISCELLANEOUS

**RATING**

Moody's Investors Service ("Moody's") has given the Bonds the rating of "Aa3".

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

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

**COMPETITIVE PUBLIC SALE**

The Bonds were offered for sale at competitive public bidding on April 14, 2016. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated April 6, 2016.

The successful bidder for the Bonds was an account led by __________________, _______, _______ (the "Underwriters") who contracted with the County, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Bonds at a purchase price of $__________ (consisting of the par amount of the Bonds, less an underwriter's discount of $_________ and less an original issue discount of $__________) or ____% of par.

**FINANCIAL ADVISOR; RELATED PARTIES; OTHER**

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

County to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

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

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

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

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

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

**ADDITIONAL DEBT**

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

**DEBT LIMITATIONS**

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

**DEBT RECORD**

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

**CONTINUING DISCLOSURE**

The County will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the County by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2016 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the County. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the County with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12").

*Five-Year Filing History.* In the past five years, the County has filed its Annual Reports at www.emma@msrb.org under the base CUSIP Number 473484 which is the base CUSIP Number for the County; however, the County inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the County was an obligated person. The County has now additionally filed its Annual Reports for all outstanding bonds for which it is an obligated person under the conduit issuer’s CUSIP Number. While it is believed that all appropriate filings were made with respect to the ratings of the County’s outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by Rule 15c2-12. With the exception of the foregoing, for the past five years, the County has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

*Content of Annual Report.* The County’s Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the County for the fiscal year, prepared in accordance with generally accepted accounting principles, provided, however, if the County’s audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained herein, and the audited financial statements shall be filed when available. The Annual Report shall also include in a similar format the following information included in APPENDIX B entitled "SUPPLEMENTAL INFORMATION STATEMENT."

1. Summary of bonded indebtedness as of the end of such fiscal year as shown on page B-9;

2. The indebtedness and debt ratio as of the end of such fiscal year, together with information about the property tax base as shown on pages B-10 and B-11;

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

4. The fund balances and retained earnings for the fiscal year as shown on page B-13;

6. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-14;

7. The estimated assessed value of property in the County for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-20;

8. Property tax rates and tax collections of the County for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-20; and

9. The ten largest taxpayers as shown on page B-21.

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the County or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

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

1. Upon the occurrence of a Listed Event (as defined in (3) below), the County shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any.

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

3. The following are the Listed Events:

   a. Principal and interest payment delinquencies;

   b. Non-payment related defaults, if material;

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

   d. Unscheduled draws on credit enhancements reflecting financial difficulties;

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

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

   g. Modifications to rights of Bondholders, if material;

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

   i. Defeasances;

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

   k. Rating changes;

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

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

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

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

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

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

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

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

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

*Default.* In the event of a failure of the County to comply with any provision of the Disclosure Certificate, any Bondholder or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the County to comply with the Disclosure Certificate shall be an action to compel performance.

## ADDITIONAL INFORMATION

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

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

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

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

The County has deemed this PRELIMINARY OFFICIAL STATEMENT as "final" as of its date within the meaning of Rule 15c2-12 except for the omission of certain pricing information allowed to be omitted pursuant to Rule 15c2-12.

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**CERTIFICATION OF THE COUNTY**

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

/s/ ______________________________
County Mayor

ATTEST:

/s/ ______________________________
County Clerk

APPENDIX A

# LEGAL OPINION

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

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Jefferson County, Tennessee (the "Issuer") of the $____________ General Obligation Refunding Bonds, Series 2016 (the "Bonds") dated ____________________, 2016. We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

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

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

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

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4 and Paragraph 6 below, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

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

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

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

Yours truly,

16727422.1

**APPENDIX B**

# JEFFERSON COUNTY, TENNESSEE

# SUPPLEMENTAL INFORMATION STATEMENT

# GENERAL INFORMATION

## LOCATION

Jefferson County (the "County") is located in the northeastern part of the State of Tennessee. To the North, the County is bounded by Grainger and Hamblen Counties. Cocke County serves as the County's eastern border while Sevier County provides the County's southern border. To the west, the County is bordered by Knox County. The Town of Dandridge, the county seat, is located 30 miles east of Knoxville. Three other cities lie within the boundaries of the County: Jefferson City, New Market, Baneberry and White Pine.

## GENERAL

The County has a total land area of approximately 203,520 acres or 318 square miles. Proportion of land devoted to farming stands at 84.6%, with tobacco being the leading money crop. Other crops include corn, hay and sorghum. Natural resources include zinc, yellow pine and oak.

The County is part of the Morristown Metropolitan Statistical Area (the "MSA") that had a population of 136,137 according to the 2010 US Census. The MSA includes Hamblen, Jefferson and Grainger Counties.

The County is also part of the Knoxville-Sevierville-Harriman-LaFollette Combined Statistical Area (the "CSA"). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. According to the 2010 U.S. Census, Jefferson County had a population of approximately 51,407. The largest city in the County, Jefferson City, has a population of 8,047. The Town of Dandridge had a 2010 US Census population of 2,812.

## THE COUNTY

The governing or legislative body of the County is a twenty-one (21) member Board of County Commissioners which is elected to concurrent four-year terms of office by direct vote of electors from each of the ten (10) districts of the County. The County Mayor is the chief administrative officer and ceremonial head of the County and is elected by direct vote of the people to a four-year term of office. The County Mayor is the chief accounting officer and fiscal agent of the County.

The County government provides a normal array of public services characteristic of county governments in Tennessee including a county-wide educational system, highway construction and maintenance, judicial services and detention facilities, industrial recruitment and development and solid waste disposal.

## TRANSPORTATION

Interstates I-40 and I-81 meet in Jefferson County. Interstate 75 is easily accessible 28 miles southwest of Jefferson City, in Knoxville. The County is also served by U.S. Highways 11-E and 25-W. There are five state highways traversing the County as well, 113, 81, 40 and 32.

Four motor freight companies serve the County. Terminal facilities are located in the Dandridge and White Pine areas. Seventy percent of American markets are accessible through second day motor freight service. The County is home to major hubs for Old Dominion and Roadway freight carriers. Rail service is provided by the Northfolk/Southern Railroad.

Non-commercial air service is available at the Moore-Murrell Airport in the City of Morristown in Hamblen County, seven miles north of the County. The airport has a modern, 5,700 foot asphalt runway. Commercial air service is located at the McGhee Tyson Airport in Knoxville, 36 miles southwest of the County.

## EDUCATION

The *Jefferson County School System* serves the County with twelve total schools, which include eight elementary schools, two middle schools, and one high school. The fall 2014 enrollment was 7,510 with about 460 teachers.

*Source*: Tennessee Department of Education.

*Carson-Newman College* is a private, Christian liberal arts institution that was founded in 1851. Carson-Newman has a 125 acres campus located in Jefferson City, Tennessee. Location within the foothills of the Great Smoky Mountains and in between two lakes, the campus is located 28 miles northeast of Knoxville. Fall 2014 had 1,967 full-time undergraduate students and 321 graduate students. There are 53 majors available with four undergraduate degrees and four graduate degrees.

*Source:* Carson-Newman College.

*The Tennessee Technology Center at Morristown.* The Tennessee Technology Center at Morristown is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution's primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The Technology Center at Morristown serves the northeast region of the state including Greene, Cocke, Jefferson, Hancock, Hawkins, Claiborne, Grainger, Sevier and Hamblen Counties. The Technology Center at Morristown main campus is located in Hamblen County. Fall 2013 enrollment was 978 students. There are three satellite campuses for Morristown: Tazewell, Claiborne County; Greeneville, Greene County; and Sevierville, Sevier County.

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

## HEALTHCARE

*Jefferson Memorial Hospital* (previously St. Mary's Jefferson Memorial Hospital), was built in 2001 and is located in Jefferson City. It is part of the Tennova Healthcare system. A 58 bed, state-of-the-art medical facility, Jefferson Memorial serves people from Knoxville to Morristown with leading-edge technology. Providing comprehensive medical services, Jefferson Memorial offers equipment and physicians trained in specialty areas like oncology, obstetrics and orthopedics as well as extensive outpatient surgery capabilities and diagnostic testing. It employs over 760 physicians, nurses and associates. As of 2011, St. Mary's Health System was sold to Tennova Healthcare. See "RECENT DEVELOPMENTS" for information on new construction.

The original hospital was Jefferson Memorial Hospital built in 1960 located next to Carson-Newman College in Jefferson City. In 1997 the city and county-owned hospital joined St. Mary's Health System, based in Knoxville. In a few years, St. Mary's purchased 121 acres of farmland along the western edge of Jefferson City and built a state-of-the-art, $20 million hospital and medical office building that opened in January of 2001. The facility sits on 18 acres, leaving 103 acres for future development.

**POWER PRODUCTION**

The Tennessee Valley Authority has constructed two of its largest dams in Jefferson County. Cherokee Dam is 4 miles from Jefferson City and Douglas Dam is located 18 miles from the same city. The combined area of the two lakes is approximately 23,500 acres. The nearest port facilities are located on the Tennessee River in Knoxville, 28 miles southwest of the City.

*Cherokee Dam.* Tennessee Valley Authority's ("TVA") Cherokee Dam is located on the Holston River in Jefferson City, 52 miles upstream from the point at which the Holston and French Broad Rivers converge to form the Tennessee. Construction of Cherokee Dam began in August 1, 1940, and was completed on a crash schedule on December 5, 1941. The dam is 175 feet high and stretches over a mile at 6,760 feet. The generating capacity of the four hydroelectric units at Cherokee is 135,200 kilowatts of electricity. Cherokee Reservoir spans Jefferson, Grainger, Hamblen and Hawkins Counties.

*Source:* Tennessee Valley Authority.

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**MANUFACTURING AND COMMERCE**

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

**Major Employers in Jefferson County**

| Company | Product | Employees |
|---|---|---|
| Old Dominion Freight Co. | Trucking | 1,000 |
| Jefferson Memorial Hosp. | Healthcare | 764 |
| Jefferson County Schools | School System | 600 |
| BAE Systems / Armor Holdings | Military Helmets and Backpacks | 450 |
| Crete Carrier Corp. | Trucking | 435 |
| American Book Co. | Distribution | 310 |
| Carson Newman College | Education | 375 |
| Bush Brothers | Canned Foods | 360 |
| Nashua / Rittenhouse Paper Co. | Paper Rolls, Labels | 302 |
| Jefferson County Government | Government | 300 |
| Dillard Smith Construction | Power Line Construction | 181 |
| Clayton Homes | Manufactured Mobile Homes | 159 |
| Ball Corporation | Metal Food Containers | 153 |
| Matsuo Industries | Automotive Parts | 148 |
| Algoma Hardwood / Appalachian Door | Door Manufacturing | 130 |
| Schrader Trucking | Trucking | 105 |
| City of Jefferson City | Government | 78 |
| Klote International | Manufacturing | 69 |
| Smokey Mtn. Knife Works | Knives | 65 |

*Source:* Jefferson County Chamber of Commerce, TN Department of Economic and Community Development and the Knoxville News Sentinel - 2015.

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## EMPLOYMENT INFORMATION

For the month of January 2016, the unemployment rate for Jefferson County stood at 6.1% with 21,950 persons employed out of a labor force of 23,370.

The Morristown MSA's unemployment for January 2016 was at 5.7% with 47,070 persons employed out of a labor force of 49,920. As of January 2016, the unemployment rate in the Knoxville-Sevierville-Harriman CSA stood at 5.0%, representing 495,140 persons employed out of a workforce of 521,350.

**Unemployment**

| | Annual Average **2011** | Annual Average **2012** | Annual Average **2013** | Annual Average **2014** | Annual Average **2015** |
|---|---|---|---|---|---|
| National | 8.9% | 8.1% | 7.4% | 6.2% | 5.3% |
| Tennessee | 9.2% | 8.0% | 8.2% | 6.7% | 5.8% |
| **Jefferson County** | **11.2%** | **10.1%** | **9.8%** | **7.5%** | **6.5%** |
| Index vs. National | 126 | 125 | 132 | 121 | 123 |
| Index vs. State | 122 | 126 | 120 | 112 | 112 |
| **Morristown MSA** | **11.0%** | **9.6%** | **9.5%** | **7.4%** | **6.4%** |
| Index vs. National | 124 | 119 | 128 | 119 | 121 |
| Index vs. State | 120 | 120 | 116 | 110 | 110 |
| **Knoxville-Sevierville-Harriman CSA** | **8.3%** | **7.5%** | **7.7%** | **6.5%** | **6.5%** |
| Index vs. National | 93 | 93 | 104 | 105 | 123 |
| Index vs. State | 90 | 94 | 94 | 97 | 112 |

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

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## ECONOMIC DATA

**Per Capita Personal Income**

| | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|
| National | $40,277 | $42,453 | $44,266 | $44,438 | $46,049 |
| Tennessee | $35,601 | $37,323 | $39,137 | $39,312 | $40,457 |
| **Jefferson County** | **$27,900** | **$28,768** | **$29,455** | **$29,814** | **$30,715** |
| Index vs. National | 69 | 68 | 67 | 67 | 67 |
| Index vs. State | 78 | 77 | 75 | 76 | 76 |
| **Morristown MSA** | **$28,481** | **$30,103** | **$30,265** | **$30,657** | **$31,593** |
| Index vs. National | 71 | 71 | 68 | 69 | 69 |
| Index vs. State | 80 | 81 | 77 | 78 | 78 |
| **Knoxville-Sevierville-Harriman CSA** | **$33,312** | **$35,215** | **$36,675** | **$36,614** | **$37,718** |
| Index vs. National | 83 | 83 | 83 | 82 | 82 |
| Index vs. State | 94 | 94 | 94 | 93 | 93 |

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

**Social and Economic Characteristics**

| | **National** | **Tennessee** | **Jefferson County** | **Jefferson City** |
|---|---|---|---|---|
| Median Value Owner Occupied Housing | $175,700 | $139,900 | $122,700 | $109,800 |
| % High School Graduates or Higher Persons 25 Years Old and Older | 86.3% | 84.9% | 81.1% | 82.9% |
| % Persons with Income Below Poverty Level | 14.8% | 18.3% | 17.8% | 21.0% |
| Median Household Income | $53,482 | $44,621 | $41,426 | $34,683 |

*Source*: U.S. Census Bureau State & County QuickFacts - 2014.

## RECREATION

*Cherokee Reservoir*. Tennessee Valley Authority's ("TVA") Cherokee Dam is located on the Holston River in Jefferson City, 52 miles upstream from the point at which the Holston and French Broad Rivers converge to form the Tennessee. Cherokee Reservoir spans Jefferson, Grainger, Hamblen and Hawkins Counties. The Reservoir attracts millions of recreational visitors each year to its public access areas, fishing areas, camping sites, county and municipal parks, commercial boat docks and resorts, a state park, and a state wildlife management area. Cherokee was built to generate hydroelectric power during the World War II emergency, but it also plays an important role as one of the chain of TVA reservoirs that over the years have prevented billions of dollars of flood damage in areas downstream. The deep waters of Cherokee Reservoir lose oxygen during the summer months, and the water that generates power is drawn out of these depths. In order to increase oxygen levels for aquatic life below the reservoir, TVA injects oxygen through miles of perforated hoses suspended above the reservoir bottom. TVA also uses huge, slow-turning fans just above the dam to push oxygenated surface water into the depths of the reservoir.

*Source:* Tennessee Valley Authority.

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

*Source:* Tennessee Valley Authority.

## RECENT DEVELOPMENTS

*American Book Company.* The Knoxville based firm, American Book Company, 1n 2010 purchased the former Magnavox facility in Jefferson City. The Knoxville based firm purchased the building in order to consolidate its operations into one facility. Projections are the current workforce of 291 will grow to 555 or more by 2015.

*BAE Systems.* In late 2011 BAE cut its remaining 132 jobs at the Jefferson City plant by closing the plant. In 2010 the facility in Jefferson County laid off 173 employees. In late 2009 BAE Systems closed its Grainger plant of 173 employees. BAE is a body armor manufacturer that contracts with the Department of Defense. The Jefferson City plant made nearly 520,000 Tactical Vests since 1992. The plant closings were due to a lack of Defense contract renewals.

*Consolidated Wood Products.* Consolidated Wood Products opened in early 2010, replacing the closed Savoie Wood Products. The two primary customers served by Savoie were retained by Consolidated. Consolidated provides final finishing operation services to kitchen cabinet frames, doors, drawers and mouldings.

*Footwear Industries of Tennessee.* FIT USA opened a plant in Jefferson City in May of 2014 with 50 employees. Production was moved from China. They plan to hire up to 109 employees. The 40,000-square-foot facility will be expanded with a $5 million investment with the goal of tripling their current business in the next two years. FIT USA manufactures a line of men’s work and hunting boots.

*M. Block & Sons.* The Illinois firm, M. Block & Sons, in 2010 leased the County’s largest vacant commercial building that was occupied by John Deere. The 500,000-square-foot facility is to be used as a point of distribution for a large variety of customers in the southern portion of the US.

*Merchant House International Group.* Merchant House purchased a 40,000-square-foot building in Jefferson City Industrial Park in 2013 and began production of a line of footwear in 214. The operation has been moved from China to Jefferson City, creating 109 jobs. The operation, known as Footwear Industries of Tennessee Inc., represents a $5.4 million investment.

*Savoie Wood Products.* Savoie Wood Products in Jefferson Co. closed and laid off 50 workers in early 2010.

*Jefferson Memorial Hospital*. In early 2011 construction was completed on a $3.2 million expansion that brings a new intensive care unit and enlarges the emergency department. This is the first major expansion since the hospital opened in 2001.

*Source:* Jefferson County Chamber of Commerce, the Standard Banner and Knoxville News Sentinel.

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## JEFFERSON COUNTY, TENNESSEE
SUMMARY OF BONDED INDEBTEDNESS

| AMOUNT ISSUED | PURPOSE | DUE DATE | INTEREST RATE(S) | (1) As of June 30, 2015 OUTSTANDING |
|---|---|---|---|---|
| $ 8,000,000 | General Obligation Bonds, Series 2007 | June 2037 | Fixed | $ 4,345,000 |
| 13,305,000 | Loan Agreement, Series E-3-D | Jun. 2026 | Variable (2) | 9,200,000 |
| 13,740,000 | Loan Agreement, Series V-G-1 | Jun. 2019 | Fixed | 5,355,000 |
| 10,450,000 | General Obligation Refunding Bonds, Series 2009 | June 2023 | Fixed | 9,950,000 |
| 10,595,000 | (3) Qualified School Construction Loan, Series 2010 | 2028 | Fixed | 8,060,739 |
| 16,000,000 | (3) General Obligation Bonds, Series 2010 (Federally Taxable Recovery Zone Economic Development Bonds) | June 2040 | Fixed | 16,000,000 |
| 2,479,018 | Loan Agreement, Series 2011 (EESI Loan) | June 2023 | Fixed | 1,733,719 |
| 9,900,000 | General Obligation Bonds, Series 2012 | June 2036 | Fixed | 9,650,000 |
| 201,700 | Bond Anticipation Notes, Series 2013 (Landfill) (Trustee Held) | Oct. 2017 | Fixed | 91,700 |
| 9,995,000 | General Obligation Bonds, Series 2013 | June 2036 | Fixed | 9,795,000 |
| 698,587 | Capital Outlay Notes, Series 2013 (Schools) (Trustee Held) | June 2016 | Fixed | 525,000 |
| 4,285,000 | General Obligation Refunding Bonds, Series 2014 | June 2027 | Fixed | 3,940,000 |
| 6,790,000 | General Obligation Bonds, Series 2015 | June 2036 | Fixed | 6,790,000 |
| $106,439,305 | **TOTAL GENERAL OBLIGATION BONDS** | | | $ 85,436,158 |
| $ 4,275,000 | General Obligation Refunding Bonds, Series 2016 | June 2037 | Fixed | $ 4,275,000 |
| (8,000,000) | Less: Bonds Being Refunded | | | (4,155,000) |
| **$102,714,305** | **NET TOTAL DEBT** | | | **$ 85,556,158** |

**NOTES:**

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

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

(3) The original federal subsidy of on the Qualified School Construction Loan, Series 2010 and the General Obligation Bonds, Series 2010 (Federally Taxable Recovery Zone Economic Development Bonds) (Dated: 12/20/2010) has been reduced by 6.8% for the federal fiscal year ending September 30, 2016 as a result of the sequestration by the Budget Control Act of 2011. After October 1, 2016, the sequestration rate will be subject to change.

**JEFFERSON COUNTY, TENNESSEE**

Indebtedness and Debt Ratios

## INTRODUCTION

The information set forth in the following table is based upon information derived in part from the CAFR and the table should be read in conjunction with those statements. The table does not include future funding plans whether disclosed or not in this document.

| | For the Fiscal Year Ended June 30 | | | | | After Issuance |
|---|---|---|---|---|---|---|
| **INDEBTEDNESS** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| TAX SUPPORTED | | | | | | |
| General Obligation Bonds & Notes | $72,449,018 | $70,140,043 | $86,592,774 | $82,980,631 | $85,436,158 | $85,556,158 |
| TOTAL TAX SUPPORTED | 72,449,018 | 70,140,043 | 86,592,774 | 82,980,631 | 85,436,158 | 85,556,158 |
| TOTAL DEBT | $72,449,018 | $70,140,043 | $86,592,774 | $82,980,631 | $85,436,158 | $85,556,158 |
| Less: Debt Service Fund | (8,804,299) | (9,330,512) | (8,181,701) | (7,667,642) | (6,749,125) | (6,749,125) |
| NET DIRECT DEBT | $63,644,719 | $60,809,531 | $78,411,073 | $75,312,989 | $78,687,033 | $78,807,033 |
| **PROPERTY TAX BASE** | | | | | | |
| Estimated Actual Value | $4,274,800,793 | $4,278,353,462 | $4,297,767,112 | $4,299,303,449 | $4,116,842,597 | $4,116,842,597 |
| Appraised Value | 4,274,800,793 | 4,278,353,462 | 4,297,767,112 | 4,299,303,449 | 4,116,842,597 | 4,116,842,597 |
| Assessed Value | 1,178,546,544 | 1,180,589,999 | 1,186,403,235 | 1,185,353,097 | 1,145,216,134 | 1,145,216,134 |

| DEBT RATIOS | For the Fiscal Year Ended June 30 | | | | | After Issuance |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| TOTAL DEBT to Estimated Actual Value | 1.69% | 1.64% | 2.01% | 1.93% | 2.08% | 2.08% |
| TOTAL DEBT to Appraised Value | 1.69% | 1.64% | 2.01% | 1.93% | 2.08% | 2.08% |
| TOTAL DEBT to Assessed Value | 6.15% | 5.94% | 7.30% | 7.00% | 7.46% | 7.47% |
| NET DIRECT DEBT to Estimated Actual Value | 1.49% | 1.42% | 1.82% | 1.75% | 1.91% | 1.91% |
| NET DIRECT DEBT to Appraised Value | 1.49% | 1.42% | 1.82% | 1.75% | 1.91% | 1.91% |
| NET DIRECT DEBT to Assessed Value | 5.40% | 5.15% | 6.61% | 6.35% | 6.87% | 6.88% |
| **PER CAPITA RATIOS** | | | | | | |
| POPULATION (1) | 51,773 | 52,191 | 52,123 | 52,677 | 52,677 | 52,677 |
| PER CAPITA PERSONAL INCOME (2) | $28,768 | $29,455 | $29,814 | $30,715 | $30,715 | $30,715 |
| Estimated Actual Value to POPULATION | $82,568 | $81,975 | $82,454 | $81,616 | $78,153 | $78,153 |
| Assessed Value to POPULATION | $22,764 | $22,621 | $22,762 | $22,502 | $21,740 | $21,740 |
| Total Debt to POPULATION | $1,399 | $1,344 | $1,661 | $1,575 | $1,622 | $1,624 |
| Net Direct Debt to POPULATION | $1,229 | $1,165 | $1,504 | $1,430 | $1,494 | $1,496 |
| Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME | 4.86% | 4.56% | 5.57% | 5.13% | 5.28% | 5.29% |
| Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME | 4.27% | 3.96% | 5.05% | 4.65% | 4.86% | 4.87% |

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

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

**JEFFERSON COUNTY, TENNESSEE**

BONDED DEBT SERVICE REQUIREMENTS

| F.Y. | | | | | | | | % 2016 | | | | | | | | % Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ended | | | | | | | | Principal | | | | | | | | Principal |
| 6/30 | Existing Debt (1) - As of June 30, 2015 | | | | General Obligation Refunding Bonds, Series 2016 | | | Repaid | Less: Refunded Bonds | | | Total Bonded Debt Service Requirements (1) | | | | Repaid |
| | Principal | Interest (2) | Estimated Rebate (3) | TOTAL | Principal | Interest (4) | TOTAL | | Principal | Interest | TOTAL | Principal | Interest (2) | Estimated Rebate (3) | TOTAL | |
| 2016 | $ 4,859,363 | $ 3,623,968 | $ (919,319) | $ 7,564,012 | $ - | $ - | $ - | 0.00% | $ - | $ (91,041) | $ (91,041) | $ 4,859,363 | $ 3,532,928 | $ (919,319) | $ 7,472,972 | 5.68% |
| 2017 | 4,489,376 | 3,479,214 | (919,319) | 7,049,271 | 205,000 | 138,902 | 343,902 | | (200,000) | (182,081) | (382,081) | 4,494,376 | 3,436,034 | (919,319) | 7,011,092 | |
| 2018 | 4,626,217 | 3,329,011 | (919,319) | 7,035,909 | 15,000 | 130,238 | 145,238 | | - | (173,581) | (173,581) | 4,641,217 | 3,285,667 | (919,319) | 7,007,565 | |
| 2019 | 4,629,787 | 3,170,157 | (919,319) | 6,880,625 | 15,000 | 130,035 | 145,035 | | - | (173,581) | (173,581) | 4,644,787 | 3,126,611 | (919,319) | 6,852,079 | |
| 2020 | 4,810,191 | 3,025,853 | (919,319) | 6,916,725 | 15,000 | 129,810 | 144,810 | 5.85% | - | (173,581) | (173,581) | 4,825,191 | 2,982,082 | (919,319) | 6,887,954 | 27.43% |
| 2021 | 4,950,731 | 2,881,388 | (919,319) | 6,912,800 | 15,000 | 129,548 | 144,548 | | - | (173,581) | (173,581) | 4,965,731 | 2,837,354 | (919,319) | 6,883,766 | |
| 2022 | 4,986,411 | 2,742,258 | (919,319) | 6,809,350 | 15,000 | 129,263 | 144,263 | | - | (173,581) | (173,581) | 5,001,411 | 2,697,939 | (919,319) | 6,780,031 | |
| 2023 | 5,137,235 | 2,597,353 | (919,319) | 6,815,269 | 15,000 | 128,948 | 143,948 | | - | (173,581) | (173,581) | 5,152,235 | 2,552,719 | (919,319) | 6,785,635 | |
| 2024 | 3,066,111 | 2,446,643 | (919,319) | 4,593,435 | 15,000 | 128,625 | 143,625 | | - | (173,581) | (173,581) | 3,081,111 | 2,401,687 | (919,319) | 4,563,479 | |
| 2025 | 3,156,111 | 2,365,518 | (919,319) | 4,602,310 | 15,000 | 128,280 | 143,280 | 7.60% | - | (173,581) | (173,581) | 3,171,111 | 2,320,217 | (919,319) | 4,572,009 | 52.41% |
| 2026 | 2,591,111 | 2,281,068 | (919,319) | 3,952,860 | 15,000 | 127,913 | 142,913 | | - | (173,581) | (173,581) | 2,606,111 | 2,235,399 | (919,319) | 3,922,192 | |
| 2027 | 2,436,190 | 2,230,206 | (919,319) | 3,747,076 | 15,000 | 127,530 | 142,530 | | - | (173,581) | (173,581) | 2,451,190 | 2,184,154 | (919,319) | 3,716,025 | |
| 2028 | 1,867,324 | 1,933,064 | (680,988) | 3,119,401 | 335,000 | 127,133 | 462,133 | | (320,000) | (173,581) | (493,581) | 1,882,324 | 1,886,615 | (680,988) | 3,087,952 | |
| 2029 | 1,865,000 | 1,627,086 | (442,656) | 3,049,430 | 345,000 | 118,088 | 463,088 | | (335,000) | (159,581) | (494,581) | 1,875,000 | 1,585,593 | (442,656) | 3,017,937 | |
| 2030 | 1,950,000 | 1,574,460 | (442,656) | 3,081,804 | 355,000 | 108,255 | 463,255 | 32.51% | (350,000) | (144,925) | (494,925) | 1,955,000 | 1,537,790 | (442,656) | 3,050,134 | 64.99% |
| 2031 | 2,035,000 | 1,516,248 | (442,656) | 3,108,592 | 370,000 | 97,960 | 467,960 | | (365,000) | (129,613) | (494,613) | 2,040,000 | 1,484,595 | (442,656) | 3,081,939 | |
| 2032 | 2,110,000 | 1,454,644 | (442,656) | 3,121,988 | 385,000 | 86,860 | 471,860 | | (385,000) | (113,644) | (498,644) | 2,110,000 | 1,427,860 | (442,656) | 3,095,204 | |
| 2033 | 2,200,000 | 1,389,888 | (442,656) | 3,147,232 | 400,000 | 74,733 | 474,733 | | (400,000) | (96,800) | (496,800) | 2,200,000 | 1,367,820 | (442,656) | 3,125,164 | |
| 2034 | 2,300,000 | 1,319,925 | (442,656) | 3,177,269 | 410,000 | 61,733 | 471,733 | | (420,000) | (79,200) | (499,200) | 2,290,000 | 1,302,458 | (442,656) | 3,149,802 | |
| 2035 | 2,405,000 | 1,243,545 | (442,656) | 3,205,889 | 425,000 | 47,998 | 472,998 | 79.06% | (440,000) | (60,720) | (500,720) | 2,390,000 | 1,230,823 | (442,656) | 3,178,167 | 77.89% |
| 2036 | 2,485,000 | 1,163,673 | (442,656) | 3,206,017 | 440,000 | 33,123 | 473,123 | | (460,000) | (41,360) | (501,360) | 2,465,000 | 1,155,435 | (442,656) | 3,177,779 | |
| 2037 | 3,530,000 | 1,081,120 | (442,656) | 4,168,464 | 455,000 | 17,063 | 472,063 | 100.00% | (480,000) | (21,120) | (501,120) | 3,505,000 | 1,077,063 | (442,656) | 4,139,407 | |
| 2038 | 4,175,000 | 857,938 | (358,275) | 4,674,663 | - | - | - | | - | - | - | 4,175,000 | 857,938 | (358,275) | 4,674,663 | |
| 2039 | 4,325,000 | 581,344 | (242,769) | 4,663,575 | - | - | - | | - | - | - | 4,325,000 | 581,344 | (242,769) | 4,663,575 | |
| 2040 | 4,450,000 | 294,813 | (123,114) | 4,621,699 | - | - | - | | - | - | - | 4,450,000 | 294,813 | (123,114) | 4,621,699 | 100.00% |
| | $ 85,436,158 | $ 50,210,383 | $ (16,420,878) | $ 119,225,663 | $ 4,275,000 | $ 2,202,032 | $ 6,477,032 | | $ (4,155,000) | $ (3,029,478) | $ (7,184,478) | $ 85,556,158 | $ 49,382,936 | $ (16,420,878) | $ 118,518,216 | |

**NOTES:**

(1) The above figures may not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR. Also, does not include $376,700 of outstanding Notes held by the County Trustee payable from the Landfill Fund.

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

(3) The original federal subsidy of on the Qualified School Construction Loan, Series 2010 and the General Obligation Bonds, Series 2010 (Federally Taxable Recovery Zone Economic Development Bonds) (Dated: 12/20/2010) has been reduced by 6.8% for the federal fiscal year ending September 30, 2016 as a result of the sequestration by the Budget Control Act of 2011. After October 1, 2016, the sequestration rate will be subject to change.

(4) Estimated Interest Rates. Estimated Average Coupon of 3.277%.

## FINANCIAL OPERATIONS

### BASIS OF ACCOUNTING AND PRESENTATION

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

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

### FUND BALANCES, NET ASSETS AND RETAINED EARNINGS

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

| | For the Fiscal Year Ended June 30 | | | | |
|---|---|---|---|---|---|
| **Fund Type** | **2011** | **2012** | **2013** | **2014** | **2015** |
| *Governmental Funds:* | | | | | |
| General | $ 5,205,740 | $ 6,068,814 | $ 6,099,083 | $ 6,261,169 | $ 6,100,290 |
| Public Works | 2,034,059 | 2,231,075 | 2,456,094 | 1,931,606 | 2,055,811 |
| Debt Service | 8,804,299 | 9,330,512 | 8,181,701 | 7,667,642 | 6,749,125 |
| Other Governmental | 4,474,181 | 5,159,488 | 5,571,371 | 6,220,707 | 5,342,948 |
| **Total** | **$20,518,279** | **$22,789,889** | **$22,308,249** | **$22,081,124** | **$20,248,174** |
| *Proprietary Net Assets:* | | | | | |
| Solid Waste | $(3,587,104) | $(3,551,730) | $(3,622,391) | $(3,570,075) | $(2,291,309) |
| Employee Ins. | 95,123 | 118,860 | 140,447 | 133,505 | 107,162 |
| **Total** | **$(3,491,981)** | **$(3,432,870)** | **$(3,481,944)** | **$(3,436,570)** | **$(2,184,147)** |

*Source:* Comprehensive Annual Financial Report and Auditor's Report, Jefferson County, Tennessee.

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

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Local taxes | $ 10,240,280 | $ 10,934,953 | $ 10,517,809 | $ 10,671,221 | $ 11,161,453 |
| Licenses and Permits | 245,033 | 243,074 | 285,678 | 282,134 | 351,546 |
| Fines, forfeitures and penalties | 264,740 | 444,322 | 309,633 | 329,762 | 353,961 |
| Charges for current services | 3,341,742 | 3,236,272 | 3,412,129 | 3,515,500 | 3,501,079 |
| Other local revenues | 477,285 | 523,480 | 557,702 | 628,178 | 720,429 |
| Fees Received From County Officials | 1,135,115 | 1,405,186 | 1,500,971 | 1,418,499 | 1,592,946 |
| State of Tennessee | 1,648,049 | 1,946,081 | 2,158,813 | 1,807,530 | 1,797,490 |
| Federal Government | 330,779 | 772,073 | 635,352 | 649,691 | 631,027 |
| Other Governments & Citizens Groups | 166,161 | 171,428 | 113,779 | 207,944 | 233,572 |
| **Total Revenues** | $ 17,849,184 | $ 19,676,869 | $ 19,491,866 | $ 19,510,459 | $ 20,343,503 |
| | | | | | |
| **Expenditures:** | | | | | |
| General Government | $ 1,847,001 | $ 1,989,156 | $ 2,039,075 | $ 2,265,413 | $ 2,333,854 |
| Finance | 1,839,583 | 1,900,622 | 1,981,256 | 2,101,181 | 2,384,655 |
| Administration of Justice | 1,440,240 | 1,506,508 | 1,584,721 | 1,659,224 | 1,599,745 |
| Public Safety | 6,241,557 | 6,663,520 | 6,829,610 | 7,120,649 | 6,979,605 |
| Public Health & Welfare | 4,524,499 | 4,530,653 | 4,881,350 | 4,980,491 | 4,789,759 |
| Social, Cultural & Recreational Services | 575,855 | 573,951 | 588,381 | 577,091 | 649,983 |
| Agricultural & Natural Resources | 134,601 | 130,975 | 133,893 | 139,584 | 143,715 |
| Other Operations | 1,061,540 | 1,023,303 | 1,088,022 | 1,104,482 | 1,142,507 |
| Highways | - | - | - | - | - |
| Debt Service | 161,933 | - | - | - | - |
| Capital Projects | - | - | - | - | - |
| **Total Expenditures** | $ 17,826,809 | $ 18,318,688 | $ 19,126,308 | $ 19,948,115 | $ 20,023,823 |
| | | | | | |
| Excess (Deficiency) of Revenues | | | | | |
| Over Expenditures | $ 22,375 | $ 1,358,181 | $ 365,558 | $ (437,656) | $ 319,680 |
| | | | | | |
| **Other Sources & Uses:** | | | | | |
| Capitalized Lease Issued | $ - | $ - | $ - | $ - | $ - |
| Insurance Recovery | 112,888 | - | 41,786 | 164,553 | 74,147 |
| Other Loans Issued | - | - | - | - | - |
| Operating Transfers - In | 103,185 | 43,939 | 225,000 | 742,500 | 373,200 |
| Operating Transfers - Out | (101,900) | (539,046) | (602,075) | (391,008) | (927,906) |
| **Total Expenditures & Other Uses** | $ 114,173 | $ (495,107) | $ (335,289) | $ 516,045 | $ (480,559) |
| | | | | | |
| Net Change in Fund Balances | $ 136,548 | $ 863,074 | $ 30,269 | $ 78,389 | $ (160,879) |
| **Fund Balance July 1** | 5,069,192 | 5,205,740 | 6,068,814 | 6,099,083 | 6,261,169 |
| Restatement | - | - | - | 83,697 | - |
| | | | | | |
| **Fund Balance June 30** | **$ 5,205,740** | **$ 6,068,814** | **$ 6,099,083** | **$ 6,261,169** | **$ 6,100,290** |

*Source:* Comprehensive Annual Financial Reports for Jefferson County, Tennessee

## INVESTMENT AND CASH MANAGEMENT PRACTICES

Investment of idle County operating funds is controlled by state statute and local policies and administered by the County Trustee. Generally, such policies limit investment instruments to direct U. S. Government obligations, those issued by U.S. Agencies or Certificates of Deposit. As required by prevailing statutes, all demand deposits or Certificates of Deposit are secured by similar grade collateral pledged at 110% of market value for amounts in excess of that guaranteed through federally sponsored insurance programs. For reporting purposes, all investments are stated at cost which approximates market value.

## REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

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

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

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

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

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

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

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

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

***County Taxation of Property***

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

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

***Assessment of Property***

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

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

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

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

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

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

### *Periodic Reappraisal and Equalization*

Tennessee law requires reappraisal in each county by a continuous six-year cycle comprised of an on-site review of each parcel of real property over a five-year period, or, upon approval of the State Board of Equalization, by a continuous four-year cycle comprised of an one-site review of each parcel of real property over a three-year period, followed by revaluation of all such property in the year following completion of the review period. Alternatively, if approved by the assessor and adopted by a majority vote of the county legislative body, the reappraisal program may be completed by a continuous five-year cycle comprised of an on-site review of each parcel of real property over a four-year period followed by revaluation of all such property in the year following completion of the review period.

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

### *Valuation for Property Tax Purposes*

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

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

### *Certified Tax Rate*

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

The governing body of a county or municipality may adjust the Certified Tax Rate to reflect extraordinary assessment changes or to recapture excessive adjustments.

Tennessee law provides that no tax rate in excess of the Certified Tax Rate may be levied by the governing body of any county or of any municipality until a resolution or ordinance has been adopted by the governing body after publication of a notice of the governing body's intent to exceed the Certified Tax Rate in a newspaper of general circulation and the holding of a public hearing.

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

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

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

***Tax Collection and Tax Lien***

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

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

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*Assessed Valuations*. According to the Tax Aggregate Report of Tennessee, property in the County reflected a ratio of appraised value to true market value of 1.00. The following table shows pertinent data for tax year 2014[1].

| Class | Estimated Assessed Valuation | Assessment Rate | Estimated Appraised Value |
|---|---|---|---|
| Public Utilities | $ 75,803,967 | 55% | $ 173,663,155 |
| Commercial and Industrial | 196,150,395 | 40% | 490,409,400 |
| Personal Tangible Property | 60,415,322 | 30% | 201,384,242 |
| Residential and Farm | 812,846,450 | 25% | 3,251,385,800 |
| **Total** | **$1,145,216,134** | | **$4,116,842,597** |

1 The tax year coincides with the calendar year, therefore tax year 2014 is actually fiscal year 2014-2015.
*Source:* 2014 Tax Aggregate Report of Tennessee and the County.

The estimated assessed value of property in the County for the fiscal year ending June 30, 2015 (tax year 2014) is $1,145,216,134 compared to $1,185,353,097 for the fiscal year ending June 30, 2014 (tax year 2013). The estimated actual value of all taxable property for tax year 2014 is $4,116,842,597 compared to $4,299,303,449 for tax year 2013.

*Property Tax Rates and Collections.* The following table shows the property tax rates and collections of the County for tax years 2011 through 2015[2] as well as the aggregate uncollected balances for each fiscal year ending June 30.

| PROPERTY TAX RATES AND COLLECTIONS | | | | Fiscal Year Collections | | Aggregate Uncollected Balance | |
|---|---|---|---|---|---|---|---|
| Tax Year[2] | Assessed Valuation | Tax Rates | Taxes Levied | Amount | Pct | as of June 30, 2015 Amount | Pct |
| 2011 | $1,180,589,999 | $2.05 | $24,211,034 | $22,970,935 | 94.9% | N/A | |
| 2012 | 1,186,403,235 | 2.05 | 24,353,623 | 23,069,772 | 94.7% | N/A | |
| 2013 | 1,185,353,097 | 2.15 | 25,488,551 | 24,122,867 | 94.6% | N/A | |
| 2014 | 1,145,216,134 | 2.35 | 27,136,339 | 25,680,617 | 94.6% | $1,455,722 | 5.4% |
| 2015 | 1,153,560,296 | 2.35 | 27,309,089 | **IN PROCESS** | | | |

1 The tax year coincides with the calendar year, therefore, tax year 2015 is actually fiscal year 2015-2016.

*[balance of page left blank]*

*Ten Largest Taxpayers.* For the fiscal year ending June 30, 2015 (tax year 2014), the ten largest taxpayers in the County are as follows:

| | Taxpayer | Business Type | Assessment | Taxes Levied |
|---|---|---|---|---|
| 1. | Appalachian Electric Coop | Utility | $ 42,452,970 | $ 959,260 |
| 2. | Bush Brothers | Canned Foods | 25,826,558 | 606,922 |
| 3. | Nystar Strawberry Plains (IDB) | Zinc Mining | 7,629,881 | 329,302 |
| 4. | Old Dominion Freight | Trucking | 8,182,838 | 192,297 |
| 5. | Ball Corp. | Metal Food Container | 7,854,461 | 184,580 |
| 6. | Norfolk Southern Railroad | Railroad | 6,822,865 | 160,338 |
| 7. | Jefferson City 101 | Distribution | 6,111,040 | 143,609 |
| 8. | Teachers Retirement System (Wal-Mart) | Retail | 4,775,280 | 112,219 |
| 9. | Bellsouth | Telecommunications | 4,998,188 | 108,118 |
| 10. | Rittenhouse | Paper Products | 3,366,417 | 79,111 |
| | **TOTAL** | | **$118,020,498** | **$2,875,756** |

*Source:* The County.

**PENSION PLANS**

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

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

**UNFUNDED ACCRUED LIABILITY FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

GASB Statement 45 establishes standards for the measurement, recognition, and display of Other Post-Employment Benefits (“OPEB”) in the financial reports of state and local government employers. GASB 45 requires the recognition of the accrued liability for the respective year, plus the disclosure of the total unfunded liability. Cash funding of the unfunded liability is not required.

For more information see the Note “Other Postemployment Benefits (OPED)” in the General Purpose Financial Statements located herein.

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**APPENDIX C**

# GENERAL PURPOSE FINANCIAL STATEMENTS

# OF

# JEFFERSON COUNTY, TENNESSEE

# FOR THE FISCAL YEAR ENDED

# JUNE 30, 2015

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the Jefferson County for the fiscal year ended June 30, 2015 which is available upon request from the County.

# ANNUAL FINANCIAL REPORT

# JEFFERSON COUNTY, TENNESSEE

## FOR THE YEAR ENDED JUNE 30, 2015

TENNESSEE
COMPTROLLER
OF THE TREASURY

DIVISION OF LOCAL GOVERNMENT AUDIT

# ANNUAL FINANCIAL REPORT

# JEFFERSON COUNTY, TENNESSEE

# FOR THE YEAR ENDED JUNE 30, 2015

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

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

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

***KRISTINE GALITZA, CPA***
***PHILIP TOBY, CGFM***
***AMY MOORE, CGFM***
***GREG BRUSH, CISA***
***State Auditors***

**This financial report is available at <u>www.comptroller.tn.gov</u>**

# JEFFERSON COUNTY, TENNESSEE
# TABLE OF CONTENTS

# *Summary of Audit Findings*

Annual Financial Report
Jefferson County, Tennessee
For the Year Ended June 30, 2015

## *Scope*

We have audited the basic financial statements of Jefferson County as of and for the year ended June 30, 2015.

## *Results*

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

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

## *Findings*

The following are summaries of the audit findings:

### OFFICE OF COUNTY MAYOR

- A cash shortage of $21,752 existed in the Planning and Zoning Office as of June 30, 2015.

### JEFFERSON COUNTY

- The Solid Waste Disposal Fund had a deficit in unrestricted net position.
- Jefferson County has a material recurring audit finding.

# Introductory Section

## Jefferson County Officials
## June 30, 2015

**Officials**

Alan Palmieri, County Mayor
Charles Tipton, Road Superintendent
Dr. Charles Edmonds, Director of Schools
Ginger Franklin, Trustee
Susan Gass, Assessor of Property
Frank Herndon, County Clerk
Penny Murphy, Circuit and General Sessions Courts Clerk
Nancy Humbard, Clerk and Master
Ed Stiner, Register of Deeds
Bud McCoig, Sheriff
Langdon Potts, Finance Director

**Board of County Commissioners**

Jimmy Carmichael, Chairman
Randy Bales
Randy Baxley
Robert Beeler
Robert Blevins
Terry Dockery
Steve Douglas
Ralph Eslinger
David Gaut
Katy Fox Huffaker
Todd Kesterson
John McGraw
Rita Musick
John Neal Scarlett
David Seal
Tim Seals
Barbara Jean Sheets
Sammy Solomon
Donnie Tabor
Robert Tucker
Russell Turner

**Board of Education**

Bill Jarnigan, Chairman
Randall Bradley
Judy Cavanah
Ralph Lowery
Anne Marie Potts
Jonathan Rogers
Jim Vines

**Highway Commission**

John Turner, Chairman
Condon Batson
David Cate
Paul Condry
Wayne Elmore
Bruce Frazier
Joe Simpson

## Jefferson County Officials (Cont.)

### Financial Management Committee

John McGraw, Chairman
Katy Fox Huffaker
David Seal
Robert Tucker
Alan Palmieri, County Mayor
Dr. Charles Edmonds, Director of Schools
Charles Tipton, Road Superintendent

### Audit Committee

Garry Jett, Chairman
Jimmy Carmichael
Joe Mack High
John McGraw
John Neal Scarlett

# FINANCIAL SECTION

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

## Independent Auditor's Report

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

To the County Mayor and Board of County Commissioners

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Jefferson County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the county's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Jefferson County Nursing Home, which represent 9.9 percent, 3.7 percent, and 14.8 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Jefferson County Emergency Communications District, which represent 1.1 percent, 1.6 percent, and 1.3 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Jefferson County Nursing Home and the Jefferson County Emergency

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

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

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

### *Opinions*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Jefferson County, Tennessee, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Highway/Public Works Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Change in Accounting Principle*

As described in Note V.C., Jefferson County has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### *Emphasis of Matter*

We draw attention to Note I.D.11. to the financial statements, which describes a restatement decreasing the beginning Governmental Activities net position of the primary government by $544,796, the beginning net position of the business-type activities of the primary government by 27,168, and the beginning net position of the discretely presented Jefferson County School Department by $8,897,493. We draw attention to Notes VI.A.13 and VII.G. to the financial statements, which describe restatements decreasing the beginning net position of the discretely presented Jefferson County Nursing Home by $238,541 and the discretely presented Jefferson County Emergency Communications District by $61,291. These restatements were necessary because of the transitional requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

We also draw attention to Note I.D.10 to the financial statements, which describes a prior-period adjustment increasing the beginning net position of the business-type activities and the beginning net position of the Solid Waste Disposal Fund by $613,471. This adjustment was due to the overstatement of postclosure care expenses in prior years. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of changes in the county's net pension liability and related ratios, schedule of county contributions, schedule of school's proportionate share of the net pension liability, and schedule of funding progress - other postemployment benefit plans on pages 128-134 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

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

The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, the General Debt Service Fund, and the General

Capital Projects Fund, combining and individual fund financial statements of the Jefferson County School Department (a discretely presented component unit), and miscellaneous schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds, the General Debt Service Fund, and the General Capital Projects Fund, combining and individual fund financial statements of the Jefferson County School Department (a discretely presented component unit), and miscellaneous schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016, on our consideration of Jefferson County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jefferson County's internal control over financial reporting and compliance.

Very truly yours,

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

February 10, 2016

JPW/kp

# BASIC FINANCIAL STATEMENTS

Exhibit A

Jefferson County, Tennessee
Statement of Net Position
June 30, 2015

| | Primary Government | | | Component Units | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Jefferson County School Department | Jefferson County Nursing Home | Emergency Communications District |
| **ASSETS** | | | | | | |
| Cash and Cash Equivalents | $ 127,364 | $ 25 | $ 127,389 | $ 26,742 | $ 1,286,643 | $ 773,969 |
| Equity in Pooled Cash and Investments | 19,802,134 | 570,219 | 20,372,353 | 10,655,651 | 0 | 0 |
| Inventories | 0 | 0 | 0 | 0 | 24,944 | 0 |
| Accounts Receivable | 3,331,419 | 71,425 | 3,402,844 | 37,823 | 1,086,803 | 400 |
| Allowance for Uncollectibles | (1,422,775) | (1,000) | (1,423,775) | 0 | (2,647) | 0 |
| Due from Other Governments | 761,849 | 0 | 761,849 | 1,960,632 | 0 | 0 |
| Due from Component Units | 7,151,786 | 0 | 7,151,786 | 0 | 0 | 0 |
| Internal Balances | 14,039 | (14,039) | 0 | 0 | 0 | 0 |
| Property Taxes Receivable | 17,613,450 | 0 | 17,613,450 | 10,736,968 | 0 | 0 |
| Allowance for Uncollectible Property Taxes | (820,489) | 0 | (820,489) | (500,160) | 0 | 0 |
| Prepaid Expenses | 119,136 | 0 | 119,136 | 0 | 19,387 | 14,734 |
| Cash Shortage | 21,752 | 0 | 21,752 | 0 | 0 | 0 |
| Unamortized Discount on Debt | 399,079 | 0 | 399,079 | 0 | 0 | 0 |
| Restricted Assets: | | | | | | |
| Other Restricted Assets | 0 | 0 | 0 | 0 | 120,471 | 0 |
| Net Pension Asset - Agent Plan | 647,641 | 32,297 | 679,938 | 707,509 | 283,572 | 0 |
| Net Pension Asset - Cost-Sharing Plan | 0 | 0 | 0 | 105,047 | 0 | 0 |
| Capital Assets: | | | | | | |
| Assets Not Depreciated: | | | | | | |
| Land | 1,527,216 | 461,930 | 1,989,146 | 1,492,550 | 7,181 | 0 |
| Construction in Progress | 77,342 | 114,252 | 191,594 | 26,929,881 | 0 | 0 |
| Assets Net of Accumulated Depreciation: | | | | | | |
| Landfill Facilities and Development | 0 | 77,825 | 77,825 | 0 | 0 | 0 |
| Buildings and Improvements | 16,948,977 | 54,271 | 17,003,248 | 38,848,972 | 6,930,464 | 0 |
| Machinery and Equipment | 0 | 1,082,899 | 1,082,899 | 1,024,387 | 820,057 | 324,597 |
| Other Capital Assets | 3,123,117 | 0 | 3,123,117 | 2,689,941 | 4,700 | 0 |
| Infrastructure | 79,910,738 | 0 | 79,910,738 | 0 | 0 | 0 |
| Total Assets | $ 149,333,775 | $ 2,450,104 | $ 151,783,879 | $ 94,715,943 | $ 10,581,575 | $ 1,113,700 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | |
| Deferred Charge on Refunding | $ 194,796 | $ 0 | $ 194,796 | $ 0 | $ 0 | $ 0 |
| Pension Changes in Experience | 38,397 | 1,915 | 40,312 | 296,973 | 0 | 0 |
| Pension Contributions After Measurement Date | 1,627,095 | 64,263 | 1,691,358 | 3,202,387 | 630,751 | 30,634 |
| Pension Other Deferrals | 0 | 0 | 0 | 71,019 | 0 | 0 |
| Total Deferred Outflows of Resources | $ 1,860,288 | $ 66,178 | $ 1,926,466 | $ 3,570,379 | $ 630,751 | $ 30,634 |
| **LIABILITIES** | | | | | | |
| Accounts Payable | $ 300,826 | $ 11,522 | $ 312,348 | $ 196,805 | $ 305,644 | $ 0 |
| Accrued Payroll | 82,644 | 16,147 | 98,791 | 166,387 | 221,910 | 0 |
| Accrued Interest Payable | 211,942 | 182 | 212,124 | 0 | 20,665 | 0 |

(Continued)

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

| | Primary Government | | | Component Units | | | |
|---|---|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Jefferson County School Department | ge ui nu tri | Jefferson County Nursing Home | Emergency Communica-tions District |
| **LIABILITIES (CONT.)** | | | | | | | |
| Payroll Deductions Payable | $ 182,558 | $ 0 | $ 182,558 | $ 2,017,908 | $ | 35,966 | $ 0 |
| Contracts Payable | 0 | 0 | 0 | 704,668 | | 0 | 0 |
| Retainage Payable | 0 | 0 | 0 | 37,088 | | 0 | 0 |
| Accrued Leave - Current | 0 | 0 | 0 | 0 | | 258,085 | 16,960 |
| Claims and Judgments Payable | 59,732 | 0 | 59,732 | 0 | | 0 | 0 |
| Due to Primary Government | 0 | 0 | 0 | 76,786 | | 7,075,000 | 0 |
| Due to the State of Tennessee | 29,458 | 8,383 | 37,841 | 0 | | 0 | 0 |
| Estimated Third-party Payor Settlements | 0 | 0 | 0 | 0 | | 44,111 | 0 |
| Other Current Liabilities | 0 | 0 | 0 | 0 | | 94,202 | 0 |
| Noncurrent Liabilities: | | | | | | | |
| Due Within One Year | 4,659,788 | 115,414 | 4,775,202 | 222,195 | | 0 | 0 |
| Due in More Than One Year | 81,912,742 | 4,576,833 | 86,489,575 | 10,288,316 | | 0 | 36,890 |
| Total Liabilities | $ 87,439,690 | $ 4,728,481 | $ 92,168,171 | $ 13,710,153 | $ | 8,055,583 | $ 53,850 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | | |
| Deferred Current Property Taxes | $ 16,310,509 | $ 0 | $ 16,310,509 | $ 9,942,710 | $ | 0 | $ 0 |
| Pension Changes in Experience | 0 | 0 | 0 | 0 | | 0 | 693 |
| Pension Changes in Investment Earnings | 1,586,354 | 79,110 | 1,665,464 | 10,388,174 | | 677,779 | 35,959 |
| Total Deferred Inflows of Resources | $ 17,896,863 | $ 79,110 | $ 17,975,973 | $ 20,330,884 | $ | 677,779 | $ 36,652 |
| **NET POSITION** | | | | | | | |
| Net Investment in Capital Assets | $ 91,799,767 | $ 1,703,050 | $ 93,502,817 | $ 70,985,731 | $ | 788,402 | $ 324,597 |
| Restricted for: | | | | | | | |
| General Government | 369,941 | 0 | 369,941 | 0 | | 0 | 0 |
| Finance | 124,181 | 0 | 124,181 | 0 | | 0 | 0 |
| Administration of Justice | 461,362 | 0 | 461,362 | 0 | | 0 | 0 |
| Public Safety | 281,554 | 0 | 281,554 | 0 | | 0 | 0 |
| Public Health and Welfare | 485,882 | 0 | 485,882 | 0 | | 0 | 0 |
| Social, Cultural, and Recreational Services | 56,998 | 0 | 56,998 | 0 | | 0 | 0 |
| Highway/Public Works | 2,244,837 | 0 | 2,244,837 | 0 | | 0 | 0 |
| Education | 0 | 0 | 0 | 1,981,704 | | 0 | 0 |
| Capital Projects | 300,761 | 0 | 300,761 | 2,576,230 | | 0 | 0 |
| Other Purposes | 647,641 | 32,297 | 679,938 | 0 | | 251,315 | 0 |
| Unrestricted | (50,915,414) | (4,026,656) | (54,942,070) | (11,298,380) | | 1,439,247 | 729,235 |
| Total Net Position | $ 45,857,510 | $ (2,291,309) | $ 43,566,201 | $ 64,245,285 | $ | 2,478,964 | $ 1,053,832 |

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

Exhibit B

Jefferson County, Tennessee
Statement of Activities
For the Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities | Primary Government: Business-type Activities | Primary Government: Total | Component Units: Jefferson County School Department | Component Units: Jefferson County Nursing Home | Component Units: Emergency Communications District |
|---|---|---|---|---|---|---|---|---|---|---|
| Primary Government: | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| General Government | $ 2,851,264 | $ 534,642 | $ 19,696 | $ 0 | $ (2,296,926) | $ 0 | $ (2,296,926) | $ 0 | $ 0 | $ 0 |
| Finance | 2,848,669 | 1,839,405 | 0 | 0 | (1,009,264) | 0 | (1,009,264) | 0 | 0 | 0 |
| Administration of Justice | 1,938,359 | 1,149,545 | 7,000 | 0 | (781,814) | 0 | (781,814) | 0 | 0 | 0 |
| Public Safety | 7,023,356 | 1,801,691 | 168,212 | 22,947 | (5,030,506) | 0 | (5,030,506) | 0 | 0 | 0 |
| Public Health and Welfare | 6,499,078 | 4,238,526 | 146,427 | 300,361 | (1,813,764) | 0 | (1,813,764) | 0 | 0 | 0 |
| Social, Cultural, and Recreational Services | 705,886 | 12,986 | 251,133 | 31,922 | (409,845) | 0 | (409,845) | 0 | 0 | 0 |
| Agriculture and Natural Resources | 135,556 | 0 | 0 | 0 | (135,556) | 0 | (135,556) | 0 | 0 | 0 |
| Highways | 5,495,146 | 51,478 | 1,792,607 | 999,860 | (2,651,201) | 0 | (2,651,201) | 0 | 0 | 0 |
| Education | 8,315,808 | 0 | 0 | 0 | (8,315,808) | 0 | (8,315,808) | 0 | 0 | 0 |
| Support Services | 450 | 0 | 0 | 0 | (450) | 0 | (450) | 0 | 0 | 0 |
| Interest on Long-term Debt | 3,271,454 | 0 | 0 | 0 | (3,271,454) | 0 | (3,271,454) | 0 | 0 | 0 |
| Total Governmental Activities | $ 39,085,026 | $ 9,628,273 | $ 2,385,075 | $ 1,355,090 | $ (25,716,588) | $ 0 | $ (25,716,588) | $ 0 | $ 0 | $ 0 |
| Business-type Activities: | | | | | | | | | | |
| Solid Waste Disposal | $ 1,303,283 | $ 1,735,609 | $ 0 | $ 0 | $ 0 | $ 432,326 | $ 432,326 | $ 0 | $ 0 | $ 0 |
| Total Business-type Activities | $ 1,303,283 | $ 1,735,609 | $ 0 | $ 0 | $ 0 | $ 432,326 | $ 432,326 | $ 0 | $ 0 | $ 0 |
| Total Primary Government | $ 40,388,309 | $ 11,363,882 | $ 2,385,075 | $ 1,355,090 | $ (25,716,588) | $ 432,326 | $ (25,284,262) | $ 0 | $ 0 | $ 0 |
| Component Units: | | | | | | | | | | |
| Jefferson County School Department | $ 58,923,654 | $ 1,133,434 | $ 7,497,009 | $ 7,810,990 | $ 0 | $ 0 | $ 0 | $ (42,482,221) | $ 0 | $ 0 |
| Jefferson County Nursing Home | 11,716,361 | 11,988,334 | 0 | 0 | 0 | 0 | 0 | 0 | 271,973 | 0 |
| Emergency Communications District | 986,562 | 493,600 | 103,451 | 41,843 | 0 | 0 | 0 | 0 | 0 | (347,668) |
| Total Component Units | $ 71,626,577 | $ 13,615,368 | $ 7,600,460 | $ 7,852,833 | $ 0 | $ 0 | $ 0 | $ (42,482,221) | $ 271,973 | $ (347,668) |

(Continued)

Exhibit B

Jefferson County, Tennessee
Statement of Activities (Cont.)

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | Component Units | | |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | Jefferson County School Department | Jefferson County Nursing Home | Emergency Communications District |
| General Revenues: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Property Taxes Levied for General Purposes | | | | | $ 14,713,566 | $ 0 | $ 14,713,566 | $ 10,362,971 | $ 0 | $ 0 |
| Property Taxes Levied for Debt Service | | | | | 2,335,571 | 0 | 2,335,571 | 0 | 0 | 0 |
| Local Option Sales Taxes | | | | | 1,221,857 | 0 | 1,221,857 | 5,505,180 | 0 | 0 |
| Hotel/Motel Tax | | | | | 288,878 | 0 | 288,878 | 0 | 0 | 0 |
| Wheel Tax | | | | | 1,131,689 | 0 | 1,131,689 | 0 | 0 | 0 |
| Litigation Tax - General | | | | | 111,232 | 0 | 111,232 | 0 | 0 | 0 |
| Litigation Tax - Special Purpose | | | | | 14,241 | 0 | 14,241 | 0 | 0 | 0 |
| Litigation Tax - Jail, Workhouse, or Courthouse | | | | | 188,134 | 0 | 188,134 | 0 | 0 | 0 |
| Business Tax | | | | | 362,596 | 0 | 362,596 | 0 | 0 | 0 |
| Mixed Drink Tax | | | | | 0 | 0 | 0 | 35,723 | 0 | 0 |
| Adequate Facilities Tax | | | | | 240,675 | 0 | 240,675 | 0 | 0 | 0 |
| Wholesale Beer Tax | | | | | 120,755 | 0 | 120,755 | 0 | 0 | 0 |
| Interstate Telecommunications Tax | | | | | 0 | 0 | 0 | 8,673 | 0 | 0 |
| Grants and Contributions Not Restricted to Specific Programs | | | | | 995,294 | 0 | 995,294 | 35,155,553 | 0 | 439,311 |
| Unrestricted Investment Income | | | | | 207,474 | 0 | 207,474 | 920 | 1,276 | 655 |
| Pension Income | | | | | 0 | 0 | 0 | 78,254 | 0 | 0 |
| Miscellaneous | | | | | 159,337 | 0 | 159,337 | 375,329 | 0 | 880 |
| Insurance Recovery | | | | | 68,139 | 1,950 | 70,089 | 0 | 0 | 0 |
| Gain on Sale of Capital Assets | | | | | 9,226 | 0 | 9,226 | 2,429 | 0 | 0 |
| Change in Estimate of Landfill Postclosure Care Cost | | | | | 0 | 203,686 | 203,686 | 0 | 0 | 0 |
| Total General Revenues | | | | | $ 22,168,664 | $ 205,636 | $ 22,374,300 | $ 51,525,032 | $ 1,276 | $ 440,846 |
| Transfers | | | | | $ (54,501) | $ 54,501 | $ 0 | $ 0 | $ 0 | $ 0 |
| Change in Net Position | | | | | $ (3,602,425) | $ 692,463 | $ (2,909,962) | $ 9,042,811 | $ 273,249 | $ 93,178 |
| Net Position, July 1, 2014 | | | | | 50,004,731 | (3,570,075) | 46,434,656 | 64,099,967 | 2,444,256 | 1,021,945 |
| Prior-period Adjustment - Landfill Postclosure Care Costs (See Note I.D.10.) | | | | | 0 | 613,471 | 613,471 | 0 | 0 | 0 |
| Restatement - Pension Liability (See Note I.D.11.) | | | | | (544,796) | (27,168) | (571,964) | (8,897,493) | 0 | 0 |
| Restatement - Pension Liability (See Note V I.A.13.) | | | | | 0 | 0 | 0 | 0 | (238,541) | 0 |
| Restatement - Pension Liability (See Note VII.G.) | | | | | 0 | 0 | 0 | 0 | 0 | (61,291) |
| Net Position, June 30, 2015 | | | | | $ 45,857,510 | $ (2,291,309) | $ 43,566,201 | $ 64,245,285 | $ 2,478,964 | $ 1,053,832 |

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

Exhibit C -1

Jefferson County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2015

| | Major Funds | | | | Nonmajor Funds | |
|---|---|---|---|---|---|---|
| | General | Highway / Public Works | General Debt Service | General Capital Projects | Other Govern-mental Funds | Total Governmental Funds |
| **ASSETS** | | | | | | |
| Cash | $ 14,147 | $ 0 | $ 0 | $ 0 | $ 113,217 | $ 127,364 |
| Equity in Pooled Cash and Investments | 6,017,098 | 2,006,926 | 6,348,565 | 294,360 | 5,026,012 | 19,692,961 |
| Accounts Receivable | 3,309,521 | 10,733 | 4,181 | 0 | 3,057 | 3,327,492 |
| Allowance for Uncollectibles | (1,422,775) | 0 | 0 | 0 | 0 | (1,422,775) |
| Due from Other Governments | 164,539 | 372,610 | 219,700 | 0 | 5,000 | 761,849 |
| Due from Other Funds | 1,457 | 0 | 88,127 | 0 | 0 | 89,584 |
| Due from Component Units | 0 | 0 | 53,800 | 20,234 | 0 | 74,034 |
| Property Taxes Receivable | 10,495,687 | 2,412,801 | 2,641,844 | 253,517 | 1,809,601 | 17,613,450 |
| Allowance for Uncollectible Property Taxes | (488,921) | (112,396) | (118,007) | (16,868) | (84,297) | (820,489) |
| Prepaid Items | 0 | 0 | 119,136 | 0 | 0 | 119,136 |
| Cash Shortage | 8,876 | 0 | 12,876 | 0 | 0 | 21,752 |
| Total Assets | $ 18,099,629 | $ 4,690,674 | $ 9,370,222 | $ 551,243 | $ 6,872,590 | $ 39,584,358 |
| **LIABILITIES** | | | | | | |
| Accounts Payable | $ 187,943 | $ 63,956 | $ 0 | $ 27,051 | $ 13,186 | $ 292,136 |
| Accrued Payroll | 600 | 67,470 | 0 | 0 | 14,574 | 82,644 |
| Payroll Deductions Payable | 182,558 | 0 | 0 | 0 | 0 | 182,558 |
| Claims and Judgments Payable | 59,732 | 0 | 0 | 0 | 0 | 59,732 |
| Due to Other Funds | 0 | 0 | 0 | 0 | 75,545 | 75,545 |
| Due to State of Tennessee | 28,922 | 0 | 0 | 0 | 536 | 29,458 |
| Total Liabilities | $ 459,755 | $ 131,426 | $ 0 | $ 27,051 | $ 103,841 | $ 722,073 |

(Continued)

Exhibit C - 1

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

| | Major Funds | | | | Nonmajor Funds | |
|---|---|---|---|---|---|---|
| | General | Highway / Public Works | General Debt Service | General Capital Projects | Other Govern-mental Funds | Total Governmental Funds |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Deferred Current Property Taxes | $ 9,719,277 | $ 2,234,316 | $ 2,457,748 | $ 223,431 | $ 1,675,737 | $ 16,310,509 |
| Deferred Delinquent Property Taxes | 232,724 | 53,499 | 53,499 | 10,700 | 40,125 | 390,547 |
| Other Deferred/Unavailable Revenue | 1,587,583 | 215,622 | 109,850 | 0 | 0 | 1,913,055 |
| Total Deferred Inflows of Resources | $ 11,539,584 | $ 2,503,437 | $ 2,621,097 | $ 234,131 | $ 1,715,862 | $ 18,614,111 |
| **FUND BALANCES** | | | | | | |
| Nonspendable: | | | | | | |
| Prepaid Items | $ 0 | $ 0 | $ 119,136 | $ 0 | $ 0 | $ 119,136 |
| Restricted: | | | | | | |
| Restricted for General Government | 28,325 | 0 | 0 | 0 | 341,616 | 369,941 |
| Restricted for Finance | 9,364 | 0 | 0 | 0 | 114,817 | 124,181 |
| Restricted for Administration of Justice | 454,942 | 0 | 0 | 0 | 6,420 | 461,362 |
| Restricted for Public Safety | 92,818 | 0 | 0 | 0 | 188,736 | 281,554 |
| Restricted for Public Health and Welfare | 10,645 | 0 | 0 | 0 | 441,267 | 451,912 |
| Restricted for Social, Cultural, and Recreational Services | 56,998 | 0 | 0 | 0 | 0 | 56,998 |
| Restricted for Highways/Public Works | 0 | 2,055,811 | 0 | 0 | 0 | 2,055,811 |
| Restricted for Capital Projects | 0 | 0 | 0 | 290,061 | 0 | 290,061 |
| Committed: | | | | | | |
| Committed for Public Health and Welfare | 0 | 0 | 0 | 0 | 11,543 | 11,543 |
| Committed for Other Operations | 0 | 0 | 0 | 0 | 3,948,488 | 3,948,488 |
| Committed for Debt Service | 0 | 0 | 6,629,989 | 0 | 0 | 6,629,989 |
| Assigned: | | | | | | |
| Assigned for General Government | 2,195 | 0 | 0 | 0 | 0 | 2,195 |
| Assigned for Finance | 23 | 0 | 0 | 0 | 0 | 23 |
| Assigned for Administration of Justice | 82 | 0 | 0 | 0 | 0 | 82 |

(Continued)

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

| | Major Funds | | | | Nonmajor Funds | |
|---|---|---|---|---|---|---|
| FUND BALANCES (Cont.) | General | Highway / Public Works | General Debt Service | General Capital Projects | Other Govern- mental Funds | Total Governmental Funds |
| Assigned (Cont.): | | | | | | |
| Assigned for Public Safety | $ 39,236 | $ 0 | $ 0 | $ 0 | $ 0 | $ 39,236 |
| Assigned for Public Health and Welfare | 1,087 | 0 | 0 | 0 | 0 | 1,087 |
| Assigned for Social, Cultural, and Recreational Services | 170 | 0 | 0 | 0 | 0 | 170 |
| Assigned for Support Services | 20,673 | 0 | 0 | 0 | 0 | 20,673 |
| Unassigned | 5,383,732 | 0 | 0 | 0 | 0 | 5,383,732 |
| Total Fund Balances | $ 6,100,290 | $ 2,055,811 | $ 6,749,125 | $ 290,061 | $ 5,052,887 | $ 20,248,174 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 18,099,629 | $ 4,690,674 | $ 9,370,222 | $ 551,243 | $ 6,872,590 | $ 39,584,358 |

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

Exhibit C-2

Jefferson County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2015

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

| | | |
|---|---|---|
| Total fund balances - balance sheet - governmental funds (Exhibit C-1) | | $ 20,248,174 |
| (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | | |
| Add: land | $ 1,527,216 | |
| Add: construction in progress | 77,342 | |
| Add: buildings and improvements net of accumulated depreciation | 16,948,977 | |
| Add: other capital assets net of accumulated depreciation | 3,123,117 | |
| Add: infrastructure net of accumulated depreciation | 79,910,738 | 101,587,390 |
| (2) An internal service fund is used by management to charge the cost of employee dental and vision programs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | | 107,162 |
| (3) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. | | |
| Less: other loans payable | $ (24,515,627) | |
| Less: bonds payable | (60,470,000) | |
| Add: bonds to be paid by Nursing Home for the primary government | 7,075,000 | |
| Add: deferred amount on refunding | 194,796 | |
| Less: unamortized premium on debt | (460,500) | |
| Add: unamortized discount on debt | 399,079 | |
| Less: accrued interest on bonds, capital leases, and other loans | (211,942) | |
| Less: compensated absences payable | (467,086) | |
| Less: other postemployment benefits liability | (659,317) | (79,115,597) |
| (4) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years. | | |
| Add: deferred outflows of resources related to pensions | $ 1,665,492 | |
| Less: deferred inflows of resources related to pensions | (1,586,354) | 79,138 |
| (5) Net pension assets of the agent plan are not current financial resources and therefore are not reported in the governmental funds. | | 647,641 |
| (6) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds. | | 2,303,602 |
| Net position of governmental activities (Exhibit A) | | $ 45,857,510 |

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

Exhibit C-3

Jefferson County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

| | Major Funds | | | | Nonmajor Funds | |
|---|---|---|---|---|---|---|
| | General | Highway / Public Works | General Debt Service | General Capital Projects | Other Govern-mental Funds | Total Governmental Funds |
| **Revenues** | | | | | | |
| Local Taxes | $ 11,161,453 | $ 2,335,643 | $ 4,925,789 | $ 475,101 | $ 1,825,980 | $ 20,723,966 |
| Licenses and Permits | 351,546 | 0 | 0 | 0 | 0 | 351,546 |
| Fines, Forfeitures, and Penalties | 353,961 | 0 | 0 | 0 | 42,803 | 396,764 |
| Charges for Current Services | 3,501,079 | 35,972 | 0 | 0 | 845,533 | 4,382,584 |
| Other Local Revenues | 720,429 | 15,506 | 674,814 | 0 | 762,025 | 2,172,774 |
| Fees Received from County Officials | 1,592,946 | 0 | 0 | 0 | 0 | 1,592,946 |
| State of Tennessee | 1,797,490 | 2,088,163 | 0 | 0 | 0 | 3,885,653 |
| Federal Government | 631,027 | 0 | 442,418 | 0 | 49,477 | 1,122,922 |
| Other Governments and Citizens Groups | 233,572 | 0 | 0 | 0 | 2,000 | 235,572 |
| Total Revenues | $ 20,343,503 | $ 4,475,284 | $ 6,043,021 | $ 475,101 | $ 3,527,818 | $ 34,864,727 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| General Government | $ 2,333,854 | $ 0 | $ 0 | $ 0 | $ 106,557 | $ 2,440,411 |
| Finance | 2,384,655 | 0 | 0 | 0 | 750,239 | 3,134,894 |
| Administration of Justice | 1,599,745 | 0 | 0 | 0 | 0 | 1,599,745 |
| Public Safety | 6,979,605 | 0 | 0 | 0 | 72,888 | 7,052,493 |
| Public Health and Welfare | 4,789,759 | 0 | 0 | 0 | 2,123,605 | 6,913,364 |
| Social, Cultural, and Recreational Services | 649,983 | 0 | 0 | 0 | 0 | 649,983 |
| Agriculture and Natural Resources | 143,715 | 0 | 0 | 0 | 0 | 143,715 |
| Other Operations | 1,142,057 | 0 | 0 | 0 | 373,200 | 1,515,257 |
| Highways | 0 | 4,401,878 | 0 | 0 | 0 | 4,401,878 |
| Support Services | 450 | 0 | 0 | 0 | 0 | 450 |
| Debt Service: | | | | | | |
| Principal on Debt | 0 | 0 | 4,147,979 | 0 | 0 | 4,147,979 |
| Interest on Debt | 0 | 0 | 3,201,192 | 0 | 0 | 3,201,192 |

(Continued)

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

| | Major Funds | | | | Nonmajor Funds | |
|---|---|---|---|---|---|---|
| | General | Highway / Public Works | General Debt Service | General Capital Projects | Other Governmental Funds | Total Governmental Funds |
| **Expenditures (Cont.)** | | | | | | |
| Debt Service (Cont.) | | | | | | |
| Other Debt Service | $ 0 | $ 0 | $ 88,773 | $ 0 | $ 0 | $ 88,773 |
| Capital Projects | 0 | 0 | 0 | 8,337,356 | 0 | 8,337,356 |
| Total Expenditures | $ 20,023,823 | $ 4,401,878 | $ 7,437,944 | $ 8,337,356 | $ 3,426,489 | $ 43,627,490 |
| Excess (Deficiency) of Revenues Over Expenditures | $ 319,680 | $ 73,406 | $ (1,394,923) | $ (7,862,255) | $ 101,329 | $ (8,762,763) |
| **Other Financing Sources (Uses)** | | | | | | |
| Bonds Issued | $ 0 | $ 0 | $ 0 | $ 6,790,000 | $ 0 | $ 6,790,000 |
| Premiums on Debt Issued | 0 | 0 | 0 | 68,441 | 0 | 68,441 |
| Insurance Recovery | 74,147 | 33,183 | 0 | 0 | 18,543 | 125,873 |
| Transfers In | 373,200 | 17,616 | 476,406 | 420,815 | 8,461 | 1,296,498 |
| Transfers Out | (927,906) | 0 | 0 | (49,893) | (373,200) | (1,350,999) |
| Total Other Financing Sources (Uses) | $ (480,559) | $ 50,799 | $ 476,406 | $ 7,229,363 | $ (346,196) | $ 6,929,813 |
| Net Change in Fund Balances | $ (160,879) | $ 124,205 | $ (918,517) | $ (632,892) | $ (244,867) | $ (1,832,950) |
| Fund Balance, July 1, 2014 | 6,261,169 | 1,931,606 | 7,667,642 | 922,953 | 5,297,754 | 22,081,124 |
| Fund Balance, June 30, 2015 | $ 6,100,290 | $ 2,055,811 | $ 6,749,125 | $ 290,061 | $ 5,052,887 | $ 20,248,174 |

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

Exhibit C-4

Jefferson County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2015

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

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds (Exhibit C-3) | | $ (1,832,950) |
| (1) Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows: | | |
| Add: capital assets purchased in the current period | $ 1,546,406 | |
| Less: current-year depreciation expense | (2,450,865) | (904,459) |
| (2) The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to increase (decrease) net position. | | |
| Add: assets donated and capitalized | $ 633,000 | |
| Less: book value of assets disposed | (48,508) | 584,492 |
| (3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Add: deferred delinquent property taxes and other deferred June 30, 2015 | $ 2,303,602 | |
| Less: deferred delinquent property taxes and other deferred June 30, 2014 | (2,131,592) | 172,010 |
| (4) The issuance of long-term debt (e.g., bonds, other loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the effect of these differences in the treatment of long-term debt and related items: | | |
| Less: bond proceeds | $ (6,790,000) | |
| Add: change in unamortized discount on debt issues | 30,662 | |
| Less: change in unamortized premium on debt issues | (46,101) | |
| Add: principal payments on bonds | 1,075,000 | |
| Add: principal payments on other loans | 3,072,979 | |
| Less: change in deferred amount on refunding debt | (27,508) | |
| Less: contributions from Nursing Home for bond | (210,000) | (2,894,968) |
| (5) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. | | |
| Change in accrued interest payable | $ (6,983) | |
| Change in compensated absences payable | 66,884 | |
| Change in other postemployment benefits liability | (31,683) | |
| Change in net pension liability/asset | 1,192,437 | |
| Change in deferred outflows related to pensions | 1,665,492 | |
| Change in deferred inflows related to pensions | (1,586,354) | 1,299,793 |

(Continued)

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

| | |
|---|---|
| (6) An internal service fund is used by management to charge the cost of employee dental and vision benefits to individual funds. The net revenue (expense) of certain activities of the internal service fund is reported with governmental activities in the statement of activities. | $ (26,343) |
| Change in net position of governmental activities (Exhibit B) | $ (3,602,425) |

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

Exhibit C-5

Jefferson County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund
For the Year Ended June 30, 2015

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts Original | Budgeted Amounts Final | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Local Taxes | $ 11,161,453 | $ 0 | $ 0 | $ 11,161,453 | $ 10,883,500 | $ 10,883,500 | $ 277,953 |
| Licenses and Permits | 351,546 | 0 | 0 | 351,546 | 271,500 | 271,500 | 80,046 |
| Fines, Forfeitures, and Penalties | 353,961 | 0 | 0 | 353,961 | 392,900 | 408,900 | (54,939) |
| Charges for Current Services | 3,501,079 | 0 | 0 | 3,501,079 | 3,133,500 | 3,133,500 | 367,579 |
| Other Local Revenues | 720,429 | 0 | 0 | 720,429 | 67,200 | 552,494 | 167,935 |
| Fees Received from County Officials | 1,592,946 | 0 | 0 | 1,592,946 | 1,275,000 | 1,457,047 | 135,899 |
| State of Tennessee | 1,797,490 | 0 | 0 | 1,797,490 | 1,867,856 | 1,899,902 | (102,412) |
| Federal Government | 631,027 | 0 | 0 | 631,027 | 604,876 | 622,823 | 8,204 |
| Other Governments and Citizens Groups | 233,572 | 0 | 0 | 233,572 | 154,000 | 155,200 | 78,372 |
| Total Revenues | $ 20,343,503 | $ 0 | $ 0 | $ 20,343,503 | $ 18,650,332 | $ 19,384,866 | $ 958,637 |
| **Expenditures** | | | | | | | |
| General Government | | | | | | | |
| County Commission | $ 229,513 | $ 0 | $ 0 | $ 229,513 | $ 261,163 | $ 296,863 | $ 67,350 |
| Board of Equalization | 750 | 0 | 0 | 750 | 3,000 | 3,000 | 2,250 |
| County Mayor/Executive | 231,273 | 0 | 15 | 231,288 | 260,306 | 261,320 | 30,032 |
| Election Commission | 313,878 | (58) | 950 | 314,770 | 348,174 | 350,488 | 35,718 |
| Register of Deeds | 188,819 | 0 | 455 | 189,274 | 47,907 | 194,354 | 5,080 |
| Codes Compliance | 112,709 | (22) | 0 | 112,687 | 112,463 | 113,910 | 1,223 |
| County Buildings | 856,814 | (1,605) | 0 | 855,209 | 795,237 | 858,953 | 3,744 |
| Other Facilities | 336,343 | (77) | 0 | 336,266 | 469,926 | 471,756 | 135,490 |
| Other General Administration | 58,250 | 0 | 0 | 58,250 | 2,500 | 60,750 | 2,500 |
| Preservation of Records | 5,505 | 0 | 774 | 6,279 | 10,100 | 11,300 | 5,021 |
| Finance | | | | | | | |
| Accounting and Budgeting | 910,126 | (1,728) | 0 | 908,398 | 692,296 | 949,002 | 40,604 |
| Property Assessor's Office | 474,388 | (19) | 0 | 474,369 | 484,079 | 492,096 | 17,727 |
| County Trustee's Office | 60,775 | (20) | 0 | 60,755 | 64,731 | 64,769 | 4,014 |
| County Clerk's Office | 161,997 | 0 | 0 | 161,997 | 119,483 | 165,668 | 3,671 |
| Data Processing | 115,803 | (1,140) | 23 | 114,686 | 129,208 | 129,780 | 15,094 |
| Other Finance | 661,566 | 0 | 0 | 661,566 | 696,748 | 700,777 | 39,211 |

(Continued)

Exhibit C-5

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

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts Original | Budgeted Amounts Final | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|---|---|---|
| Expenditures (Cont.) | | | | | | | |
| Administration of Justice | | | | | | | |
| Circuit Court | $ 737,384 | $ 0 | $ 0 | $ 737,384 | $ 764,327 | $ 770,890 | $ 33,506 |
| General Sessions Court | 301,116 | (500) | 0 | 300,616 | 303,388 | 303,772 | 3,156 |
| Drug Court | 31,898 | 0 | 0 | 31,898 | 25,650 | 31,650 | (248) |
| Chancery Court | 221,210 | (1,307) | 0 | 219,903 | 227,377 | 228,900 | 8,997 |
| Juvenile Court | 266,302 | (154) | 82 | 266,230 | 277,939 | 286,733 | 20,503 |
| Other Administration of Justice | 0 | 0 | 0 | 0 | 1,500 | 1,500 | 1,500 |
| Victims Assistance Programs | 41,835 | 0 | 0 | 41,835 | 32,500 | 42,500 | 665 |
| Public Safety | | | | | | | |
| Sheriff's Department | 3,601,488 | (16,929) | 18,557 | 3,603,116 | 3,737,547 | 3,879,849 | 276,733 |
| Wheel Tax Officer | 13,948 | 0 | 0 | 13,948 | 15,495 | 15,663 | 1,715 |
| Administration of the Sexual Offender Registry | 12,727 | 0 | 0 | 12,727 | 20,000 | 20,000 | 7,273 |
| Jail | 2,464,055 | (16,883) | 20,679 | 2,467,851 | 2,653,368 | 2,690,548 | 222,697 |
| Workhouse | 340,202 | 0 | 0 | 340,202 | 373,025 | 374,872 | 34,670 |
| Inspection and Regulation | 107,874 | 0 | 0 | 107,874 | 112,092 | 119,297 | 11,423 |
| Public Safety Grants Program | 0 | 0 | 0 | 0 | 67,000 | 67,000 | 67,000 |
| Other Public Safety | 439,311 | 0 | 0 | 439,311 | 433,600 | 439,311 | 0 |
| Public Health and Welfare | | | | | | | |
| Local Health Center | 221,238 | (166) | 0 | 221,072 | 222,901 | 258,420 | 37,348 |
| Rabies and Animal Control | 131,163 | (1,000) | 479 | 130,642 | 134,626 | 138,588 | 7,946 |
| Ambulance/Emergency Medical Services | 4,196,102 | (3,522) | 156 | 4,192,736 | 4,348,588 | 4,400,093 | 207,357 |
| Sanitation Education/Information | 70,257 | (479) | 453 | 70,231 | 67,018 | 73,340 | 3,109 |
| Other Public Health and Welfare | 170,999 | (80) | 0 | 170,919 | 178,035 | 179,760 | 8,841 |
| Social, Cultural, and Recreational Services | | | | | | | |
| Senior Citizens Assistance | 213,227 | (1,100) | 0 | 212,127 | 214,468 | 216,739 | 4,612 |
| Libraries | 436,756 | (654) | 170 | 436,272 | 442,468 | 489,069 | 52,797 |
| Agriculture and Natural Resources | | | | | | | |
| Agricultural Extension Service | 104,286 | (200) | 0 | 104,086 | 109,342 | 109,510 | 5,424 |
| Soil Conservation | 39,429 | 0 | 0 | 39,429 | 39,061 | 39,641 | 212 |

(Continued)

Exhibit C-5

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

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts | | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|---|---|---|
| | | | | | Original | Final | |
| Expenditures (Cont.) | | | | | | | |
| Other Operations | | | | | | | |
| Other Economic and Community Development | $ 3,000 | $ 0 | $ 0 | $ 3,000 | $ 0 | $ 3,000 | $ 0 |
| Veterans' Services | 51,774 | 0 | 0 | 51,774 | 55,196 | 55,770 | 3,996 |
| Contributions to Other Agencies | 1,085,544 | 0 | 0 | 1,085,544 | 1,087,544 | 1,087,544 | 2,000 |
| Employee Benefits | 1,739 | 0 | 0 | 1,739 | 0 | 1,739 | 0 |
| Support Services | | | | | | | |
| Other Programs | 450 | 0 | 0 | 450 | 0 | 450 | 0 |
| Total Expenditures | $ 20,023,823 | $ (47,643) | $ 42,793 | $ 20,018,973 | $ 20,441,376 | $ 21,450,934 | $ 1,431,961 |
| Excess (Deficiency) of Revenues Over Expenditures | $ 319,680 | $ 47,643 | $ (42,793) | $ 324,530 | $ (1,791,044) | $ (2,066,068) | $ 2,390,598 |
| Other Financing Sources (Uses) | | | | | | | |
| Insurance Recovery | $ 74,147 | $ 0 | $ 0 | $ 74,147 | $ 0 | $ 66,575 | $ 7,572 |
| Transfers In | 373,200 | 0 | 0 | 373,200 | 877,404 | 409,194 | (35,994) |
| Transfers Out | (927,906) | 0 | 0 | (927,906) | (534,913) | (928,163) | 257 |
| Total Other Financing Sources | $ (480,559) | $ 0 | $ 0 | $ (480,559) | $ 342,491 | $ (452,394) | $ (28,165) |
| Net Change in Fund Balance | $ (160,879) | $ 47,643 | $ (42,793) | $ (156,029) | $ (1,448,553) | $ (2,518,462) | $ 2,362,433 |
| Fund Balance, July 1, 2014 | 6,261,169 | (47,643) | 0 | 6,213,526 | 5,101,285 | 5,101,285 | 1,112,241 |
| Fund Balance, June 30, 2015 | $ 6,100,290 | $ 0 | $ (42,793) | $ 6,057,497 | $ 3,652,732 | $ 2,582,823 | $ 3,474,674 |

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

Exhibit C-6

Jefferson County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Highway/Public Works Fund
For the Year Ended June 30, 2015

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts Original | Budgeted Amounts Final | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Local Taxes | $ 2,335,643 | $ 0 | $ 0 | $ 2,335,643 | $ 2,288,600 | $ 2,288,600 | $ 47,043 |
| Charges for Current Services | 35,972 | 0 | 0 | 35,972 | 55,000 | 55,000 | (19,028) |
| Other Local Revenues | 15,506 | 0 | 0 | 15,506 | 0 | 15,506 | 0 |
| State of Tennessee | 2,088,163 | 0 | 0 | 2,088,163 | 1,784,208 | 1,784,208 | 303,955 |
| Total Revenues | $ 4,475,284 | $ 0 | $ 0 | $ 4,475,284 | $ 4,127,808 | $ 4,143,314 | $ 331,970 |
| **Expenditures** | | | | | | | |
| Highways | | | | | | | |
| Administration | $ 268,640 | $ (10) | $ 0 | $ 268,630 | $ 277,778 | $ 276,174 | $ 7,544 |
| Highway and Bridge Maintenance | 2,449,347 | 0 | 0 | 2,449,347 | 2,299,051 | 2,458,421 | 9,074 |
| Operation and Maintenance of Equipment | 770,223 | 0 | 383 | 770,606 | 921,761 | 944,197 | 173,591 |
| Quarry Operations | 683,997 | (14,523) | 0 | 669,474 | 758,585 | 750,257 | 80,783 |
| Asphalt Plant Operations | 36,687 | 0 | 2,600 | 39,287 | 32,600 | 39,294 | 7 |
| Other Charges | 98,795 | 0 | 0 | 98,795 | 102,319 | 102,319 | 3,524 |
| Employee Benefits | 87,329 | 0 | 0 | 87,329 | 87,329 | 87,329 | 0 |
| Capital Outlay | 6,860 | 0 | 0 | 6,860 | 0 | 0 | (6,860) |
| Total Expenditures | $ 4,401,878 | $ (14,533) | $ 2,983 | $ 4,390,328 | $ 4,479,423 | $ 4,657,991 | $ 267,663 |
| Excess (Deficiency) of Revenues Over Expenditures | $ 73,406 | $ 14,533 | $ (2,983) | $ 84,956 | $ (351,615) | $ (514,677) | $ 599,633 |
| **Other Financing Sources (Uses)** | | | | | | | |
| Insurance Recovery | $ 33,183 | $ 0 | $ 0 | $ 33,183 | $ 0 | $ 0 | $ 33,183 |
| Transfers In | 17,616 | 0 | 0 | 17,616 | 0 | 17,616 | 0 |
| Total Other Financing Sources | $ 50,799 | $ 0 | $ 0 | $ 50,799 | $ 0 | $ 17,616 | $ 33,183 |

(Continued)

Exhibit C-6

Jefferson County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Highway/Public Works Fund (Cont.)

| | Actual (GAAP Basis) | Less: Encumbrances 7/1/2014 | Add: Encumbrances 6/30/2015 | Actual Revenues/ Expenditures (Budgetary Basis) | Budgeted Amounts Original | Budgeted Amounts Final | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|---|---|---|
| Net Change in Fund Balance | $ 124,205 | $ 14,533 | $ (2,983) | $ 135,755 | $ (351,615) | $ (497,061) | $ 632,816 |
| Fund Balance, July 1, 2014 | 1,931,606 | (14,533) | 0 | 1,917,073 | 2,055,334 | 2,055,334 | (138,261) |
| Fund Balance, June 30, 2015 | $ 2,055,811 | $ 0 | $ (2,983) | $ 2,052,828 | $ 1,703,719 | $ 1,558,273 | $ 494,555 |

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

Exhibit D-1

Jefferson County, Tennessee
Statement of Net Position
Proprietary Funds
June 30, 2015

| | Business-type Activities - Major Enterprise Fund: Solid Waste Disposal Fund | Governmental Activities - Internal Service Fund: Employee Insurance - Dental and Vision Fund |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 25 | $ 0 |
| Equity in Pooled Cash and Investments | 570,219 | 109,173 |
| Accounts Receivable | 71,425 | 3,927 |
| Allowance for Uncollectibles | (1,000) | 0 |
| Due from Other Funds | 74,088 | 0 |
| Due from Component Units | 0 | 2,752 |
| Total Current Assets | $ 714,757 | $ 115,852 |
| Noncurrent Assets: | | |
| Net Pension Asset | $ 32,297 | $ 0 |
| Capital Assets: | | |
| Assets Not Depreciated: | | |
| Land | 461,930 | 0 |
| Construction in Progress | 114,252 | 0 |
| Assets Net of Accumulated Depreciation: | | |
| Landfill Facilities and Development | 77,825 | 0 |
| Buildings and Improvements | 54,271 | 0 |
| Machinery and Equipment | 1,082,899 | 0 |
| Total Noncurrent Assets | $ 1,823,474 | $ 0 |
| Total Assets | $ 2,538,231 | $ 115,852 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Outflows of Resources: | | |
| Pension Changes in Experience | $ 1,915 | $ 0 |
| Pension Contributions After Measurement Date | 64,263 | 0 |
| Total Deferred Outflows of Resources | $ 66,178 | $ 0 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable | $ 11,522 | $ 0 |
| Claims Payable | 0 | 8,690 |
| Accrued Payroll | 16,147 | 0 |
| Accrued Interest Payable | 182 | 0 |
| Due to Other Funds | 88,127 | 0 |
| Due to the State of Tennessee | 8,383 | 0 |
| Current Portion of Long-term Liabilities | 115,414 | 0 |
| Total Current Liabilities | $ 239,775 | $ 8,690 |

(Continued)

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

| | | |
|---|---|---|
| Noncurrent Liabilities: | | |
| Due in More Than One Year | $ 4,576,833 | $ 0 |
| Total Noncurrent Liabilities | $ 4,576,833 | $ 0 |
| Total Liabilities | $ 4,816,608 | $ 8,690 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Inflows of Resources: | | |
| Pension Changes in Investment Earnings | $ 79,110 | $ 0 |
| Total Deferred Inflows of Resources | $ 79,110 | $ 0 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | $ 1,703,050 | $ 0 |
| Net position - Restricted for Other Purposes | 32,297 | 0 |
| Net Position - Unrestricted | (4,026,656) | 107,162 |
| Total Net Position | $ (2,291,309) | $ 107,162 |

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

Exhibit D-2

Jefferson County, Tennessee
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

| | Business-type Activities - Major Enterprise Fund | Governmental Activities - Internal Service Fund |
|---|---|---|
| | Solid Waste Disposal Fund | Employee Insurance - Dental and Vision Fund |
| **Operating Revenues** | | |
| Tipping Fees | $ 1,433,557 | $ 0 |
| Lease/Rentals | 56 | 0 |
| Sale of Recycled Materials | 237,532 | 0 |
| Miscellaneous Refunds | 11,723 | 0 |
| State of Tennessee | 52,741 | 0 |
| Self-Insurance Premiums/Contributions | 0 | 131,985 |
| Total Operating Revenues | $ 1,735,609 | $ 131,985 |
| **Operating Expenses** | | |
| Cost of Sales and Services | | |
| Supervisor/Director | $ 30,021 | $ 0 |
| Accountants/Bookkeepers | 32,586 | 0 |
| Longevity Pay | 8,450 | 0 |
| Laborers | 382,836 | 0 |
| Board and Committee Members Fees | 4,320 | 0 |
| Social Security | 27,946 | 0 |
| Pensions | 17,730 | 0 |
| Life Insurance | 858 | 0 |
| Medical Insurance | 114,430 | 0 |
| Dental Insurance | 962 | 0 |
| Unemployment Compensation | 926 | 0 |
| Employer Medicare | 6,553 | 0 |
| Data Processing Services | 4,730 | 0 |
| Engineering Services | 26,716 | 0 |
| Evaluation and Testing | 40,494 | 0 |
| Janitorial Services | 1,092 | 0 |
| Maintenance Agreements | 523 | 0 |
| Maintenance and Repair Services - Equipment | 103,210 | 0 |
| Rentals | 3,830 | 0 |
| Travel | 903 | 0 |
| Other Contracted Services | 25,153 | 0 |
| Crushed Stone | 24,995 | 0 |
| Diesel Fuel | 105,324 | 0 |
| Fertilizer, Lime, and Seed | 320 | 0 |
| Gasoline | 13,631 | 0 |
| Lubricants | 12,805 | 0 |

(Continued)

Exhibit D-2

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

| | Business-type Activities - Major Enterprise Fund: Solid Waste Disposal Fund | Governmental Activities - Internal Service Fund: Employee Insurance - Dental and Vision Fund |
|---|---|---|
| Operating Expenses (Cont.) | | |
| Cost of Sales and Services (Cont.) | | |
| Office Supplies | $ 3,002 | $ 0 |
| Pipe | 1,142 | 0 |
| Propane Gas | 747 | 0 |
| Small Tools | 5,716 | 0 |
| Tires and Tubes | 2,999 | 0 |
| Utilities | 8,345 | 0 |
| Chemicals | 35 | 0 |
| Other Supplies and Materials | 13,723 | 0 |
| Building and Contents Insurance | 8,898 | 0 |
| Liability Insurance | 4,935 | 0 |
| Trustee's Commission | 14,437 | 0 |
| Workers' Compensation Insurance | 29,822 | 0 |
| Depreciation | 124,798 | 0 |
| Surcharge | 31,884 | 0 |
| Other Charges | 12,433 | 0 |
| Office Equipment | 898 | 0 |
| Solid Waste Equipment | 46,023 | 0 |
| Handling Charges and Administrative Costs | 0 | 15,244 |
| Other Self-Insured Claims | 0 | 143,084 |
| Total Operating Expenses | $ 1,301,181 | $ 158,328 |
| Operating Income (Loss) | $ 434,428 | $ (26,343) |
| Nonoperating Revenues (Expenses) | | |
| Interest on Internal Loan | $ (2,102) | $ 0 |
| Insurance Recovery | 1,950 | 0 |
| Gain from Reduction of Estimate of Landfill Postclosure Care Cost | 203,686 | 0 |
| Total Nonoperating Revenues (Expenses) | $ 203,534 | $ 0 |
| Income (Loss) Before Contributions and Transfers | $ 637,962 | $ (26,343) |
| Transfers In | 54,501 | 0 |
| Change in Net Position | $ 692,463 | $ (26,343) |
| Net Position, July 1, 2014 | (3,570,075) | 133,505 |
| Prior-period Adjustment - Landfill Postclosure Care Costs (See Note I.D.10) | 613,471 | 0 |
| Restatement - Pension Liability (See Note I.D.11) | (27,168) | 0 |
| Net Position, June 30, 2015 | $ (2,291,309) | $ 107,162 |

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

Exhibit D-3

Jefferson County, Tennessee
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

| | Business-type Activities - Major Enterprise Fund | Governmental Activities - Internal Service Fund |
|---|---|---|
| | Solid Waste Disposal Fund | Employee Insurance - Dental and Vision Fund |
| Cash Flows from Operating Activities | | |
| Receipts from Customers and Users | $ 1,450,215 | $ 0 |
| Receipts from Recycled Materials | 237,532 | 0 |
| Receipts from Other Operating Grants | 52,741 | 0 |
| Receipts from Recovery of Cash Shortage | 11,898 | 0 |
| Receipts for Self-Insurance Premiums | 0 | 135,164 |
| Payments to Employees and Board Members | (462,207) | 0 |
| Payments for Fringe Benefits | (215,938) | 0 |
| Payments to Suppliers | (332,550) | 0 |
| Payments to Others | (203,960) | 0 |
| Payments for Claims | 0 | (138,866) |
| Payments for Administrative Costs | 0 | (15,244) |
| Net Cash Provided By (Used In) Operating Activities | $ 537,731 | $ (18,946) |
| Cash Flows from Capital and Related Financing Activities | | |
| Acquisition and Construction of Capital Assets | $ (111,044) | $ 0 |
| Transfer from Primary Government for Capital Asset Purchase | 49,893 | 0 |
| Insurance Recovery | 1,950 | 0 |
| Principal Paid on Internal Loan | (110,000) | 0 |
| Interest Paid on Internal Loan | (3,785) | 0 |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | $ (172,986) | $ 0 |
| Cash Flows from Noncapital Financing Activities | | |
| Transfers from Other Funds | $ 4,608 | $ 0 |
| Net Cash Provided By (Used In) Noncapital Financing Activities | $ 4,608 | $ 0 |
| Increase (Decrease) in Cash | $ 369,353 | $ (18,946) |
| Cash, July 1, 2014 | 200,891 | 128,119 |
| Cash, June 30, 2015 | $ 570,244 | $ 109,173 |

(Continued)

Exhibit D-3

Jefferson County, Tennessee
Statement of Cash Flows
Proprietary Funds (Cont.)

| | Business-type Activities - Major Enterprise Fund | Governmental Activities - Internal Service Fund |
|---|---|---|
| | Solid Waste Disposal Fund | Employee Insurance - Dental and Vision Fund |
| **Reconciliation of Net Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities** | | |
| Operating Income (Loss) | $ 434,428 | $ (26,343) |
| Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities: | | |
| Depreciation | 124,798 | 0 |
| Changes in Deferred Outflows for Pensions | (66,178) | 0 |
| Changes in Deferred Inflows for Pensions | 79,110 | 0 |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Net Pension Asset/Liability | (59,465) | 0 |
| (Increase) Decrease in Accounts Receivable | 17,593 | 5,931 |
| Increase (Decrease) in Allowance for Uncollectibles | (31,000) | 0 |
| (Increase) Decrease in Due from Other Funds | 18,286 | 0 |
| (Increase) Decrease in Due from Component Units | 0 | (2,752) |
| (Increase) Decrease in Cash Shortage | 11,898 | 0 |
| Increase (Decrease) in Operating Accounts Payable | 10,888 | 0 |
| Increase (Decrease) in Claims Payable | 0 | 4,218 |
| Increase (Decrease) in Accrued Payroll | (2,459) | 0 |
| Increase (Decrease) in Due to State of Tennessee | 1,367 | 0 |
| Increase (Decrease) in Compensated Absences | (1,535) | 0 |
| Net Cash Provided By (Used In) Operating Activities | $ 537,731 | $ (18,946) |
| **Reconciliation of Cash With Statement of Net Position** | | |
| Cash Per Net Position | $ 25 | $ 0 |
| Equity in Pooled Cash and Investments Per Net Position | 570,219 | 109,173 |
| Cash, June 30, 2015 | $ 570,244 | $ 109,173 |

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

Exhibit E-1

Jefferson County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2015

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Cash | $ 1,520,960 |
| Equity in Pooled Cash and Investments | 4,970 |
| Accounts Receivable | 37,440 |
| Due from Other Governments | 879,152 |
| Property Taxes Receivable | 1,259,162 |
| Allowance for Uncollectible Property Taxes | (70,690) |
| Total Assets | $ 3,630,994 |
| **LIABILITIES** | |
| Due to Other Taxing Units | $ 2,072,594 |
| Due to Litigants, Heirs, and Others | 1,558,400 |
| Total Liabilities | $ 3,630,994 |

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

# JEFFERSON COUNTY, TENNESSEE
## Index of Notes to Financial Statements

# JEFFERSON COUNTY, TENNESSEE
## Index of Notes to Financial Statements (Cont.)

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### A. Reporting Entity

Jefferson County is a public municipal corporation governed by an elected 21-member board. As required by GAAP, these financial statements present Jefferson County (the primary government) and its component units. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

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

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

The Jefferson County Nursing Home provides nursing care to the citizens of Jefferson County, and the Jefferson County Commission appoints its governing body. Patient charges provide the majority of the revenues for the entity. Before the issuance of debt instruments, the entity must obtain the County Commission's approval.

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

The Jefferson County School Department does not issue separate financial statements from those of the county. Therefore, basic financial statements of the School Department are included in this report as listed in the table of contents. Complete financial statements of the Jefferson County Nursing Home and the Jefferson County Emergency Communications District can be obtained from their administrative offices at the following addresses:

Administrative Offices:

Jefferson County Nursing Home
914 Industrial Park Road
Dandridge, TN 37725

Jefferson County Emergency
Communications District
P.O. Box 705
Jefferson City, TN 37760

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

## B. Government-wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Jefferson County issues all debt for the discretely presented Jefferson County School Department. Net debt issues totaling $7,810,990 were contributed by the county to the School Department during the year ended June 30, 2015.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements, except for agency funds, which have no measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Jefferson County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

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

Jefferson County reports the following major governmental funds:

**General Fund** – This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Highway/Public Works Fund** – This special revenue fund accounts for transactions of the county's Highway Department. Local and state gasoline/fuel taxes are the foundational revenues of this fund.

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

**General Capital Projects Fund** – This fund accounts for general capital expenditures of the county and, in the current year, includes debt issued by Jefferson County and contributed to the Jefferson County School Department for construction and renovation projects.

Jefferson County reports the following major proprietary fund:

**Solid Waste Disposal Fund** – This fund accounts for the county's solid waste landfill operations.

Additionally, Jefferson County reports the following fund types:

**Internal Service Fund** – The Employee Insurance - Dental and Vision Fund is used to account for the county's self-insured dental and vision programs. Premiums charged to the various county funds and employee payroll deductions are placed in this fund for the payment of claims of county employees.

**Agency Funds** – These funds account for amounts collected in an agency capacity by the constitutional officers, local sales taxes received by the state to be forwarded to the various cities in Jefferson County, the cities property taxes collected by the county trustee and forwarded to the Town of Dandridge and the City of Baneberry. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

The discretely presented Jefferson County School Department reports the following major governmental funds:

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

**Other Capital Projects Fund – JCHS** – This fund is used to account for transactions related to the renovation of Jefferson County High School.

**Other Capital Projects Fund – Building 8** – This fund is used to account for transactions related to the renovation of Jefferson County High School Building 8.

Additionally, the Jefferson County School Department reports the following fund types:

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

**Internal Service Fund** – The Employee Insurance - Dental and Vision Fund is used to account for the School Department's self-insured dental and vision programs. Premiums charged to the various School Department funds and employee payroll deductions are placed in this fund for the payment of claims of School Department employees.

**Other Employee Benefit Trust Fund** – The Flexible Benefits Fund is used to account for operations of the flexible benefits program for School Department employees. This fund has become inactive.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The county has two proprietary funds, an enterprise fund and an internal service fund. Operating revenues and expenses generally result from providing services in connection with the funds' principal ongoing operations. The principal operating revenue of the enterprise fund is tipping fees. Operating expenses of the enterprise fund include various expenses associated with the operation of the county's landfill. The principal operating revenues of the county's and the School Department's internal service funds are charges for services. Operating expenses for the internal service funds include administrative expenses and employee benefits.

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

### 1. Deposits and Investments

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

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

The county trustee maintains a cash and internal investment pool that is used by all funds and the discretely presented Jefferson County School Department. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Debt Service and Other Special Revenue funds. Jefferson County and the School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. Investments in the State Treasurer's Investment Pool are reported at fair value. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Accordingly, the pool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value.

2. <u>Receivables and Payables</u>

Activity between funds for unremitted current collections at the end of the fiscal year is referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All ambulance, property taxes, and solid waste receivables are shown with an allowance for uncollectibles. The ambulance and solid waste receivables allowance for uncollectibles is based on historical collection data. The allowance for uncollectible property taxes is equal to 2.45 percent of total taxes levied.

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

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet as a deferred inflow of resources to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

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

Most payables are disaggregated on the face of the financial statements. The Claims and Judgments payable account totaling $59,732 is discussed in Note V.B. Risk Financing Activities.

Retainage payable in the School Department's funds represents amounts withheld from payments made on construction contracts pending completion of the projects. These amounts are held by the county trustee as Equity in Pooled Cash and Investments.

3. <u>Prepaid Items</u>

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure when consumed rather than when purchased. Prepaids are offset in the nonspendable fund balance account in governmental funds.

4. <u>Capital Assets</u>

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

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

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

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

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

| Assets | Years |
|---|---|
| Landfill Facilities and Development | 5 - 40 |
| Buildings and Improvements | 15 - 40 |
| Machinery and Equipment | 3 - 15 |
| Other Capital Assets | 5 - 25 |
| Infrastructure | 99 |

## 5. Deferred Outlows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources, (expense/expenditure) until then. The primary government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position. These items are the deferred charge on refunding, pension changes in experience, pension contributions after the measurement date, and pension other deferrals.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and/or the governmental funds balance sheet. These revenues are from the following sources: current and delinquent property taxes, pension changes in investment earnings, and various receivables for revenues, which do not meet the availability criteria in governmental funds.

6. **Compensated Absences**

It is the county's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since Jefferson County does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements for the county. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

It is the School Department's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for vacation and sick pay is reported in the governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements. The School Department offers teachers a financial incentive for accumulated sick leave. This incentive is available to all teachers who leave the School Department in good standing with at least ten consecutive years of service. The incentive amount is $25 for each accumulated day of sick leave. During the 2014-15 year, eight employees received this incentive. The financial statements of this report reflect expenditures of $31,340 in the General Purpose School Fund for the accumulated sick leave incentive payments.

7. **Long-term Obligations**

In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Position. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are expensed in the period incurred. In refunding transactions, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the refunded debt or the life of the new debt issued, whichever is shorter.

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

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

8. **Net Position and Fund Balance**

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

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

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

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

Restricted for Other Purposes on the Statement of Net Position for the primary government and the proprietary fund include $647,641 and $32,297, respectively, resulting from the recognition of net pension assets. Restricted for Education on the Statement of Net Position for the discretely presented School Department includes $812,556 resulting from the recognition of net pension assets.

As of June 30, 2015, Jefferson County had $75,020,627 in outstanding debt for capital purposes for the discretely presented Jefferson County School Department and the discretely presented Jefferson County Nursing Home. This debt is a liability of Jefferson County, but the capital assets acquired are reported in the financial statements of the component units. Therefore, Jefferson County has incurred a liability significantly decreasing its unrestricted net position with no corresponding increase in the county's capital assets.

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

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

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

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

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

Assigned Fund Balance – includes amounts that are constrained by the county's intent to be used for specific purposes, but are neither restricted nor committed (excluding stabilization arrangements). The County Commission makes assignments for the general government. The Board of Education makes assignments for the School Department. Assigned fund balance in the primary government's General Fund consists primarily of amounts assigned for encumbrances ($42,793). Assigned fund balance in the School Department's General Purpose School Fund consists of amounts assigned for encumbrances ($227,919), maintenance projects ($46,177), and construction projects at the high school ($23,805).

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

9. **Minimum Fund Balance Policy**

To provide management with appropriate guidelines and direction to assist in making sound decisions related to managing the fund balance of certain governmental funds, the following minimum fund balance policy exists:

General Fund – 15 percent of the subsequent year's appropriations in unassigned fund balance.

General Debt Service Fund – 50 percent of the subsequent year's debt service requirement.

10. **Prior-period Adjustment**

A prior-period adjustment was recognized in the Statement of Revenues, Expenses, and Changes in Net Position for the Solid Waste Disposal Fund decreasing the beginning landfill postclosure care liability by $613,471 due to a re-calculation of prior post closure care expenses. This adjustment was also made to beginning net position of the business-type activities in the government-wide Statement of Activities.

11. **Restatement**

In prior years, the government was not required to recognize a liability for its defined benefit pension plans. However, with the implementation of GASB Statement No. 68, government employers are required to recognize a net pension liability in their Statement of Net Position. Therefore, a restatement to decrease Jefferson County's beginning net position totaling $571,964 has been recognized on the Statement of Activities for the governmental activities ($544,796) and the business-type activities ($27,168). In addition, a restatement decreasing the discretely presented School Department's beginning net position by $8,897,493 has been recognized in the Statement of Activities for liabilities of the pension agent plan ($595,158) and the pension cost-sharing plan ($8,302,335).

## E. Pension Plans

### Primary Government

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

Discretely Presented Jefferson County School Department

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

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Primary Government

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

Discretely Presented Jefferson County School Department

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

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

Primary Government

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

### Discretely Presented Jefferson County School Department

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

## III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. Budgetary Information

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

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

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

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

### B. Net Position Deficit

The county's Solid Waste Disposal Fund had a deficit of $2,291,309 in total net position and a deficit of $4,026,656 in unrestricted net position at June 30, 2015. Further details related to liabilities recorded in this fund are disclosed in Note V.G. Landfill Closure/Postclosure Care Costs.

### C. Cash Shortage

On July 10, 2015, a Fraud Reporting Form was filed with the Comptroller of the Treasury alleging a cash shortage in the Planning and Zoning Office. An internal review of the receipts and deposits of the office by the county's finance director, with assistance from the Comptroller's Office, determined that $21,752 in adequate facilities tax and building permit collections had not been remitted to the county trustee. These unaccounted collections were for the period September 2013 through June 2015. The entire amount of this cash shortage existed as of June 30, 2015, and is reported in the primary government's General Fund ($8,876) and General Debt Service Fund ($12,876). Details of this cash shortage are discussed in the Schedule of Findings and Questioned Costs in the Single Audit section of this report.

### D. Expenditures Exceeded Appropriations

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

| Fund/Major Appropriation Category | | Amount Overspent |
|---|---|---|
| Primary Government: | | |
| General: | | |
| Drug Court | $ | 248 |
| Highway: | | |
| Capital Outlay | | 6,860 |
| General Capital Projects: | | |
| Other General Government Projects | | 5,416 |

Expenditures that exceed appropriations are a violation of state statutes. These expenditures in excess of appropriations were funded from available fund balances and greater than anticipated revenues.

## IV. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

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

## Deposits

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

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

## Investments

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

**Investment Balances.** As of June 30, 2015, Jefferson County had the following investments carried at fair value or amortized cost. All investments are in the county trustee's investment pool. Separate disclosures concerning pooled investments cannot be made for Jefferson County and the discretely presented Jefferson County School Department since both pool their deposits and investments through the county trustee.

| Investment | Weighted Average Maturities (days) | Fair Value |
|---|---|---|
| State Treasurer's Investment Pool | 3 to 139 | $ 268,626 |

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Jefferson County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Jefferson County has no investment policy that would further limit its investment choices. As of June 30, 2015, Jefferson County's investment in the State Treasurer's Investment Pool was unrated.

## B. Capital Assets

Capital assets activity for the year ended June 30, 2015, was as follows:

### Primary Government

**Governmental Activities:**

| | Balance 7-1-14 | Increases | Decreases | Balance 6-30-15 |
|---|---|---|---|---|
| Capital Assets Not Depreciated: | | | | |
| Land | $ 1,457,246 | $ 69,970 | $ 0 | $ 1,527,216 |
| Construction in Progress | 0 | 77,342 | 0 | 77,342 |
| Total Capital Assets Not Depreciated | $ 1,457,246 | $ 147,312 | $ 0 | $ 1,604,558 |
| Capital Assets Depreciated: | | | | |
| Buildings and Improvements | $ 21,863,331 | $ 449,769 | $ 0 | $ 22,313,100 |
| Other Capital Assets | 9,104,645 | 949,325 | (81,970) | 9,972,000 |
| Infrastructure | 116,160,627 | 633,000 | (13,200) | 116,780,427 |
| Total Capital Assets Depreciated | $ 147,128,603 | $ 2,032,094 | $ (95,170) | $ 149,065,527 |

**Governmental Activities (Continued):**

| | Balance 7-1-14 | Increases | Decreases | Balance 6-30-15 |
|---|---|---|---|---|
| Less Accumulated Depreciated For: | | | | |
| Buildings and Improvements | $ 4,809,947 | $ 554,176 | $ 0 | $ 5,364,123 |
| Other Capital Assets | 6,182,774 | 708,449 | (42,340) | 6,848,883 |
| Infrastructure | 35,685,771 | 1,188,240 | (4,322) | 36,869,689 |
| Total Accumulated Depreciation | $ 46,678,492 | $ 2,450,865 | $ (46,662) | $ 49,082,695 |
| Total Capital Assets Depreciated, Net | $ 100,450,111 | $ (418,771) | $ (48,508) | $ 99,982,832 |
| Governmental Activities Capital Assets, Net | $ 101,907,357 | $ (271,459) | $ (48,508) | $ 101,587,390 |

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

**Governmental Activities:**

| | |
|---|---|
| General Government | $ 60,919 |
| Finance | 4,758 |
| Administration of Justice | 444,099 |
| Public Safety | 232,787 |
| Public Health and Welfare | 393,736 |
| Social, Cultural, and Recreational Services | 6,450 |
| Highways/Public Works | 1,308,116 |
| Total Depreciation Expense - Governmental Activities | $ 2,450,865 |

**Business-type Activities:**

| | Balance 7-1-14 | Increases | Balance 6-30-15 |
|---|---|---|---|
| Capital Assets Not Depreciated: | | | |
| Land | $ 461,930 | $ 0 | $ 461,930 |
| Construction in Progress | 94,347 | 19,905 | 114,252 |
| Total Capital Assets Not Depreciated | $ 556,277 | $ 19,905 | $ 576,182 |
| Capital Assets Depreciated: | | | |
| Landfill Facilities and Development | $ 458,228 | $ 0 | $ 458,228 |
| Buildings and Improvements | 289,940 | 49,893 | 339,833 |
| Machinery and Equipment | 3,434,499 | 41,246 | 3,475,745 |
| Total Capital Assets Depreciated | $ 4,182,667 | $ 91,139 | $ 4,273,806 |
| Less Accumulated Depreciated For: | | | |
| Landfill Facilities and Development | $ 375,439 | $ 4,964 | $ 380,403 |
| Buildings and Improvements | 284,398 | 1,164 | 285,562 |
| Machinery and Equipment | 2,274,176 | 118,670 | 2,392,846 |
| Total Accumulated Depreciation | $ 2,934,013 | $ 124,798 | $ 3,058,811 |
| Total Capital Assets Depreciated, Net | $ 1,248,654 | $ (33,659) | $ 1,214,995 |
| Business-type Activities Capital Assets, Net | $ 1,804,931 | $ (13,754) | $ 1,791,177 |

The business-type activities had no decreases in capital assets during the year. Depreciation expense totaling $124,798 was charged to the Solid Waste Disposal Fund.

**Discretely Presented Jefferson County School Department**

**Governmental Activities:**

| | Balance 7-1-14 | Increases | Decreases | Balance 6-30-15 |
|---|---|---|---|---|
| Capital Assets Not Depreciated: | | | | |
| Land | $ 1,492,550 | $ 0 | $ 0 | $ 1,492,550 |
| Construction in Progress | 32,862,481 | 9,914,459 | (15,847,059) | 26,929,881 |
| Total Capital Assets Not Depreciated | $ 34,355,031 | $ 9,914,459 | $ (15,847,059) | $ 28,422,431 |
| Capital Assets Depreciated: | | | | |
| Buildings and Improvements | $ 48,097,723 | $ 16,165,236 | $ 0 | $ 64,262,959 |
| Machinery and Equipment | 2,745,544 | 41,551 | (26,353) | 2,760,742 |
| Other Capital Assets | 6,079,396 | 249,900 | (291,842) | 6,037,454 |
| Total Capital Assets Depreciated | $ 56,922,663 | $ 16,456,687 | $ (318,195) | $ 73,061,155 |
| Less Accumulated Depreciated For: | | | | |
| Buildings and Improvements | $ 23,918,743 | $ 1,495,244 | $ 0 | $ 25,413,987 |
| Machinery and Equipment | 1,563,566 | 199,142 | (26,353) | 1,736,355 |
| Other Capital Assets | 3,227,420 | 358,810 | (238,717) | 3,347,513 |
| Total Accumulated Depreciation | $ 28,709,729 | $ 2,053,196 | $ (265,070) | $ 30,497,855 |
| Total Capital Assets Depreciated, Net | $ 28,212,934 | $ 14,403,491 | $ (53,125) | $ 42,563,300 |
| Governmental Activities Capital Assets, Net | $ 62,567,965 | $ 24,317,950 | $ (15,900,184) | $ 70,985,731 |

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

**Governmental Activities:**

| | |
|---|---|
| Instruction | $ 1,419,723 |
| Support Services | 531,321 |
| Operation of Non-instructional Services | 102,152 |
| Total Depreciation Expense - Governmental Activities | $ 2,053,196 |

## C. Construction Commitments

At June 30, 2015, Jefferson County had uncompleted construction contracts in the following funds for various construction and renovation projects.

| | | |
|---|---|---|
| School Department: | | |
| Other Capital Projects - Jefferson County High School | $ | 797,542 |
| Other Capital Projects - Building 8 | | 1,585,154 |

Funding has been received for these future expenditures in the current or subsequent year.

## D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2015, was as follows:

**Due to/from Other Funds:**

| Receivable Fund | Payable Fund | | Amount |
|---|---|---|---|
| Primary Government: | | | |
| General | Nonmajor governmental | $ | 1,457 |
| General Debt Service | Solid Waste Disposal | | 88,127 |
| Solid Waste Disposal | Nonmajor governmental | | 74,088 |

The amount due to the General Debt Service Fund from the Solid Waste Disposal Fund represents interfund loans that are to be repaid with a payment of $88,127 in October 2017.

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

**Due to/from Primary Government and Component Unit:**

| Receivable Fund | Payable Fund | | Amount |
|---|---|---|---|
| | Component Unit: | | |
| Primary Government: | School Department: | | |
| General Debt Service | General Purpose Schools | $ | 53,800 |
| General Capital Projects | Nonmajor governmental | | 20,234 |

The amount reflected as Due to Primary Government, General Debt Service from the discretely presented School Department represents an internal capital outlay note with a term of three years for the purchase of a triple-wide trailer. Of that amount, $31,408 is not expected to be received within one year.

The government-wide Statement of Net Position also reports $7,075,000 as due from the discretely presented Jefferson County Nursing Home to the governmental activities of the primary government. This amount represents general obligation debt issued by the county, which is being retired by the nursing home. See Note VI.F. for further information about this debt.

**Interfund Transfers:**

Interfund transfers for the year ended June 30, 2015, consisted of the following amounts:

**Primary Government**

| | Transfers In | | |
|---|---|---|---|
| Transfers Out | General Fund | General Debt Service Fund | Solid Waste Disposal Fund |
| General Fund | $ 0 | $ 476,406 | $ 4,608 |
| General Capital Projects | 0 | 0 | 49,893 |
| Nonmajor governmental funds | 373,200 | 0 | 0 |
| Total | $ 373,200 | $ 476,406 | $ 54,501 |

**Primary Government**

| | Transfers In | | |
|---|---|---|---|
| Transfers Out | General Capital Projects Fund | Highway/ Public Works Fund | Nonmajor Governmental Funds |
| General Fund | $ 420,815 | $ 17,616 | $ 8,461 |
| Total | $ 420,815 | $ 17,616 | $ 8,461 |

**Discretely Presented Jefferson County School Department**

| Transfers Out | Transfers In: General Purpose School Fund | Other Capital Projects Fund - JCHS | Other Capital Projects Fund - Building 8 | Nonmajor Govern-mental Funds |
|---|---|---|---|---|
| General Purpose School Fund | $ 0 | $ 1,010,000 | $ 16,077 | $ 0 |
| Other Capital Projects Fund - Building 8 | 0 | 4,087,996 | 0 | 200,640 |
| Nonmajor governmental funds | 129,930 | 0 | 703,744 | 1,116 |
| Total | $ 129,930 | $ 5,097,996 | $ 719,821 | $ 201,756 |

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

## E. Long-term Obligations

### Primary Government

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

Jefferson County issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities for the primary government and the discretely presented School Department. In addition, general obligation bonds have been issued to refund other general obligation bonds, other loans, and notes. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds and other loans outstanding were issued for original terms of up to 30 years for bonds and up to 18 years for other loans. The county had no outstanding capital outlay notes at June 30, 2015. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds and other loans included in long-term debt as of June 30, 2015, will be retired from the General Debt Service Fund.

General obligation bonds and other loans outstanding as of June 30, 2015, for governmental activities are as follows:

| Type | Interest Rate | | Final Maturity | Original Amount of Issue | Balance 6-30-15 |
|---|---|---|---|---|---|
| General Obligation Bonds | 2.54 to 4.5 % | | 6-1-37 | $ 34,685,000 | $ 30,580,000 |
| General Obligation Refunding Bonds | 1.45 to 3.41 | | 6-1-27 | 14,735,000 | 13,890,000 |
| General Obligation - Recovery Zone Economic Development Bonds | 3.69 | | 6-1-40 | 16,000,000 | 16,000,000 |
| Other Loans - Refunding | Variable | | 6-1-26 | 13,305,000 | 9,200,000 |
| Other Loans - Refunding | 4 to 5 | | 6-1-19 | 13,740,000 | 5,355,000 |
| Other Loans - Qualified School Construction Bonds | 0 | (1) | 8-1-27 | 10,595,000 | 8,060,740 |
| Other Loans - Energy Efficient Schools Initiative | 2.5 | | 3-1-24 | 2,506,325 | 1,899,887 |

(1) Interest rate of approximately 4.85 percent is offset by a federal interest subsidy resulting in a net interest rate of zero percent.

In prior years, Jefferson County entered into loan agreements with the Sevier County Public Building Authority and the Blount County Public Building Authority. The following table summarizes those loan agreements outstanding as of June 30, 2015:

| Description | Original Amount of Loan Agreement | Outstanding Principal 6-30-15 | Interest Type | Interest Rates as of 6-30-15 | Other Fees on Variable Rate Debt |
|---|---|---|---|---|---|
| Sevier County Public Building Authority | | | | | |
| Local Government Public Improvement Bond - Refunding (V-G-1) | $ 13,740,000 | $ 5,355,000 | Fixed | 4 to 5 % | N/A |
| Total | | $ 5,355,000 | | | |
| Blount County Public Building Authority | | | | | |
| Local Government Public Improvement Bond - Refunding (E-3-D) | 13,305,000 | $ 9,200,000 | Variable | 0.7 | .25% |
| Total | | $ 9,200,000 | | | |
| Total | | $ 14,555,000 | | | |

The variable rate Blount County Public Building Authority loan is repayable at an interest rate that is a tax-exempt variable rate determined monthly by the remarketing agent. In addition, the county pays various other fees (trustee, debt remarketing, administrative, etc.) in connection with the variable rate loan. The annual requirements to amortize all general obligation bonds and other loans outstanding as of June 30, 2015, including interest payments and other loan fees, are presented in the following tables:

| Year Ending | Bonds | | |
|---|---|---|---|
| June 30 | Principal | Interest | Total |
| 2016 | $ 1,170,000 | $ 2,364,354 | $ 3,534,354 |
| 2017 | 1,225,000 | 2,330,654 | 3,555,654 |
| 2018 | 1,140,000 | 2,295,154 | 3,435,154 |
| 2019 | 2,585,000 | 2,264,604 | 4,849,604 |
| 2020 | 3,075,000 | 2,184,204 | 5,259,204 |
| 2021-2025 | 12,275,000 | 9,590,477 | 21,865,477 |
| 2026-2030 | 8,985,000 | 8,348,017 | 17,333,017 |
| 2031-2035 | 11,050,000 | 6,924,252 | 17,974,252 |
| 2036-2040 | 18,965,000 | 3,978,888 | 22,943,888 |
| Total | $ 60,470,000 | $ 40,280,604 | $ 100,750,604 |

| Year Ending | Other Loans | | | |
|---|---|---|---|---|
| June 30 | Principal | Interest | Other Fees | Total |
| 2016 | $ 3,162,827 | $ 866,088 | $ 31,568 | $ 4,060,483 |
| 2017 | 3,262,795 | 788,044 | 29,798 | 4,080,637 |
| 2018 | 3,392,895 | 704,626 | 27,966 | 4,125,487 |
| 2019 | 2,043,127 | 610,890 | 26,008 | 2,680,025 |
| 2020 | 1,733,491 | 582,550 | 23,925 | 2,339,966 |
| 2021-2025 | 9,195,867 | 2,732,356 | 84,924 | 12,013,147 |
| 2026-2028 | 1,724,625 | 1,079,856 | 19,764 | 2,824,245 |
| Total | $ 24,515,627 | $ 7,364,410 | $ 243,953 | $ 32,123,990 |

There is $6,749,125 available in the General Debt Service Fund to service long-term debt. Debt per capita, including bonds and other loans totaled $1,653, based on the 2010 federal census.

## Changes in Long-term Obligations

Long-term obligations activity for the year ended June 30, 2015, was as follows:

Governmental Activities:

| | | Bonds | | Other Loans |
|---|---|---|---|---|
| Balance, July 1, 2014 | $ | 54,755,000 | $ | 27,588,606 |
| Additions | | 6,790,000 | | 0 |
| Reductions | | (1,075,000) | | (3,072,979) |
| Balance, June 30, 2015 | $ | 60,470,000 | $ | 24,515,627 |
| Balance Due Within One Year | $ | 1,170,000 | $ | 3,162,827 |

| | | Other Postemployement Benefits | | Compensated Absences |
|---|---|---|---|---|
| Balance, July 1, 2014 | $ | 627,634 | $ | 533,970 |
| Additions | | 71,646 | | 467,087 |
| Reductions | | (39,963) | | (533,971) |
| Balance, June 30, 2015 | $ | 659,317 | $ | 467,086 |
| Balance Due Within One Year | $ | 0 | $ | 326,961 |

Analysis of Noncurrent Liabilities Presented on Exhibit A:

| | |
|---|---|
| Total Noncurrent Liabilities, June 30, 2015 | $ 86,112,030 |
| Less: Balance Due Within One Year | (4,659,788) |
| Less: Unamortized Premium on Debt | 460,500 |
| Noncurrent Liabilities - Due in More Than One Year - Exhibit A | $ 81,912,742 |

Compensated absences and other postemployment benefits will be paid from the employing funds, primarily the General, Solid Waste/Sanitation, and Highway/Public Works funds.

Defeasance of Prior Debt

In the prior year, Jefferson County defeased a portion of a general obligation issue (Nursing Home Bond) by placing a portion of a new bond into an irrevocable trust to provide for all future debt service payments on the old bond. The trustee is empowered and required to pay all principal and interest on the defeased bonds as originally scheduled. Accordingly, the trust accounts and the defeased bonds are not included in the county's financial statements.

At June 30, 2015, the refunded Nursing Home Bond (callable 6-1-16) totaling $2,540,000 is considered defeased.

## Solid Waste Disposal Fund (enterprise fund)

### Changes in Long-term Obligations

Long-term obligations activity for the Solid Waste Disposal Fund (enterprise fund) for the year ended June 30, 2015, was as follows:

Business-type Activities:

| | Compensated Absences | Closure/ Postclosure Care Costs | |
|---|---|---|---|
| Balance, July 1, 2014 | $ 13,077 | $ 4,884,391 | (1) |
| Additions | 16,571 | 0 | |
| Reductions | (18,106) | (203,686) | |
| Balance, June 30, 2015 | $ 11,542 | $ 4,680,705 | |
| Balance Due Within One Year | $ 2,959 | $ 112,455 | |

Analysis of Noncurrent Liabilities Presented on Exhibit A:

| | |
|---|---|
| Total Noncurrent Liabilities, June 30, 2015 | $ 4,692,247 |
| Less: Balance Due Within One Year | (115,414) |
| Noncurrent Liabilities - Due in More Than One Year - Exhibit A | $ 4,576,833 |

(1) This amount is net of a prior-period adjustment of $613,471, which is discussed in Note I.D.10.

## Discretely Presented Jefferson County School Department

### Changes in Long-term Obligations

Long-term obligations activity for the discretely presented Jefferson County School Department for the year ended June 30, 2015, was as follows:

Governmental Activities:

| | Compensated Absences | Termination Benefits |
|---|---|---|
| Balance, July 1, 2014 | $ 638,587 | $ 113,033 |
| Additions | 126,239 | 69,973 |
| Reductions | (110,703) | (100,473) |
| Balance, June 30, 2015 | $ 654,123 | $ 82,533 |
| Balance Due Within One Year | $ 162,987 | $ 59,208 |

| | Other Postemployment Benefits |
|---|---|
| Balance, July 1, 2014 | $ 8,617,300 |
| Additions | 1,959,879 |
| Reductions | (803,324) |
| Balance, June 30, 2015 | $ 9,773,855 |
| Balance Due Within One Year | $ 0 |

Analysis of Noncurrent Liabilities Presented on Exhibit A:

| | |
|---|---|
| Total Noncurrent Liabilities, June 30, 2015 | $ 10,510,511 |
| Less: Balance Due Within One Year | (222,195) |
| Noncurrent Liabilities - Due in More Than One Year - Exhibit A | $ 10,288,316 |

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

F. **Pledges of Future Revenues**

In August 2008, the citizens of Jefferson County voted to increase the local option sales tax from 2.25 to 2.75 percent. The county pledged all additional sales tax collections generated from the half-cent increase in the unincorporated areas of the county and half of the additional sales tax collections in the cities within the county to be used for the reduction and retirement of school indebtedness. Jefferson County had outstanding debt for school purposes of $67,945,627 at June 30, 2015. That debt carries the general obligation pledge of the government in addition to the specific pledge of the one-half cent sales tax revenue.

G. **On-Behalf Payments**

**Primary Government**

The State of Tennessee pays health insurance premiums for retired employees on-behalf of Jefferson County. These payments are made by the state to the Medicare Supplement Plan. This plan is administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Medicare Supplement plan for the year ended June 30, 2015, were $450. The county has recognized these on-behalf payments as revenues and expenditures in the General Fund.

**Discretely Presented Jefferson County School Department**

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Jefferson County School Department. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2015, were $187,447 and $51,875, respectively. The School Department has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

H. **Internal Financing**

In-lieu-of issuing debt with financial institutions, Jefferson County chose to internally finance various projects with idle county funds. During a previous year, the county loaned $201,700 of idle funds under Bond Anticipation Note Series 2011A from the General Debt Service Fund to the Solid Waste Disposal Fund to purchase equipment. The balance of $88,127 due on Bond Anticipation Note Series 2011A notes is reflected as Due from Other Funds in the General Debt Service Fund and as Due to Other Funds in the Solid Waste Disposal Fund.

Internally Reported Interfund Notes Receivable/Payable

| | Original Amount of Issue | Interest Rate | Date of Issue | Last Maturity Date |
|---|---|---|---|---|
| Due to General Debt Service Fund from Solid Waste Disposal Fund | | | | |
| Bond Anticipation Note - Series 2011A (Solid Waste) | $ 201,700 | 1.25 % | 10-4-11 | 10-4-17 |

| | Outstanding 7-1-14 | Issued During Period | Paid and/or Matured During Period | Outstanding 6-30-15 |
|---|---|---|---|---|
| Due to General Debt Service Fund from Solid Waste Disposal Fund | | | | |
| Bond Anticipation Note - Series 2011A (Solid Waste) | $ 198,127 | $ 0 | $ (110,000) | $ 88,127 |
| Total | $ 198,127 | $ 0 | $ (110,000) | $ 88,127 |

In a prior year, internally reported capital outlay notes of $698,587 were also borrowed from the General Debt Service Fund to provide funds for construction costs of the discretely presented School Department. For external reporting, this transaction was recognized as a contribution to the School Department's Other Capital Projects – RZEDB Fund in the prior year. Repayment of the notes is being provided by annual transfers of tax credit bond rebate revenues from the General Fund. This internally reported notes receivable of the General Debt Service Fund that is to be retired from the General Debt Service Fund from tax credit bond rebate revenues is summarized below:

| | Outstanding 7-1-14 | Issued During Period | Paid and/or Matured During Period | Outstanding 6-30-15 |
|---|---|---|---|---|
| School Department Improvements | $ 590,977 | $ 0 | $ (471,974) | $ 119,003 |
| Total | $ 590,977 | $ 0 | $ (471,974) | $ 119,003 |

## V. OTHER INFORMATION

### A. Risk Management

Jefferson County and the discretely presented Jefferson County School Department are exposed to risks related to general liability, property, casualty, and workers' compensation. The county and the School Department decided it was more economically feasible to join public entity risk pools as opposed to purchasing commercial insurance for general liability, property, casualty, and workers' compensation coverage. The county and the School Department joined the Tennessee Risk Management Trust (TN-RMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The county and the School Department pay annual premiums to the TN-RMT for their general liability, property, casualty, and workers' compensation coverage. The creation of the TN-RMT provides for it to be self-sustaining through member premiums.

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

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

Section 8-27-303, *TCA*, provides for the LEGIF to be self-sustaining through member premiums.

Jefferson County and the discretely presented School Department have chosen to establish Employee Insurance - Dental and Vision funds for risks associated with the employees' dental and vision plans. The Employee Insurance - Dental and Vision funds are accounted for as internal service funds where assets are set aside for claim settlements. The maximum liability is $1,200 per employee per year for dental coverage only and $1,500 per employee per year for dental and vision coverage. All full-time employees of Jefferson County and the School Department are eligible to participate. A premium charge is allocated to each fund that accounts for full-time employees. This charge is based on estimates of the amounts needed to pay claims. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Employee Insurance - Dental and Vision funds established claims liabilities based on estimates of claims that have been incurred but not reported. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the past two fiscal years are as follows:

Employee Insurance - Dental and Vision Funds

| | Beginning of Fiscal Year Liability | Current-Year Claims and Estimates | Payments | Balance at Fiscal Year-end |
|---|---|---|---|---|
| Primary Government | | | | |
| 2013-2014 | $ 2,054 | $ 113,843 | $ 111,425 | $ 4,472 |
| 2014-2015 | 4,472 | 143,084 | 138,866 | 8,690 |
| Discretely Presented School Department | | | | |
| 2013-2014 | 50,677 | 323,972 | 325,225 | 49,424 |
| 2014-2015 | 49,424 | 349,899 | 375,577 | 23,746 |

## B. Risk Financing Activities

Jefferson County and several other counties, cities, and local government entities were members of the Local Government Insurance Cooperative (LOGIC) for workers' compensation insurance for one or more policy years in 1996-97, 1997-98, and 1999-2000. LOGIC obtained excess coverage insurance from Reliance Insurance Company for claims that exceeded specific amounts. Reliance Insurance Company is now insolvent and is being liquidated in the State of Pennsylvania. The insolvency of Reliance Insurance Company has left the LOGIC members exposed to significant claim liabilities for their policy years. The LOGIC board of directors has assessed its members certain amounts for each member's share of outstanding claims unpaid by Reliance Insurance Company. As of June 30, 2015, Jefferson County has an outstanding assessment, which was due June 30, 2012, of $59,732. Jefferson County has recorded a liability for this amount in the General Fund. However, Jefferson County disputes the claim and has not yet paid the assessment.

## C. Accounting Changes

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68* became effective for the year ended June 30, 2015.

GASB Statement No. 68, replaces the requirements of Statements No. 27 and No. 50 as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this statement. This statement establishes standards for measuring and recognizing liabilities, deferred outflows/inflows, and expenses/expenditures.

GASB Statement No. 69, establishes accounting and financial reporting standards related to government combinations and disposals of government operations such as mergers, acquisitions, and transfer of operations.

GASB Statement No. 71, addresses issues related to amounts of contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

## D. Subsequent Events

Subsequent to June 30, 2015, the Jefferson County Commission approved the allocation of up to $1,035,000 from unassigned fund balance of the primary government's General Fund, along with $1,000,000 from the unassigned fund balance of the discretely presented Jefferson County School Department's General Purpose School Fund, to fund renovations at White Pine School. As of the date of this report, no amounts have been paid from the county's General Fund due to questions relating to the legality of using General Fund monies for school purposes. Management expects to present an alternate funding plan to the County Commission regarding the funding of those renovations.

Subsequent to June 30, 2015, the county sought bids for the improvement of the Witt Road Bridge. A construction contract of approximately $290,500 is expected to be executed in February 2016 for this project.

E. **Contingent Liabilities**

Jefferson County and the discretely presented Jefferson County School Department are involved in several pending lawsuits. Management, based on estimates from their attorneys, believes that the potential claims against the county and the School Department not covered by insurance, resulting from such litigation, would not materially affect the financial statements of the primary government or the School Department.

F. **Changes in Administration**

On August 31, 2014, R.E. Farrar III left the Office of County Clerk and was succeeded by Frank Herndon. Darrell Helton resigned as Finance Director on December 31, 2014, and was succeeded by Langdon Potts.

G. **Landfill Closure/Postclosure Care Costs**

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

State and federal laws and regulations require Jefferson County to place a final cover on its sanitary landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Solid Waste Disposal Fund reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $4,680,705 reported as landfill closure and postclosure care liability at June 30, 2015, represents the cumulative amount reported to date based on the use of 47 percent of the estimated capacity of the operating Patterson landfill site ($3,424,526) and postclosure care costs for the Highway 92 landfill site, which closed in 1993 ($1,256,179). The amounts reported as closure/postclosure liability at June 30, 2015, are based on what it would cost to perform all closure and postclosure care costs in 2015. The postclosure care liability includes a prior-period adjustment of $613,471 as discussed in Note I.D. 10. The county will recognize the remaining estimated costs of closure and postclosure as the remaining estimated capacity is filled. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The county expects to close the Patterson landfill site in the year 2032.

## H. Joint Ventures

### Primary Government

The county, along with Jefferson City, has participated in the operation of Jefferson Memorial Hospital, a health facility. Effective April 1, 1997, the county and city entered into an agreement to lease the hospital, including all assets and all outstanding liabilities, to a nonprofit corporation, Jefferson Memorial Hospital, Inc. (JMH, Inc.), of which obligations are guaranteed by St. Mary's Health Systems, Inc. Effective October 1, 2011, this lease was assigned by St. Mary's Health Systems, Inc., to Jefferson County HMA, LLC, of which, obligations are guaranteed by Knoxville HMA Holdings, LLC. The county and the city created a seven-member oversight board comprising the hospital's chief of staff, three appointees from the county, and three from the city. The board is responsible for administration of the lease and the hospital in the event of lease termination. The county reflects its share of any net revenues from the lease in the Other Special Revenue Fund. Currently, the county receives $62,500 per month from the lease.

The Fourth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Fourth Judicial District; Sevier, Jefferson, Grainger, and Cocke counties and various cities within these counties. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general, sheriffs, and police chiefs of participating law enforcement agencies within each judicial district. Jefferson County made no contributions to the DTF for the year ended June 30, 2015, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

Administrative Office:

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

### Discretely Presented School Department

The discretely presented School Department participates in the Northeast Tennessee Cooperative (NETCO). The cooperative was established through a contractual agreement between the Boards of Education of Jefferson County and various other counties and cities in the upper East Tennessee area. The cooperative was authorized through Chapter 49 of *Tennessee Code Annotated,* and was established to obtain lower prices for food supplies, materials, equipment, and services by combining the purchasing requirements of each member's school food service systems. The cooperative has contracted with a coordinating district (Johnson City School System) and a service provider to provide this service. NETCO is governed by a representative committee, including one representative from each of the member districts and an executive council, consisting of the chair, vice chair, secretary, treasurer, and a member-at-large from the representative committee.

Complete financial statements for NETCO can be obtained from its administrative office at the following address:

Administrative Office:

Northeast Tennessee Cooperative
100 East Maple Street
P.O. Box 1517
Johnson City, TN 37605

## I. Jointly Governed Organizations

The East Tennessee Regional Agribusiness Marketing Authority was established through Title 64 of *Tennessee Code Annotated,* and includes the counties of Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Johnson, Sullivan, Unicoi, and Washington. The purpose of the authority is to establish and operate a market for agricultural products of the region through a food distribution center. The authority is governed by a Board of Directors consisting of the county mayors of each county or the county mayor's designee and one nonvoting member representing the Tennessee Department of Agriculture and the University of Tennessee's Agriculture Extension Service. An executive committee, consisting of the chairman, vice-chairman, secretary, and treasurer of the Board of Directors, along with the center manager, as an ex officio member, is in charge of the daily operations of the center. The county does not have any ongoing financial interest or responsibility beyond its initial investment.

In October 2012, amended and restated formation documents were filed with the Secretary of State's Office for the Jefferson Memorial Foundation, Inc. Previously, St. Mary's Health System, which leased hospital operations from the county and Jefferson City, was the sole member of the foundation and provided oversight of certain funds held to benefit community health programs in the city and county. The hospital is jointly owned by the county and Jefferson City as discussed in Note V.H. With the change in the formation documents, the county and city became the sole members of the foundation. A board, with three members appointed by the county and three members appointed by the city, now oversees the foundation funds.

## J. Retirement Commitments

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

#### Primary Government

#### General Information About the Pension Plan

*Plan Description.* Employees of Jefferson County, the discretely presented Jefferson County Nursing Home, and non-certified employees of the discretely presented Jefferson County School Department are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The primary government employees comprise 40.69 percent, the Jefferson County Nursing Home employees comprise 16.97 percent, and the non-certified employees of the discretely presented School Department comprise 42.34 percent of the plan based on census data. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

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

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

*Employees Covered by Benefit Terms.* At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 381 |
| Inactive Employees Entitled to But Not Yet Receiving Benefits | 434 |
| Active Employees | 725 |
| Total | 1,540 |

*Contributions.* Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory. Jefferson County makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Jefferson County were $3,261,549 based on a rate of 15.63 percent of pensionable payroll. By law, employer contributions are required to be paid. The TCRS may intercept Jefferson County's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Net Pension Liability (Asset)**

Jefferson County's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability as of the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance, July 1, 2013 | $ 60,544,602 | $ 56,099,575 | $ 4,445,027 |
| Changes for the year: | | | |
| Service Cost | $ 1,554,834 | $ 0 | $ 1,554,834 |
| Interest | 4,567,501 | 0 | 4,567,501 |
| Differences Between Expected and Actual Experience | 118,884 | 0 | 118,884 |
| Contributions-Employer | 0 | 3,039,363 | (3,039,363) |
| Contributions-Employees | 0 | 0 | 0 |
| Net Investment Income | 0 | 9,346,723 | (9,346,723) |
| Benefit Payments, Including Refunds of Employee Contributions | (2,398,853) | (2,398,853) | 0 |
| Administrative Expense | 0 | (28,821) | 28,821 |
| Net Changes | $ 3,842,366 | $ 9,958,412 | $ (6,116,046) |
| Balance, June 30, 2014 | $ 64,386,968 | $ 66,057,987 | $ (1,671,019) |

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

| | | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
|---|---|---|---|---|
| Primary Government | 40.69% | $ 26,199,057 | $ 26,878,995 | $ (679,938) |
| Nursing Home | 16.97% | 10,926,468 | 11,210,040 | (283,572) |
| School Department | 42.34% | 27,261,443 | 27,968,952 | (707,509) |
| Total | | $ 64,386,968 | $ 66,057,987 | $ (1,671,019) |

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

| Jefferson County | 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|---|---|---|---|
| Net Pension Liability | $ 6,992,762 | $ (1,671,019) | $ (8,859,269) |

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

*Pension Expense.* For the year ended June 30, 2015, Jefferson County recognized pension expense of $917,301.

*Deferred Outflows of Resources and Deferred Inflows of Resources.* For the year ended June 30, 2015, Jefferson County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ 99,070 | $ 0 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 0 | 4,093,054 |
| Contributions Subsequent to the Measurement Date of June 30, 2014 (1) | 3,261,549 | N/A |
| Total | $ 3,360,619 | $ 4,093,054 |

The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Primary Government | $ 1,731,670 | $ 1,665,464 |
| Nursing Home | 647,563 | 694,591 |
| School Department | 981,386 | 1,732,999 |
| Total | $ 3,360,619 | $ 4,093,054 |

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

| Year Ending June 30 | Amount |
|---|---|
| 2016 | $ (1,003,449) |
| 2017 | (1,003,449) |
| 2018 | (1,003,449) |
| 2019 | (1,003,449) |
| 2020 | 19,814 |
| Thereafter | 0 |

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

## Discretely Presented Jefferson County School Department

## Non-certified Employees

### General Information About the Pension Plan

*Plan Description.* As noted above under the primary government, employees of Jefferson County, the discretely presented Jefferson County Nursing Home, and non-certified employees of the discretely presented Jefferson County School Department are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The primary government employees comprise 40.69 percent, employees of the discretely presented Jefferson County Nursing Home comprise 16.97 percent, and the non-certified employees of the discretely presented School Department comprise 42.34 percent of the plan based on census data.

## Certified Employees

## Teacher Retirement Plan

### General Information About the Pension Plan

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

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

*Contributions.* Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute five percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing TCRS, the employer contribution rate cannot be less than four percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2015, to the Teacher Retirement Plan were $41,900, which is four percent of pensionable payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

*Pension Liabilities.* Since the measurement date is June 30, 2014, which is prior to the July 1, 2014, inception of the Teacher Retirement Plan, there is no net pension liability to report at June 30, 2015.

*Pension Expense.* Since the measurement date is June 30, 2014, the Jefferson County School Department did not recognize any pension expense at June 30, 2015.

*Deferred Outflows of Resources and Deferred Inflows of Resources.* For the year ended June 30, 2015, the Jefferson County School Department reported deferred outflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| LEAs Contributions Subsequent to the Measurement Date of June 30, 2015 | $ 41,900 | N/A |

The Jefferson County School Department's employer contributions of $41,900 reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as a reduction of net pension liability in the year ending June 30, 2016.

## Teacher Legacy Pension Plan

### General Information About the Pension Plan

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

*Benefits Provided. TCA,* Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available to vested members at age 55. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria. Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Contributions.* Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute five percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the Jefferson County School Department for the year ended June 30, 2015, to the Teacher Legacy Pension Plan were $2,221,047, which is 9.04 percent of pensionable payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

*Pension Assets.* At June 30, 2015, the Jefferson County School Department reported an asset of $105,047 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Jefferson County School Department's proportion of the net pension asset was based on the Jefferson County School Department's employer contributions to the pension plan during the year ended June 30, 2014, relative to the contributions of all participating LEAs for the year ended June 30, 2014. At the June 30, 2014, measurement date, the Jefferson County School Department's proportion was .646459 percent. The proportion as of June 30, 2013, was .641424 percent.

*Pension Income.* For the year ended June 30, 2015, the Jefferson County School Department recognized a pension income of $78,254.

*Deferred Outflows of Resources and Deferred Inflows of Resources.* For the year ended June 30, 2015, the Jefferson County School Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ 255,027 | $ 0 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 0 | 8,655,175 |
| Changes in Proportion of Net Pension Liability (Asset) | 71,019 | 0 |
| LEAs Contributions Subsequent to the Measurement Date of June 30, 2014 | 2,221,047 | N/A |
| Total | $ 2,547,093 | $ 8,655,175 |

The Jefferson County School Department's employer contributions of $2,221,047 reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | Amount |
|---|---|
| 2016 | $ (2,109,453) |
| 2017 | (2,109,453) |
| 2018 | (2,109,453) |
| 2019 | (2,109,453) |
| 2020 | 54,341 |
| Thereafter | 54,341 |

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

*Actuarial Assumptions.* The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

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

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

| School Department's Proportionate Share of the Net Pension Liability (Asset) | 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|---|---|---|---|
| Net Pension Liability | $ 17,717,304 | $ (105,047) | $ (14,860,021) |

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

2. **Deferred Compensation**

Jefferson County offers its employees an optional deferred compensation plan established pursuant to IRC Section 457. The discretely presented Jefferson County School Department offers its employees an optional deferred compensation plan established pursuant to IRC Section 403(b). All costs of administering and funding these programs are the responsibility of plan participants. The Section 457 and Section 403(b) plan assets remain the property of the contributing employees and are not presented in the accompanying financial statements. IRC Section 457 and 403(b) establish participation, contribution, and withdrawal provisions for the plans.

Teachers hired after July 1, 2014, by the discretely presented Jefferson County School Department are required to participate in a hybrid pension plan administered by the Tennessee Consolidated Retirement System. This hybrid pension plan requires that these teachers contribute five present of their salaries into a deferred compensation plan managed by the hybrid plan pursuant to IRC Section 401(k). As part of their employment package, the Jefferson County School Department has assumed all costs of funding this program on-behalf of the plan participants. The Section 401(k) plan assets remain the property of the participating teachers and are not presented in the accompanying financial statements. IRC Section 401(k), establishes participation, contribution, and withdrawal provisions for the plans. During the year, the Jefferson County School Department contributed $51,990 to the 401(k) portion of the hybrid pension plan on-behalf of the plan participants.

## K. Other Postemployment Benefits (OPEB)

### Plan Description

Jefferson County and the School Department participate in the state-administered Local Government Group Insurance Plan and the Local Education Group Insurance Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans.

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

## Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop a contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government participants; however, the state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. During the year ended June 30, 2015, Jefferson County contributed $39,963 for postemployment health care, and the Jefferson County School Department recognized contributions totaling $803,324 for postemployment health care.

Annual OPEB Cost and Net OPEB Obligation

| | Local Education Group Plan | Local Government Group Plan |
|---|---|---|
| ARC | $ 1,951,000 | $ 71,000 |
| Interest on the NOPEBO | 344,692 | 25,105 |
| Adjustment to the ARC | (335,813) | (24,459) |
| Annual OPEB cost | $ 1,959,879 | $ 71,646 |
| Amount of contribution | (803,324) | (39,963) |
| Increase/decrease in NOPEBO | $ 1,156,555 | $ 31,683 |
| Net OPEB obligation, 7-1-14 | 8,617,300 | 627,634 |
| Net OPEB obligation, 6-30-15 | $ 9,773,855 | $ 659,317 |

| Fiscal Year Ended | Plans | | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | | Net OPEB Obligation at Year End |
|---|---|---|---|---|---|---|
| 6-30-13 | Local Education Group | $ | 2,145,754 | 35 | % $ | 7,587,767 |
| 6-30-14 | " | | 1,890,817 | 46 | | 8,617,300 |
| 6-30-15 | " | | 1,959,879 | 41 | | 9,773,855 |
| 6-30-13 | Local Government Group | | 141,888 | 18 | | 569,283 |
| 6-30-14 | " | | 68,586 | 15 | | 627,634 |
| 6-30-15 | " | | 71,646 | 56 | | 659,317 |

Funded Status and Funding Progress

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

| | | Local Education Group Plan | | Local Government Group Plan |
|---|---|---|---|---|
| Actuarial valuation date | | 7-1-13 | | 7-1-13 |
| Actuarial accrued liability (AAL) | $ | 14,793,000 | $ | 495,000 |
| Actuarial value of plan assets | $ | 0 | $ | 0 |
| Unfunded actuarial accrued liability (UAAL) | $ | 14,793,000 | $ | 495,000 |
| Actuarial value of assets as a % of the AAL | | 0% | | 0% |
| Covered payroll (active plan members) | $ | 29,372,986 | $ | 10,836,975 |
| UAAL as a % of covered payroll | | 50.36% | | 4.57% |

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

## Actuarial Methods and Assumptions

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

In the July 1, 2013, actuarial valuation for the Local Government Plan and the Local Education Plan, the projected unit credit actuarial cost method was used and the actuarial assumptions included a four percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of seven percent for the fiscal year 2015. The trend rate will decrease to 6.5 percent in fiscal year 2016 and then be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2044. Both rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

## L. Termination Benefits

The School Department offers an early retirement incentive program in accordance with contract provisions. Prior to March 1, 2013, this plan was available to employees who retired from the school system in the year they reached age 60 or had 30 years of creditable service with the Tennessee Consolidated Retirement System and had a minimum of ten years of employment with the School Department. Currently, the plan is available to employees who retire from the school system between the ages of 57 and 62, and have a minimum of ten years employment in the Jefferson County School System. Prior to March 1, 2013, the plan gave teachers who met the above requirements an option of receiving $9,500 divided into two equal annual payments or $10,500 divided into three equal annual payments. Currently, the plan gives teachers who have met the above requirements, $5,000 divided into three equal annual payments for 10-20 years of service in the Jefferson County School System or $10,000 divided into three equal annual payments for 21 or more years of service in the Jefferson County School System. During the 2014-15 year, 30 employees participated in the program. The financial statements of this report reflect expenditures of $100,473 in the General Purpose School Fund for the retirement incentive payments. A nondiscounted long-term liability of $82,533 is reflected on the government-wide Statement of Net Position for retirement incentives. Of that amount, $59,208 is due within one year.

## M. Office of Central Accounting, Budgeting, and Purchasing

Jefferson County operates under the provisions of the County Financial Management System of 1981. This act provides for a central system of accounting, budgeting, and purchasing covering all county departments. This act also provides for the creation of a Finance Department operated under the direction of the finance director.

## N. Purchasing Law

The County Financial Management System of 1981 provides for the finance director or a deputy appointed by him to serve as the county purchasing agent. The finance director serves as the purchasing agent for Jefferson County. All purchase orders are issued by the Finance Department.

Purchases exceeding $10,000 for the Office of County Mayor, the discretely presented School Department, and the Office of Road Superintendent are required to be competitively bid.

## VI. OTHER NOTES – DISCRETELY PRESENTED JEFFERSON COUNTY NURSING HOME

### A. Summary of Significant Accounting Policies

Jefferson County Nursing Home is a political subdivision of Jefferson County, Tennessee. The nursing home provides long-term health care primarily for the citizens of the county. It is governed, operated, and controlled by a five-member board of commissioners who are appointed by the Board of County Commissioners of the county. The county is legally obligated to assume the nursing home's debt in the event of default and is legally obligated to provide financial support, making Jefferson County financially accountable for the nursing home. Therefore, the nursing home is a discrete component unit of Jefferson County for financial reporting purposes.

#### 1. Basis of Presentation

The nursing home utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis, which is an economic resources measurement focus approach to accounting. In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position.* GASB 62 and 63 were effective for periods beginning after December 15, 2011. GASB 62 makes the *Accounting Standards Codification* the sole source of authoritative accounting technical literature for governmental entities in the United States of America.

#### 2. Inventories

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market (net realizable value).

#### 3. Cash, Cash Equivalents, and Investments

For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as cash on hand or in banks and investments with original maturities at the date of purchase of less than three months, excluding assets limited as to use.

All of the nursing home's cash and cash equivalents are covered by federal depository insurance or collateralized by securities held by the financial institutions' trust department in the nursing home's name.

## 4. Fair Value Measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The nursing home has a net pension asset of $283,572 as of June 30, 2015, which would be classified as Level 2 under the hierarchy above. The nursing home did not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2015.

### Financial Assets

The carrying amount of financial assets, consisting of cash and cash equivalents, patient accounts receivable, prepaid expenses, accounts payable, accrued expenses, and current portions of long-term debt approximate their fair value due to their relatively short maturities. Long-term debt is carried at amortized cost, which approximates fair value.

### Nonfinancial Assets

The nursing home's nonfinancial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the nursing home is required to evaluate the nonfinancial instrument for impairment, a resulting asset impairment would require that the nonfinancial asset be recorded at the fair value. During the year ended June 30, 2015, the nursing home did not measure any nonfinancial assets at fair value or recognize any amounts in the Statements of Activities related to changes in fair value for nonfinancial assets.

## 5. Property and Equipment

Property and equipment acquisitions are recorded at cost. The nursing home capitalizes purchases that cost a minimum of $5,000 and have a useful life greater than two years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 10-12 years, buildings and improvements 10-40 years, equipment 4-20 years, and transportation equipment 5-7 years.

6. **Patient Service Revenue**

The nursing home has agreements with third-party payors that provide for payments to the nursing home at amounts different from its established rates. Payment arrangements include prospectively determined per-diem rates per day and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is net of contractual adjustments of approximately $82,000 for the year ended June 30, 2015.

7. **Operating Activities**

The nursing home defines operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Nonexchange transactions, including investment income and interest expense, are considered nonoperating revenue and expenses.

8. **Pension Plan**

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

9. **Compensated Absences**

The nursing home provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The vacation paid days off begin accruing after one year of service and are based on the following table. Such days may be taken only after the employee has earned them. There is no limit on the number of earned days that can be carried forward if not taken in the year earned. Such liabilities have been accrued in the accompanying Statement of Net Position.

| Years of Service | Days Earned Per Year |
|---|---|
| 1 - 10 | 10 |
| 11 - 20 | 15 |
| 20 or more | 20 |

10. **Risk Management**

The nursing home is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The nursing home insures for employee health claims through a county plan administered by the State of Tennessee discussed in Note VI.H.

11. **Net Position**

All resources that are not restricted by donors are included in unrestricted net position. Resources temporarily restricted by donors for specific purposes are reported as a restricted component of net position - expendable. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net position and reported in the Statement of Revenues, Expenses, and Changes in Net Position. Resources temporarily restricted by donors for additions to land, buildings, and equipment are initially reported as a restricted component of net position - expendable and are transferred to unrestricted net position when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as a restricted component of net position – unexpendable. Investment income for the restricted component of net position - unexpendable is classified as either a restricted component of net position – expendable or unrestricted based on the intent of the donor. As of June 30, 2015, the nursing home had restricted component of net position – expendable of $236,544, relating to the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pension benefits as well as restricted component of net position – expendable designated for employee scholarships as discussed in VI.B. As of June 30, 2015, there were no restricted components of net position - unexpendable.

The nursing home first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

12. **Income Taxes**

The nursing home, as a political subdivision of the county, is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

13. **Cumulative Effect Adjustment**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* (GASB 68) and in November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68.* GASB 68 and 71 amend the accounting and financial reporting by state and local governments for pensions. Under these statements, state and local governments will recognize their specific pension amounts, which include net pension asset (liability), deferred outflows of resources, deferred inflows of resources, and pension income (expense). The nursing home adopted the provisions of these statements as of July 1, 2014, and incorporated the provisions of these statements to its financial statements through retrospective application to all periods presented and a cumulative effect adjustment to net position as of July 1, 2013.

The nursing home decreased net position by $754,321 as of July 1, 2013, to reflect the cumulative effect of the adoption of GASB 68 and 71 and to record the initial net pension liability. The nursing home's proportionate share of the fiscal year 2014 contributions of $515,780 were also recorded as a deferred outflow of resources and a reduction of employee benefit expense as of June 30, 2014. The difference between the nursing home's actual contributions and its proportionate share of the 2014 contributions of $57,658 was recognized as pension expense for the year ended June 30, 2014. The cumulative adjustment to net position was ($238,541).

14. **Long-lived Assets**

Management evaluates the recoverability of its investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

15. **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

16. **Performance Indicator**

Excess of revenue over (under) expenses reflected in the accompanying Statement of Revenues, Expenses, and Changes in Net Position is a performance indicator.

17. **Adoption of New Accounting Pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and is effective for financial statements for fiscal years beginning after December 15, 2012. Therefore, the nursing home expects to adopt these standards at the beginning of fiscal year 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27.* The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. The statement is effective for financial statements for fiscal years beginning after June 15, 2014. Therefore, the nursing home adopted this standard at the beginning of fiscal year 2015.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement relates to accounting and financial reporting for government combinations and disposals of government operations and is effective for financial statements for fiscal years beginning after December 15, 2013. Therefore the nursing home adopted these standards at the beginning of fiscal year 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement*

*Date – an Amendment of GASB Statement No. 68.* The primary objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. This statement requires that at transition, an entity recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning of the net pension liability. The provisions of this statement are required to be applied simultaneously with the provision of Statement No. 68.

The adoption of theses accounting standards, with the exception of Statement No. 68, did not have a material impact on the nursing home's financial statements. A cumulative adjustment was made to net position as of July 1, 2014. See Notes VI.A.13 and VI.G.

18. <u>New Accounting Pronouncements</u>

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard is effective for fiscal years beginning after June 15, 2015. Therefore, the Nursing Home expects to adopt this standard at the beginning of fiscal year 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68.* This statement is applicable to the nursing home with regard to clarification of certain provisions of Statement No. 68 including information that is required to be presented as notes to the ten-year schedules of required supplementary information. The requirements of this standard that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Therefore, the nursing home expects to adopt this standard at the beginning of fiscal year 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* which amended Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement reduces the hierarchy of generally accepted accounting principles (GAAP) to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for fiscal years beginning after June 15, 2015 and should be applied retroactively. Therefore, the nursing home expects to adopt this standard at the beginning of fiscal year 2016.

The nursing home is currently assessing the impact of adopting these accounting standards.

## B. Restricted Assets

Cash in the employee scholarship fund is available to provide scholarships to qualifying employees. Certain donations received are designated to be used for higher education of employees. Deposits to the fund come from private donations and monthly interest earned. The only withdrawals made are to award $2,000 scholarships to qualifying employees. Scholarships awarded are subject to board approval. No employee received a scholarship during the year ended June 30, 2015.

## C. Third-party Reimbursement Programs

The nursing home receives revenue under various third-party reimbursement programs, which include Medicare, Medicaid, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the nursing home's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. There were no adjustments to revenue resulting from tentative or final settlements to estimated reimbursement amounts for the year ended June 30, 2015.

### 1. Medicare

The nursing home is paid for substantially all services rendered to Medicare program beneficiaries for skilled nursing care under prospectively determined case-mix rates. Those rates vary according to a classification system that is based on a medical assessment of the rehabilitation needed, extent of services needed, and other factors. The patient is often responsible for a portion of the fee. For the patient portion of fees not collected after normal collection efforts with the filing of an annual cost report, the nursing home was reimbursed 88 percent for such uncollected fees for the period July 1, 2013, through March 31, 2014, and reimbursed 76 percent of such uncollected fees for the period April 1, 2014, through March 31, 2015; and expects to be reimbursed 65% through March 31, 2016.

### 2. Medicaid

The Medicaid program reimburses the nursing home for the cost of skilled nursing or routine care services rendered to Medicaid beneficiaries at a prospective rate, which is based on the lower of the reimbursable cost of services rendered or a reimbursement cap set by Medicaid for each level of service. The reimbursement cap is expressed as a per diem. Beginning in 2015, the nursing home also received additional payments from the state related to acuity (average facility case mix index scores) and quality scores which totaled $386,171.

3. **Commercial Payors**

The nursing home has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the nursing home under these agreements includes prospectively determined rates per day and discounts from established rates.

4. **Credit Concentrations**

The nursing home grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2015, the nursing home had net receivables from the federal government (Medicare) of approximately $384,000 and from Medicaid of approximately $179,000. Medicare comprised 30 percent and Medicaid comprised 47 percent of net patient service revenue for the year ended June 30, 2015.

## D. Inventories

A summary of inventories as of June 30, 2015, was as follows:

| | |
|---|---|
| Food | $ 11,118 |
| Medical Supplies | 7,950 |
| Housekeeping Supplies | 3,063 |
| Maintenance Supplies | 2,813 |
| Total | $ 24,944 |

## E. Property and Equipment

The net investment in capital assets as of June 30, 2015, was as follows:

| | |
|---|---|
| Property and Equipment, Net | $ 7,757,702 |
| Current Portion of Long-term Debt | (225,000) |
| Long-term Debt, Excluding Current Portion | (6,850,000) |
| Restricted Cash for Payment of Financed Interest | 105,700 |
| Total | $ 788,402 |

The major classifications and changes in property and equipment as of and for the year ended June 30, 2015, are as follows:

| | Balance 7-1-14 | Increases | Decreases | Balance 6-30-15 |
|---|---|---|---|---|
| Land | $ 7,181 | $ 0 | $ 0 | $ 7,181 |
| Land Improvements | 230,567 | 10,305 | 0 | 240,872 |
| Building and Improvements | 9,843,508 | 0 | 0 | 9,843,508 |
| Machinery and Equipment | 2,183,507 | 0 | (1,696) | 2,181,811 |
| Transportation Equipment | 100,166 | 0 | 0 | 100,166 |
| Total | $ 12,364,929 | $ 10,305 | $ (1,696) | $ 12,373,538 |
| Less Allowance for Depreciation and Amortization: | | | | |
| Land Improvements | $ (82,333) | $ (14,214) | $ 0 | $ (96,547) |
| Buildings and Improvements | (2,833,058) | (224,311) | 0 | (3,057,369) |
| Machinery and Equipment | (1,249,219) | (130,093) | 1,454 | (1,377,858) |
| Transportation Equipment | (68,270) | (15,792) | 0 | (84,062) |
| Total | $ (4,232,880) | $ (384,410) | $ 1,454 | $ (4,615,836) |
| Total | $ 8,132,049 | $ (374,105) | $ (242) | $ 7,757,702 |

## F. Due to Primary Government

A schedule of changes in the nursing home's long-term debt to the government of Jefferson County, Tennessee, related to bond issues as of and for the year ended June 30, 2015, is as follows:

| | Balance 7-1-14 | Additions | Reductions | Balance 6-30-15 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Bonds - 2007 | $ 4,525,000 | $ 0 | $ (180,000) | $ 4,345,000 | $ 190,000 |
| General Obligation | | | | 0 | 0 |
| Refunding Bonds - 2014 | 2,760,000 | 0 | (30,000) | 2,730,000 | 35,000 |
| Total | $ 7,285,000 | $ 0 | $ (210,000) | $ 7,075,000 | $ 225,000 |

Jefferson County issued $8,000,000 in General Obligation Bonds, Series 2007 dated December 21, 2007, to fund a 25-bed addition to the nursing home. The bonds are direct general obligations of Jefferson County payable from ad valorem taxes levied upon all taxable property within Jefferson County without limitation as to rate or amount. The full faith and credit of Jefferson County is irrevocably pledged to pay principal, redemption premiums, if any, and interest on the bonds. However, because the debt was incurred specifically for the addition to the nursing home and the nursing home is expected to repay the debt in full, the bond transactions are reported on the nursing home's financial statements.

The Series 2007 coupon rates range from four percent to 4.4 percent with interest payable in semi-annual payments on June 1 and December 1 and remaining annual principal installments ranging from $180,000 to $480,000 each June 1. The final principal installment is due June 1, 2037.

Jefferson County issued $4,285,000 General Obligation Refunding Bonds, Series 2014, dated May 15, 2014, to be used to call certain bond issuances outstanding by the county. The Series 2014 is also a direct general obligation of the county with a similar pledge as the 2007 Series. $2,540,000 of the Series 2014 proceeds will be used to call a portion of the Series 2007 obligation on June 1, 2016. The $2,540,000 is held in the name of the county in an escrow account; therefore, the $2,540,000 transaction is reflected as a pre-funded debt retirement (non-cash activity) by the nursing home to the county towards the Series 2007 obligation and has reduced the remaining obligation to the county for the Series 2007 accordingly. $220,000 of the Series 2014 proceeds will be used to finance the payment of interest on the $2,540,000 portion of the Series 2007 debt through the June 1, 2016, call date. As of June 30, 2015, the remaining $105,700 is also held in an escrow account in the name of the county. The $105,700 reflected as an asset of the nursing home will be expensed as interest when the county uses the funds to pay the bond holders under Series 2007. The county utilized $114,300 of the funds to pay the bond holders under series 2007 and is expensed as interested by the nursing home in 2015. The nursing home has recorded a liability to the county of $2,760,000 related to the Series 2014 bond issue comprised of the $2,540,000 and $220,000 amounts discussed above. The balance has reduced to $2,730,000 as of June 30, 2015, after a $30,000 payment of principal during the year ended June 30, 2015. The remaining $1,525,000 of proceeds from Series 2014 relate to county uses other than the nursing home.

The Series 2014 coupon rates range from two percent to 2.75 percent with interest payable in semi-annual payments on June 1 and December 1 and annual principal installments ranging from $30,000 to $295,000 each June 1. The final principal installment is due June 1, 2027.

A summary of future maturities and interest of long-term debt due to the county related to Series 2007 and Series 2014 bond obligations (excludes the $2,540,000 pre-funded debt retirement to the county) as of June 30, 2015, is as follows:

| Fiscal Year Ending June 30 | Principal | Estimated Interest | Interest Pre-funded | Total Payments |
|---|---|---|---|---|
| 2016 | $ 225,000 | $ 366,000 | $ (106,000) | $ 485,000 |
| 2017 | 235,000 | 244,000 | 0 | 479,000 |
| 2018 | 240,000 | 235,000 | 0 | 475,000 |
| 2019 | 245,000 | 230,000 | 0 | 475,000 |
| 2020 | 245,000 | 225,000 | 0 | 470,000 |
| 2021-2025 | 1,340,000 | 1,045,000 | 0 | 2,385,000 |
| 2026-2030 | 1,595,000 | 849,000 | 0 | 2,444,000 |
| 2031-2035 | 2,010,000 | 480,000 | 0 | 2,490,000 |
| 2036-2037 | 940,000 | 62,000 | 0 | 1,002,000 |
| Total | $ 7,075,000 | $ 3,736,000 | $ (106,000) | $ 10,705,000 |

## G. Pension Plan

### 1. General information about the pension plan

*Plan Description*

Employees of the nursing home, as a component unit of Jefferson County, are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated (TCA),* Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of the state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

*Benefits Provided*

*Tennessee Code Annotated (TCA),* Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statue. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria.

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

*Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees do not make contributions to their account; instead the component units of Jefferson County make employer contributions at the contribution rate set by the Board of Trustees as determined by actuarial valuation. For the year ended June 30, 2015, employer contributions for the Nursing home were $630,750 based on a rate of 15.63% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Jefferson County's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

## 2. Net Pension Asset

At June 30, 2015, the nursing home reported an asset of $283,572 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The nursing home's proportion of the net pension asset was based on the nursing home's active participants as of June 30, 2014, relative to the active participants of all component units of Jefferson County as of June 30, 2014. At the June 30, 2014, measurement date, the nursing home's proportion was 16.97%.

*Actuarial Assumptions*

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.0 percent |
| Salary Increases | Graded Salary Ranges from 8.97 to 3.71 Percent Based on Age, Including Inflation, Averaging 4.25 Percent |
| Investment Rate of Return | 7.5 Percent, Net of Pension Plan Investment Expenses, Including Inflation |
| Cost of Living Adjustment | 2.5 Percent |

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

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period of July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

| Asset Class | Percentage Long-term Expected Real Rate of Return | | Percentage Target Allocations | |
|---|---|---|---|---|
| U.S. Equity | 6.46 | % | 33 | % |
| Developed Market International Equity | 6.26 | | 17 | |
| Emerging Market International Equity | 6.40 | | 5 | |
| Private Equity and Strategic Lending | 4.61 | | 8 | |
| U.S. Fixed Income | .98 | | 29 | |
| Real Estate | 4.73 | | 7 | |
| Short-term Securities | 0.00 | | 1 | |
| Total | | | 100 | % |

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

*Discount Rate*

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

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance, June 30, 2013 | $ 10,274,419 | $ 9,520,098 | $ 754,321 |
| Changes for the year: | | | |
| Service Cost | $ 263,855 | $ 0 | $ 263,855 |
| Interest | 775,105 | 0 | 775,105 |
| Differences Between Expected and Actual Experience | 20,174 | 0 | 20,174 |
| Contributions - Employer | 0 | 515,780 | (515,780) |
| Net Investment Income | 0 | 1,586,138 | (1,586,138) |
| Benefit Payments, Including Refunds of Employee Contributions | (407,085) | (407,085) | 0 |
| Administrative Expense | 0 | (4,891) | 4,891 |
| Net Changes | $ 652,049 | $ 1,689,942 | $ (1,037,893) |
| Balance, June 30, 2014 | $ 10,926,468 | $ 11,210,040 | $ (283,572) |

*Sensitivity of the Nursing Home's Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate*

The following presents the nursing home's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the nursing home's proportionate share of the net position liability (asset) would be if it was calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Nursing Home's Proportionate Share of the Net Position Liability (Asset) | $ 1,186,672 | $ (283,572) | $ (1,503,418) |

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

3. **<u>Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>**

*Pension Expense*

For the year ended June 30, 2015, the nursing home recognized pension expense of $155,666.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the year ended June 30, 2015, the nursing home reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ 16,812 | $ 0 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 0 | 694,591 |
| Nursing Home's Contributions Subsequent to the Measurement Date of June 30, 2014 | 577,784 | 0 |
| Total | $ 594,596 | $ 694,591 |

The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the year ending June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | | Amount |
|---|---|---|
| 2016 | $ | (170,285) |
| 2017 | | (170,285) |
| 2018 | | (170,285) |
| 2019 | | (170,285) |
| 2020 | | 3,361 |

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

### 4. Payable to the Pension Plan

At June 30, 2015, the nursing home reported a payable of $74,767 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

## H. Commitments and Contingencies

The nursing home leases various equipment under short-term operating lease agreements. Rent expense totaled $5,189 in 2015.

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

Health Care Industry

The delivery of personal health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The nursing home maintains commercial insurance on an occurrence basis for medical malpractice liabilities. Insurance coverages are $1,000,000 individually and $3,000,000 in the aggregate annually. The State of Tennessee maintains litigation settlement limitations for governmental entities, which are less than the nursing home's insurance coverages. Management intends to maintain insurance coverages in the future. The nursing home could be involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any future potential losses on asserted claims. Management is unaware of any incidents, which would ultimately result in a loss in excess of the nursing home's insurance coverages. The nursing home also maintains insurance for general liability, director and officer liability, and property.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes the nursing home is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Management continues to implement policies, procedures, and compliance overview of organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 and other government statutes and regulations. The nursing home's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions, which are unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services (CMS) have implemented a Recovery Audit Contractors (RAC) program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits, and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding, and support are subject to interpretation and may be viewed differently by the RAC auditors. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit at this time.

Health Care Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act was signed into law, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the Affordable Care Act). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that is expected to expand health care coverage to millions of currently uninsured people beginning in 2014 and provide for significant changes to the U.S. health care system over the next ten years. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursements for various health care providers, as well as certain other changes in Medicare payment methodologies. This comprehensive health care legislation provides for extensive future rulemaking by regulatory authorities, and also may be altered or amended.

Due to the complexity of the Affordable Care Act's laws, lack of current implementation regulations and interpretive guidance, and response by participants in the health care industry to the choices available under the law, it is difficult for the nursing home to predict the full impact of the law on the nursing home's operations. Additionally, pending legislative proposals, which may be adopted may affect the nursing home. The provisions of the legislation and other regulations implementing the provisions of the Affordable Care Act is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the nursing home's operations.

### I. Functional Expenses

The following is a summary of management's functional classification of operating expenses:

| | 2015 |
|---|---|
| Healthcare Services | $ 9,268,619 |
| General and Administrative | 2,075,322 |
| Total | $ 11,343,941 |

## VII. OTHER NOTES – DISCRETELY PRESENTED JEFFERSON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

### A. Summary of Significant Accounting Policies

The Jefferson County E-911 (the district) is a 911 service, which receives telephone requests for emergency services and provides for the dispatch of appropriate emergency service units. Jefferson County E-911 is a component unit of another governmental entity. Jefferson County, Tennessee, is the primary government in whose financial reporting entity Jefferson County E-911 is included. The district receives a significant portion of its income from the tax revenues of Jefferson County. Also, Jefferson County's legislative body approves board members, debt issues, telephone surcharge rate changes, and annual budgets of the Jefferson County E-911.

The criteria for including organizations as component units within a county's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the county appoints a voting majority of the organization's board
- the county is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the county
- there is a fiscal dependency by the organization on the county

1. **<u>Basis of Presentation</u>**

The financial statements of the district have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The district applies all Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies of the district are described below.

The entity is a proprietary fund type known as an enterprise fund. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs are financed through user charges.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Position. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

2. **<u>Method of Accounting</u>**

The full accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

3. **<u>Net Position</u>**

The district follows the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis –*

*for State and Local Governments*. It requires the classification of net position into three components – 1) net investment in capital assets, (2) restricted, and 3) unrestricted.

4. **Cash and Cash Equivalents**

For purposes of these financial statements, the district considers all highly liquid investments having original maturity dates of three months or less to be cash equivalents.

5. **Budgetary Principles**

Prior to the beginning of the fiscal year, the Board of Directors adopts an annual budget. All revisions must be approved by the board. All annual appropriations lapse at fiscal year end. Budgetary control is at the line-item level.

The district prepares its budget on a basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). The major difference between the budgetary basis of accounting and GAAP is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a restriction of fund balance (GAAP). At June 30, 2015, the district had no encumbrances.

6. **Capital Assets**

Capital assets owned by the district are recorded at cost, or if contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method.

7. **Use of Estimates**

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

8. **Operating and Nonoperating Revenues and Expenses**

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets.

Other revenues and expenses are classified as nonoperating in the financial statements.

### 9. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### 10. Pensions

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

## B. Cash, Cash Equivalents, and Deposits

Cash consisted of the following at June 30, 2015:

| | |
|---|---|
| Cash in Bank | $ 773,969 |

At June 30, 2015, all of the district's deposits were either insured by federal depository insurance or guaranteed by bank participation in the Tennessee Bank Collateral Pool. Investment policies of the district follow state law and bond requirements prohibiting investments that are not secured or insured by the U.S. Government.

## C. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015, was as follows:

| | Balance 7-1-14 | Increases | Decreases | Balance 6-30-15 | Depreciation Rates |
|---|---|---|---|---|---|
| Capital Assets Being Depreciated: | | | | | |
| Office Equipment and Furniture | $ 8,064 | $ 4,758 | $ 0 | $ 12,822 | 14.3 - 33.3% |
| Operating Equipment | 207,985 | 0 | 0 | 207,985 | 14.3 - 20% |
| Communication Equipment | 366,538 | 7,409 | (7,105) | 366,842 | 14.3 - 20% |
| Software | 63,302 | 39,907 | 0 | 103,209 | 14.3 - 20% |
| Vehicle | 47,797 | 0 | 0 | 47,797 | 20% |
| Total Capital Assets Being Depreciated | $ 693,686 | $ 52,074 | $ (7,105) | $ 738,655 | |
| Less Accumulated Depreciation for: | | | | | |
| Office Equipment and Furniture | $ (6,374) | $ (2,623) | $ 0 | $ (8,997) | |
| Operating Equipment | (192,975) | (4,615) | 0 | (197,590) | |
| Communication Equipment | (104,868) | (48,647) | 7,105 | (146,410) | |
| Software | (8,349) | (14,922) | 0 | (23,271) | |
| Vehicle | (32,786) | (5,004) | 0 | (37,790) | |
| Total Accumulated Depreciation | $ (345,352) | $ (75,811) | $ 7,105 | $ (414,058) | |
| Total Capital Assets Being Depreciated, Net | $ 348,334 | $ (23,737) | $ 0 | $ 324,597 | |
| Total Net Capital Assets | $ 348,334 | $ (23,737) | $ 0 | $ 324,597 | |

Depreciation charged to expense totaled $75,811 for the year ended June 30, 2015.

## D. Compensated Absences

The vacation year is a calendar year beginning January 1 and ending December 31. Regular full-time employees accrue one day of vacation per month. After five years of service, employees accrue one and one-half days of vacation per month. Employees on vacation are paid at the regular rate of pay during such leave. Employees may accrue annual vacation leave up to a maximum of the days earned for the prior service year. Unpaid vacation leave totaled $16,960 for the year ended June 30, 2015.

Sick leave is earned by regular full-time employees at the rate of one day per month. Employees may accumulate sick leave without a maximum. Accumulated sick leave does not vest for payment at termination; however, if the employee retires such accumulated sick leave counts as time of service under the district's participation in the TCRS Pension Plan.

## E. <u>Retirement Plan</u>

### *General Information about the Plan*

*Plan Description*

Employees of Jefferson County Emergency Communications District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by TCRS. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

### *Benefits Provided*

*Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available to vested members at age 55. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits is available under various eligibility criteria.

Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Employees Covered by Benefit Terms.* At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 2 |
| Inactive employees entitled to but not yet receiving benefits | 20 |
| Active employes | 16 |
| | 38 |

### *Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Jefferson County Emergency Communications District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Jefferson County Emergency Communications District were $30,634 based on a rate of 5.67 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Jefferson County Emergency Communications District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

### *Net Pension Liability (Asset)*

Jefferson County Emergency Communications District's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

### *Actuarial Assumptions*

The total pension liability as of June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.0 Percent |
| Salary Increases | Graded Salary Ranges from 8.97 to 3.71 Percent Based on Age, Including Inflation, Averaging 4.25 Percent |
| Investment Rate of Return | 7.5 Percent, Net of Pension Plan Investment Expenses, Including Inflation |
| Cost of Living Adjustment | 2.5 Percent |

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

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

| Asset Class | Percentage Long-term Expected Real Rate of Return | Percentage Target Allocations |
|---|---|---|
| U.S. Equity | 6.46 % | 33 % |
| Developed Market International Equity | 6.26 | 17 |
| Emerging Market International Equity | 6.40 | 5 |
| Private Equity and Strategic Lending | 4.61 | 8 |
| U.S. Fixed Income | .98 | 29 |
| Real Estate | 4.73 | 7 |
| Short-term Securities | 0.00 | 1 |
| Total | | 100 % |

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

### *Discount Rate*

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

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

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balance, June 30, 2013 | $ 563,706 | $ 473,832 | $ 89,874 |
| Changes for the year: | | | |
| Service Cost | $ 38,360 | $ 0 | $ 38,360 |
| Interest | 44,419 | 0 | 44,419 |
| Differences Between Expected and Actual Experience | (780) | 0 | (780) |
| Contributions - Employer | 0 | 28,583 | (28,583) |
| Contributions - Employee | 0 | 25,254 | (25,254) |
| Net Investment Income | 0 | 81,747 | (81,747) |
| Benefit Payments, Including Refunds of Employee Contributions | (19,615) | (19,615) | 0 |
| Administrative Expense | 0 | (601) | 601 |
| Net Changes | $ 62,384 | $ 115,368 | $ (52,984) |
| Balance, June 30, 2014 | $ 626,090 | $ 589,200 | $ 36,890 |

### *Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate*

The following presents the net pension liability (asset) of Jefferson County Emergency Communications District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it was calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| Jefferson County Emergency Communications District's Net Pension Liability (Asset) | $ 153,235 | $ 36,890 | $ (54,840) |

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

***Pension Expense***

For the year ended June 30, 2015, Jefferson County Emergency Communications District recognized pension expense of $12,251.

***Deferred Outflows of Resources and Deferred Inflows of Resources***

For the year ended June 30, 2015, Jefferson County Emergency Communications District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ 0 | $ 693 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 0 | 35,959 |
| Contributions Subsequent to the Measurement Date of June 30, 2014 | 30,634 | 0 |
| Total | $ 30,634 | $ 36,652 |

The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | | Amount |
|---|---|---|
| 2016 | $ | (9,077) |
| 2017 | | (9,077) |
| 2018 | | (9,077) |
| 2019 | | (9,077) |
| 2020 | | (87) |
| Thereafter | | (261) |

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

***Payable to the Pension Plan***

At June 30, 2015, Jefferson County Emergency Communications District reported a payable of $0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

F. Risk Management

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district purchases commercial insurance for all of these risks of loss. There have been no claims in the prior three years.

G. Cumulative Effect of Change in Accounting Principle

The district restated its beginning net position by reporting a cumulative effect of change in accounting principle as of July 1, 2014, to record the net pension liability of $89,874 and reduce net position by $89,874 and to record employer contributions made during the year ended June 30, 2014, of $28,583 and increase net position by $28,583 in accordance with GASB 68 and GASB 71. The cumulative effect in this change in accounting principle totaled $61,291.

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