

**SMOKY MOUNTAIN TOURISM  
DEVELOPMENT AUTHORITY**

**Maryville, Tennessee**

**FINANCIAL STATEMENTS**

**June 30, 2023**



# SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY

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## **INTRODUCTORY SECTION**

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**

**ROSTER OF OFFICIALS**

**June 30, 2023**

**BOARD MEMBERS**

Tim Seay  
Jewell Overton  
Boyce Smith  
Bryan Cable  
Jeff Jopling  
Greg McClain  
Mark Johnson  
Chad Rochelle  
Joy Carver  
Rick Shepard

Chairman  
Vice Chairman  
Secretary/Treasurer  
Past Chair

**STAFF**

Bryan Daniels  
Kim Mitchell  
Bruce Kerr

President/CEO  
Director of Tourism Operations  
Finance Director

**FINANCIAL SECTION**



**PUGH & COMPANY, P.C.**  
315 NORTH CEDAR BLUFF ROAD, SUITE 200  
KNOXVILLE, TENNESSEE 37923  
TELEPHONE 865-769-0660  
FAX 865-769-1660  
www.pughcpas.com

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Smoky Mountain Tourism Development Authority  
Maryville, Tennessee

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the financial statements of the governmental activities and the major governmental fund (the general fund) of the Smoky Mountain Tourism Development Authority (the "Authority") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major governmental fund of the Authority, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



An independently owned member  
**RSM US Alliance**



**TSCPA**  
Members of the Tennessee Society  
Of Certified Public Accountants

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages v-vii be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information section, as listed in the table of contents, including the schedule of expenditures of state financial assistance and related notes, as required by the Tennessee Comptroller of the Treasury *Audit Manual*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2024, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
April 17, 2024

## SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

This section presents management's analysis of the Smoky Mountain Tourism Development Authority (the Authority) activities and financial performance for the year ending June 30, 2023. This information should be read in conjunction with the accompanying financial statements.

#### Financial Highlights

Management believes the Authority's financial position is strong. The following are key financial highlights:

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$7,990,747 (net position). Approximately 34% of this amount or \$2,730,422 is reported as unrestricted net position.
- The Authority's total net position increased by \$1,844,965. This increase is largely the result of Hotel/Motel tax collections significantly exceeding expenses in the fiscal year.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the Authority's assets and deferred outflows of resources and their liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Authority include general government. The Authority has no business-type activities.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Authority are categorized as governmental funds.

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

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

The basic governmental fund financial statements, including reconciliation to the government-wide statements of net position and activities, are presented on pages 3 through 6 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 through 11 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$7,990,747 at June 30, 2023. A portion of the Authority's net position reflects its investment in capital assets (e.g., land, land improvements, and buildings) less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide tourism services to the public, consequently, these assets are not available for future spending.

**Condensed Statements of Net Position**

The following table reflects the condensed statement of net position as of June 30:

|                                  | 2023                | 2022                | Increase (Decrease) |         |
|----------------------------------|---------------------|---------------------|---------------------|---------|
|                                  |                     |                     | Amount              | Percent |
| <b>Assets</b>                    |                     |                     |                     |         |
| Current Assets                   | \$ 3,669,360        | \$ 3,070,528        | \$ 598,832          | 20%     |
| Capital Assets, Net              | <u>5,260,325</u>    | <u>3,932,592</u>    | <u>1,327,733</u>    | 34%     |
| Total Assets                     | <u>8,929,685</u>    | <u>7,003,120</u>    | <u>1,926,565</u>    | 28%     |
| <b>Liabilities</b>               |                     |                     |                     |         |
| Current Liabilities              | 938,938             | 359,338             | 579,600             | 161%    |
| Long-Term Liabilities            | <u>0</u>            | <u>498,000</u>      | <u>(498,000)</u>    | -100%   |
| Total Liabilities                | <u>938,938</u>      | <u>857,338</u>      | <u>81,600</u>       | 10%     |
| <b>Net Position</b>              |                     |                     |                     |         |
| Net Investment in Capital Assets | 5,260,325           | 3,255,589           | 2,004,736           | 62%     |
| Unrestricted                     | <u>2,730,422</u>    | <u>2,890,193</u>    | <u>(159,771)</u>    | -6%     |
| Total Net Position               | <u>\$ 7,990,747</u> | <u>\$ 6,145,782</u> | <u>\$ 1,844,965</u> | 30%     |

The Authority's net investment in capital assets increased by \$2,004,736 or 62% in 2023, primarily due to the ongoing construction of the Townsend event center building and payoff of outstanding debt in the current fiscal year. None of the Authority's net position represent resources that are subject to external restrictions on how they may be used. Unrestricted net position decreased \$159,771 or approximately (6)% during 2023.

### Condensed Statements of Changes in Net Position

The following table reflects the condensed statement of changes in net position for the years ended June 30:

|                                    | 2023             | 2022             | Increase (Decrease) |           |
|------------------------------------|------------------|------------------|---------------------|-----------|
|                                    |                  |                  | Amount              | Percent   |
| <b>Revenues:</b>                   |                  |                  |                     |           |
| <b>Program Revenues:</b>           |                  |                  |                     |           |
| Charges for Service                | \$ 194,982       | \$ 137,450       | \$ 57,532           | 42%       |
| Operating Grants and Contributions | 33,000           | 16,777           | 16,223              | 97%       |
| <b>General Revenues:</b>           |                  |                  |                     |           |
| Blount County Hotel/Motel Tax      | 4,198,463        | 4,061,810        | 136,653             | 3%        |
| Interest Income                    | 41,715           | 432              | 41,283              | 9556%     |
| <b>Total Revenues</b>              | <b>4,468,160</b> | <b>4,216,469</b> | <b>251,691</b>      | <b>6%</b> |
| <b>Program Expenses</b>            |                  |                  |                     |           |
| General Government                 | 2,623,195        | 2,304,388        | 318,807             | 14%       |
| Change in Net Position             | 1,844,965        | 1,912,081        | (67,116)            | -4%       |
| Net Position - Beginning of Year   | 6,145,782        | 4,233,701        | 1,912,081           | 45%       |
| Net Position - End of Year         | \$ 7,990,747     | \$ 6,145,782     | \$ 2,163,772        | 35%       |

The Authority's net position increased by \$1,844,965 in 2023 which was similar to the increase in 2022. Revenues increased by \$251,691 in 2023 due largely to an increase in Hotel/Motel tax collections in the fiscal year. Expenses increased by \$318,807 in the current fiscal year due primarily to increased advertising and marketing.

#### Capital Assets and Debt Administration

**Capital Assets.** At June 30, 2023, the Authority's capital assets amounted to \$5,260,325 (net of accumulated depreciation). Capital assets include land, land improvements, buildings, and construction in progress. The Authority's capital assets increased in the current fiscal year by \$1,327,732 or 34%, due mainly to ongoing construction of the Townsend event center building and related improvements. Additional information on the Authority's capital assets can be found in Note 3 to the financial statements.

**Long-Term Debt.** At June 30, 2023, the Authority had no outstanding debt. Long term debt decreased by \$664,000 in 2023 as a result of principal payments. Additional information on the Authority's long-term debt can be found in Note 4 to the financial statements.

#### Impacts on Future Financial Position

The Authority does not anticipate any significant changes to its revenues or expenses for fiscal year 2024.

#### Requests for Information

This financial report is designed to provide the users of the financial statements with a general overview of the Authority's finances. If you have any questions or need additional information, you may contact the Finance Director of the Smoky Mountain Tourism Development Authority, 201 S Washington St., Maryville, TN 37804.

## **BASIC FINANCIAL STATEMENTS**

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**

**STATEMENT OF NET POSITION**

**June 30, 2023**

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>ASSETS</b>                                |                            |
| Cash and Cash Equivalents                    | \$ 2,478,635               |
| Due from Related Parties                     | 6,734                      |
| Due from Other Governments                   | 1,163,153                  |
| Prepaid Expenses                             | 20,838                     |
| Capital Assets                               |                            |
| Nondepreciable                               | 3,631,905                  |
| Depreciable, Net of Accumulated Depreciation | <u>1,628,420</u>           |
| <b>Total Assets</b>                          | <u>8,929,685</u>           |
| <b>LIABILITIES</b>                           |                            |
| Accounts Payable                             | 905,175                    |
| Due to Related Parties                       | <u>33,763</u>              |
| <b>Total Liabilities</b>                     | <u>938,938</u>             |
| <b>NET POSITION</b>                          |                            |
| Investment in Capital Assets                 | 5,260,325                  |
| Unrestricted                                 | <u>2,730,422</u>           |
| <b>Total Net Position</b>                    | <u>\$ 7,990,747</u>        |

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

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**

**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2023**

| <u>Functions/Programs</u>              | <u>Expenses</u>       | <u>Program Revenues</u>     |   | <u>Net (Expense)</u>                       |
|--|-----------------------|-----------------------------|---|--|
|  |                       | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Revenue and Changes in Net Position</u> |
|  |                       |                             |   | <u>Governmental Activities</u>             |
| <b>Governmental Activities:</b>        |                       |                             |   |  |
| General Government                     | \$ (2,623,195)        | \$ 194,982                  | \$ 33,000                                 | \$ (2,395,213)                             |
| <b>Total Governmental Activities</b>   | <u>\$ (2,623,195)</u> | <u>\$ 194,982</u>           | <u>\$ 33,000</u>                          | <u>\$ (2,395,213)</u>                      |
| <b>General Revenues:</b>               |                       |                             |   |  |
| Blount County Hotel / Motel Tax        |                       |                             |   | \$ 4,198,463                               |
| Interest Income                        |                       |                             |   | <u>41,715</u>                              |
| <b>Total General Revenues</b>          |                       |                             |   | <u>4,240,178</u>                           |
| <b>CHANGE IN NET POSITION</b>          |                       |                             |   | 1,844,965                                  |
| <b>NET POSITION, BEGINNING OF YEAR</b> |                       |                             |   | <u>6,145,782</u>                           |
| <b>NET POSITION, END OF YEAR</b>       |                       |                             |   | <u>\$ 7,990,747</u>                        |

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

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**

**BALANCE SHEET – GOVERNMENTAL FUND**

**June 30, 2023**

|   | <u>General<br/>Fund</u>    |
|---|----------------------------|
| <b>ASSETS</b>                             |                            |
| Cash and Cash Equivalents                 | \$ 2,478,635               |
| Due from Related Parties                  | 6,734                      |
| Due from Other Governments                | 1,163,153                  |
| Prepaid Expenses                          | <u>20,838</u>              |
| <b>TOTAL ASSETS</b>                       | <b>\$ <u>3,669,360</u></b> |
| <b>LIABILITIES AND FUND BALANCE</b>       |                            |
| <b>Liabilities</b>                        |                            |
| Accounts Payable                          | \$ 905,175                 |
| Due to Related Parties                    | <u>33,763</u>              |
| <b>Total Liabilities</b>                  | <b><u>938,938</u></b>      |
| <b>Fund Balance</b>                       |                            |
| Nonspendable                              | 20,838                     |
| Unassigned                                | <u>2,709,584</u>           |
| <b>Total Fund Balances</b>                | <b><u>2,730,422</u></b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b> | <b>\$ <u>3,669,360</u></b> |

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

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**

**RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

**June 30, 2023**

Ending Fund Balance - General Fund \$ 2,730,422

Amounts reported for the governmental activities in the statement of net position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds balance sheet. At June 30, 2023, capital assets totaled \$5,456,746 and accumulated depreciation was \$196,421.

5,260,325

Net Position of Governmental Activities

\$ 7,990,747

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE – GOVERNMENTAL FUND**

June 30, 2023

|  | General<br>Fund     |
|--|---------------------|
| <b>REVENUES</b>                        |                     |
| Blount County Hotel / Motel Tax        | \$ 4,198,462        |
| Grants and Contributions               | 33,000              |
| Charges for Services                   | 194,981             |
| Interest Income                        | 41,715              |
| <b>Total Revenues</b>                  | <u>4,468,158</u>    |
| <b>EXPENDITURES</b>                    |                     |
| Current:                               |                     |
| Advertising                            | 1,002,412           |
| Events                                 | 306,719             |
| General and administrative             | 1,246,264           |
| Debt Service:                          |                     |
| Principal                              | 664,000             |
| Interest                               | 9,874               |
| Capital Outlay                         | 1,391,744           |
| <b>Total Expenditures</b>              | <u>4,621,013</u>    |
| <b>NET CHANGE IN FUND BALANCE</b>      | (152,855)           |
| <b>FUND BALANCE, BEGINNING OF YEAR</b> | <u>2,883,277</u>    |
| <b>FUND BALANCE, END OF YEAR</b>       | <u>\$ 2,730,422</u> |

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

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

**June 30, 2023**

Change in Fund Balance - General Fund \$ (152,855)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|                              |                 |           |
|------------------------------|-----------------|-----------|
| Capital Assets Purchased     | \$ 1,391,744    |           |
| Loss on Disposal of Assets   | (4,446)         |           |
| Depreciation Expense         | <u>(59,566)</u> |           |
| Net Change in Capital Assets |                 | 1,327,732 |

The issuance of long-term debt 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. This is the amount by which principal retirement (\$664,000) exceeds proceeds (\$0) in the current period plus the change in accrued interest in the current period (\$6,088).

|  |                |                     |
|--|----------------|---------------------|
|  | <u>670,088</u> |                     |
| Change in Net Position – Governmental Activities |                | <u>\$ 1,844,965</u> |

SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** - The Smoky Mountain Tourism Development Authority (the "Authority") is a non-profit corporation chartered on June 6, 2012 pursuant to the authority of the Tourism Development Act enacted by the Tennessee General Assembly. The purpose of the Tourism Authority is to promote tourism in Blount County. The Authority is a legally separate entity governed by a ten-member board, who are appointed by Blount County Government, the City of Alcoa, and the City of Maryville. The terms of office for directors are six year staggered terms. The Authority's primary funding source is proceeds of a hotel/motel tax. The tax is currently set at the rate of five percent, which is the maximum allowed. The Authority is fiscally dependent on Blount County since the rate of the tax is set annually by the County Commission.

The Authority has employees, including a CEO, as the Board of Directors deems appropriate. The President and CEO of the Authority is the President and CEO of the Blount Partnership, as specified by the Joint Operating Agreement.

**Basis of Presentation** - The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

**Government-Wide and Fund Financial Statements** - The basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. *Governmental activities* are normally supported by taxes and intergovernmental revenues. *Business-type activities* rely to a significant extent, on fees and charges for support. All of the Authority's activities are considered to be governmental activities. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal year.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functions or programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues for the Authority include operating grants and contributions that are restricted to meeting the operational requirements of a particular department. Other items not properly included among program revenues are reported as general revenues.

The Authority uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid in financial management by segregating transactions related to certain functions or activities. The focus of governmental fund measurement, in the fund financial statements, is upon determination of financial position and changes in financial position rather than upon net income. All the Authority's activities are considered to be recorded in the General Fund.

**Measurement Focus and Basis of Accounting** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the source and use of liquid resources, and 3) demonstrate how the Authority's actual experience conforms to the annual budget. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" is defined as collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures are recorded only when payment is due.

Since the governmental fund financial statements are presented on a basis different than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

**Net Position and Fund Balance** - Government-wide net position is classified into three components: "Net investment in capital assets" consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. "Restricted" net position is noncapital net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Authority. "Unrestricted" net position is remaining net position that does not meet the definition of the other two categories.

Governmental fund equity is classified as fund balance. The Authority follows GASB Statement No. 54, *Fund Balance and Governmental Fund Type Definitions*. Under this statement, fund balances are classified into the following categories:

- a. Nonspendable fund balance comprises those amounts that cannot be spent due to their form (e.g., inventory and prepaids) or funds that legally or contractually are required to be maintained intact.
- b. Restricted fund balances comprise those amounts constrained to be used for a specific purpose by external parties, constitutional provisions or enabling legislation.
- c. Committed fund balances comprise those amounts that are self-imposed restrictions that can only be used for specific purposes pursuant to constraints imposed by formal ordinance of an entity's highest level of decision-making authority. Those committed amounts cannot be used for other purposes unless the specified use is removed by formal ordinance.
- d. Assigned fund balances consist of amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Authority itself.
- e. Unassigned fund balances consist of excess funds that have not been classified in the previous categories. The general fund is the only governmental fund that reports positive unassigned fund balance.

The Authority has retained the authority to assign funds for specific purposes. When both restricted and unrestricted funds are available for expenditure, restricted funds are spent first unless legal requirements disallow it. When committed, assigned and unassigned funds are available for expenditure, committed funds are spent first, assigned funds next, and unassigned funds last.

**Budgeting** - The Authority's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year. The Authority formally approves the annual budget at the beginning of the year and subsequently authorizes budget amendments as necessary.

**Cash and Cash Equivalents** - Cash and cash equivalents may include cash on hand, demand deposits and certificates of deposits. For purposes of the statement of net position, the Authority considers all highly liquid debt instruments, including certificates of deposit, purchased with an initial maturity of three months or less to be cash and cash equivalents.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts Receivable** - Accounts receivable represent billed and uncollected amounts. Accounts receivable deemed by management to be uncollectible are written off after sufficient collection efforts. Management considers all accounts receivable at year end to be collectible.

**Capital Assets** - Capital assets are stated at historical cost, less accumulated depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Capital assets are defined by the Authority as assets with an individual cost of more than \$1,500.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated).

|                                     | <u>Useful Life<br/>(Years)</u> |
|-------------------------------------|--------------------------------|
| Assets:                             |                                |
| Buildings                           | 15 - 50                        |
| Improvements, Other than Buildings  | 7 - 35                         |
| Furniture, Machinery, and Equipment | 15 - 20                        |

**Use of Estimates** - The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses/expenditures, and the disclosure of contingent assets and liabilities at the date of the basic financial statements. Actual results could differ from those estimates.

**Income Tax Status** - No provision for income tax has been made in the accompanying financial statements, as the Authority is exempt from federal income tax.

**Reclassifications** - Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentation.

**Evaluation of Subsequent Events** - Subsequent events have been evaluated through April 17, 2024, which is the date the financial statements were available to be issued. See Note 4.

**NOTE 2 - CUSTODIAL CREDIT RISK**

In the case of cash and cash equivalents and certificates of deposit, this is the risk that in the event of a bank failure, the Authority's deposits will not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. The Authority follows state law regarding collateralization of deposits, which requires collateral to be obtained on any deposits exceeding insurance coverage of the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2023, the book balances of the Authority's cash and cash equivalents totaled \$2,478,635 and the bank balances totaled \$2,709,979. Of the bank balances, \$250,000 was covered by FDIC insurance and \$2,459,979 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department.

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2023 is as follows:

|                                       | <u>Balance<br/>7/1/22</u> | <u>Current<br/>Additions</u> | <u>Current<br/>Retirements</u> | <u>Balance<br/>6/30/23</u> |
|---------------------------------------|---------------------------|------------------------------|--------------------------------|----------------------------|
| Capital Assets, Non-Depreciable:      |                           |                              |                                |                            |
| Land                                  | \$ 2,678,169              | \$ 0                         | \$ 0                           | \$ 2,678,169               |
| Construction in Progress              | 0                         | 953,736                      | 0                              | 953,736                    |
| Total Capital Assets, Non-Depreciable | <u>2,678,169</u>          | <u>953,736</u>               | <u>0</u>                       | <u>3,631,905</u>           |
| Depreciable Capital Assets:           |                           |                              |                                |                            |
| Buildings and Improvements            | 1,037,248                 | 41,684                       | (11,027)                       | 1,067,905                  |
| Land Improvements                     | 355,148                   | 396,324                      | 0                              | 751,472                    |
| Furniture and Equipment               | 5,464                     | 0                            | 0                              | 5,464                      |
|                                       | <u>1,397,860</u>          | <u>438,008</u>               | <u>(11,027)</u>                | <u>1,824,841</u>           |
| Less Accumulated Depreciation         | <u>(143,436)</u>          | <u>(59,566)</u>              | <u>6,581</u>                   | <u>(196,421)</u>           |
| Total Depreciable Capital Assets, Net | <u>1,254,424</u>          | <u>378,442</u>               | <u>(4,446)</u>                 | <u>1,628,420</u>           |
| Net Capital Assets                    | <u>\$ 3,932,593</u>       | <u>\$ 1,332,178</u>          | <u>\$ (4,446)</u>              | <u>\$ 5,260,325</u>        |

Depreciation and amortization expense was charged to the governmental functions in the government-wide financial statements as follows:

|                    |                  |
|--------------------|------------------|
| General Government | \$ <u>59,566</u> |
|--------------------|------------------|

**NOTE 4 - LONG-TERM DEBT / SUBSEQUENT EVENT**

The Authority did not have any long-term debt obligations as of June 30, 2023. Changes in long-term debt for the year ended June 30, 2023 are as follows:

|                 | <u>Balance<br/>7/1/22</u> | <u>Increases /<br/>Issuances</u> | <u>Decreases /<br/>Retirements</u> | <u>Balance<br/>6/30/23</u> | <u>Current<br/>Portion</u> |
|-----------------|---------------------------|----------------------------------|------------------------------------|----------------------------|----------------------------|
| Promissory Note | \$ 664,000                | \$ 0                             | \$ (664,000)                       | \$ 0                       | \$ 0                       |
|                 | <u>\$ 664,000</u>         | <u>\$ 0</u>                      | <u>\$ (664,000)</u>                | <u>\$ 0</u>                | <u>\$ 0</u>                |

In April 2023, the Authority issued a \$5,500,000 tax revenue note to finance the construction of the event center building at the visitor's center in Townsend, Tennessee. The first draw on the note was made in September 2023. Through March 2024, the Authority has drawn approximately \$4,800,000 on the tax revenue note.

**NOTE 5 - RISK MANAGEMENT**

The Authority 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. Because of this exposure, the Authority purchases commercial insurance for claims arising from these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

The Authority, along with the Industrial Development Board of Blount County, the City of Maryville, and the City of Alcoa (the "IDB"), and the Blount County Chamber of Commerce ("Chamber") formed a joint venture in 2014 called the Blount Partnership (the "Partnership"). None of the member entities has an equity interest in the Partnership. The Authority, the IDB, and the Chamber are required to annually contribute operating capital needed to pay the operating expenses of the Partnership, as determined annually by the Board of the Partnership. For the year ended June 30, 2023, the Authority contributed \$224,544 to the Partnership for operating expenses. In addition, during 2023, the authority reimbursed the Partnership \$714,863 for administrative related expenses provided by the Partnership.

**NOTE 7 - COMMITMENTS**

As of June 30, 2023, the Authority had a remaining construction commitment of \$6,247,735 for the construction of the event center building at the visitors center in Townsend, Tennessee.

**SUPPLEMENTARY INFORMATION SECTION**

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2023**

| <u>State Grantor Program</u>                 | <u>Assistance Listing Number</u> | <u>Contract Number</u> | <u>Passed Through to Subrecipients</u> | <u>Expenditures</u> |
|--|----------------------------------|------------------------|--|---------------------|
| <b><u>State Financial Assistance</u></b>     |                                  |                        |  |                     |
| Tennessee Department of Tourist Development  |                                  |                        |  |                     |
| Tourism Cooperative Marketing Matching Grant | N/A                              | 32601-78140            | \$ 0                                   | \$ 25,000           |
| <b>Total State Financial Assistance</b>      |                                  |                        | <u>\$ 0</u>                            | <u>\$ 25,000</u>    |

See Independent Auditor's Report.

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2023**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of state financial assistance (the "Schedule") includes the state grant activity of Smoky Mountain Tourism Development Authority (the "Authority") for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of the Tennessee Comptroller of the Treasury *Audit Manual*. Because the Schedule presents only a selected portion of the operation of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the individual grant agreements, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**  
**SCHEDULE OF LONG-TERM DEBT, PRINCIPAL, AND INTEREST REQUIREMENTS BY FISCAL YEAR**

**June 30, 2023**

None.

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**  
**SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE**

**June 30, 2023**

|                  | Original<br>Amount of<br>Issue | Interest<br>Rate | Date of<br>Issue | Last<br>Maturity<br>Date | Outstanding<br>7/1/22 | Issued<br>During<br>Period | Paid and/or<br>Matured<br>During Period | Refunded<br>During<br>Period | Outstanding<br>6/30/23 |
|------------------|--------------------------------|------------------|------------------|--------------------------|-----------------------|----------------------------|---|------------------------------|------------------------|
| Promissory Note  | \$ 830,000                     | 1.00%            | September 2020   | August 2025              | \$ 664,000            | \$ 0                       | \$ (664,000)                            | \$ 0                         | \$ 0                   |
| Tax Revenue Note | 5,500,000                      | 4.33%            | April 28, 2023*  | April 28, 2044           | 0                     | 0                          | 0                                       | 0                            | 0                      |
| Total            |                                |                  |                  |                          | <u>\$ 664,000</u>     | <u>\$ 0</u>                | <u>\$ (664,000)</u>                     | <u>\$ 0</u>                  | <u>\$ 0</u>            |

\* First draw was in September 2023.

**INTERNAL CONTROL  
AND  
COMPLIANCE SECTION**



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

Board of Directors  
Smoky Mountain Tourism Development Authority  
Maryville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities and the major fund of the Smoky Mountain Tourism Development Authority (the Authority) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 17, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

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



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### **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
April 17, 2024

**SMOKY MOUNTAIN TOURISM DEVELOPMENT AUTHORITY**  
**SCHEDULE OF DISPOSITION OF PRIOR YEAR AUDIT FINDINGS**  
**For the Year Ended June 30, 2023**

| PY Finding | Finding Title           | Status /<br>Current Year<br>Finding Number |
|------------|-------------------------|--|
| 2022-001   | Account Reconciliations | Corrected                                  |