



CITY OF KNOXVILLE
BILL HASLAM, MAYOR



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2006

KNOXVILLE, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF KNOXVILLE, TENNESSEE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

LARRY B. MARTIN,
SENIOR DIRECTOR OF FINANCE AND ACCOUNTABILITY

JAMES E. YORK,
DEPUTY DIRECTOR

CITY OF KNOXVILLE, TENNESSEE
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2006

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INTRODUCTORY SECTION



February 8, 2007

In compliance with the City of Knoxville Charter requirements, I am submitting the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. This report discusses the financial results for the year, provides information on budgetary performance, and includes information on the financial condition of the City. I am also pleased to again report that the financial condition of the City remains strong.

The report has been prepared in accordance with the principles and standards for financial reporting as set forth by the Governmental Accounting Standards Board (GASB) and complies with the requirements of GASB Statement Number 34. The report also meets the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133. Also new this year is the implementation of GASB Statement Number 44 which significantly revises the Statistical Section. This revision is designed to support the GASB 34 reporting model by eliminating shortcomings caused by the statistical section not being revised to support new model when it was implemented in 2002. Due to the magnitude of the GASB 34 implementation, some of the schedules only reflect operating results since fiscal year ended June 30, 2002, the year the City implemented GASB Statement 34. Over time, these schedules will reflect the full ten year comparisons desired.

The City's financial statements have been audited by Pugh & Company, P.C., Certified Public Accountants, and prepared by the Finance Department. The City accepts the responsibility to ensure that all information included in the Comprehensive Annual Financial Report is complete and accurate. We believe the enclosed data completely and accurately presents the financial condition of the City.

This report, like previous reports, consists of three sections: Introductory, Financial, and Statistical. The *Introductory Section* includes the City's Letter of Transmittal, a listing of officials, an organization chart, and a facsimile of the Certificate of Achievement. Next, the *Financial Section* is composed of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. Finally, the *Statistical Section* provides selected unaudited financial and demographic information on a multi-year basis.

Accounting principles generally accepted in the United States of America (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Knoxville's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Knoxville operates under the Mayor-Council form of government. Policy-making and legislative authority are vested in the nine member City Council, six of whom represent specific districts and three of whom are elected at large. The mayor and council members are elected on a non-partisan basis and are elected to four-year terms. The City Council is responsible, among other things, for passing ordinances, determining policies, and adopting the budget. The mayor is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments.

This report covers all funds of the City of Knoxville. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; the construction and

maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. In addition, the City of Knoxville has financial accountability over the Knoxville Utilities Board (KUB), the Metropolitan Knoxville Airport Authority (MCAA), Knoxville Area Transit (KAT) and the City Employees' Pension Fund. The financial statements of KUB, MCAA and KAT are included in the body of this report, noted as Component Units on the Government Wide Statements. The financial statements of the City Employees' Pension Fund are included in the body of this report, noted separately as the sole Fiduciary Component Unit.

Local Economy

The overall economic health of the metropolitan Knoxville area remains positive. The City serves as the economic hub of the entire upper East Tennessee area, and its trade sector is one of the strongest in the state. Knox County has the fourth highest per capita sales tax rate in the state, at roughly 123% of the state average. Seventy-six percent of the taxable sales within the County occur inside the corporate limits of Knoxville. The following table displays local sales tax collections (in thousands) of the City over the past five years.

<u>Year</u>	<u>Collections</u>	<u>% Growth</u>
FY 2001-02	\$ 28,819	(3.79%)
FY 2002-03	\$ 29,031	0.74%
FY 2003-04	\$ 30,529	5.16%
FY 2004-05	\$ 31,785	4.11%
FY 2005-06	\$ 34,514	8.59%

The local sales tax is a situs based revenue. That is, the point of sale location determines the governmental entity receiving the proceeds. In recent years, there have been several situs reclassifications that have shifted revenues between the City of Knoxville and Knox County. In FY 01/02, the City of Knoxville suffered from a change, which shifted funds to the County, accompanied by a large one-time correction of prior revenues. In other years the shifts have been reversed. These shifts account for the large variations seen in the growth pattern for annual collections. Were it not for these reclassifications, the City and County would tend to mirror each other. In FY 00/01, sales tax collections on a countywide basis increased by 1.69%. Growth in subsequent years was 1.34%, 0.68%, 5.53%, 3.92% and 8.59% which mirrors the city's growth.

As noted above, the City experienced 8.59% growth in local sales tax. This mirrors Knox County as a whole. Overall growth in state sales taxes, which factors out rate differentials, shows the overall state growth of 6.97%.

The presence of the University of Tennessee along with TVA lends stability to the area, making the local economy less cyclical than either the national or state economy. This contributes to a low unemployment rate, which averaged 3.8% (Knoxville MSA) in FY2006. This compares very favorably to the national unemployment rate of 4.3% and the state rate of 4.8% as well as the other major metropolitan areas of the state (Chattanooga – 4.3%, Memphis – 5.1%, and Nashville – 4.0%). Knoxville MSA had a labor force of 356,610 in 2006, and the economic development initiative *Jobs Now!* continues to work toward further increases. Job growth has been positive in the recent past and is forecast to continue in the near term, although some shifting among sectors is anticipated. Trade and service sectors are forecasted to grow at a strong rate, and the finance, real estate, communication, and transportation sectors are also expected to do well, while manufacturing is expected to decline.

Knoxville is at the intersection of two major interstate highways (I-40 and I-75) and near the terminus of a third interstate (I-81). Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 500 miles of approximately one-half of the population of the United States. The County for many years has

been known as one of the South's leading wholesale markets. Located within the County are 875 wholesale establishments, 1,887 retail establishments and 5,356 service establishments.

In addition to being a manufacturing and distribution center, the County ranks second among the five metropolitan counties of Tennessee in agricultural production. The County's principal crops are barley, tobacco, corn, wheat, hay, vegetables and fruits. Beef and milk production are important farming activities. Meat packing and preparation of other food products have shown a steady increase in the County in the last several years.

The area also benefits from the State's high ranking in Alexander Grant and Company's *General Manufacturing Climates*. The study has consistently ranked Tennessee as one of the top areas in the nation for manufacturing. A great deal of this industrial growth has taken place in the community's eleven industrial parks, which are zoned as part of a planned industrial development program.

Tourism also plays a vital role in the economic development of area. In 2003, travelers spent more than \$599 million in Knox County, ranking it fourth in the state for visitor expenditures. Knoxville supports an active tourism and convention trade. The 500,545 square foot convention center on the World's Fair Park site, which opened in June 2002, features spacious meeting rooms and a 400-seat lecture hall. Other facilities include a civic coliseum/auditorium, an exhibition hall/convention center, a 25,000-seat arena, and a conference center at the University of Tennessee. Knoxville's multitude of annual events include the Dogwood Arts Festival, Tennessee Valley Fair, Boomsday, Christmas in the City and many cultural activities.

Knox County is the principal Gateway to the Great Smoky Mountains National Park, located 40 miles to the southeast. There are over 500,000 acres that make up the nation's most visited National Park, extending over the States of Tennessee and North Carolina. More than 9.2 million people visited the National Park in 2004.

In addition to the natural beauty of the area, two of the major attractions in the Smoky Mountains are Gatlinburg and Pigeon Forge. Gatlinburg, a tourist town which has accommodations for over 60,000 people, features numerous restaurants, craft shops, and gift stores, along with a ski lodge, ski-lifts, convention center and tramway, making it a year-round resort town. Pigeon Forge, a tourist town and shoppers mecca at the foothills of the mountain, has accommodations for approximately 40,000 people. Its attractions include Dollywood - a country-style theme park, a waterslide park, a rodeo dinner theater, and numerous miniature golf courses, bumper boat rides, and theme museums.

Knoxville seeks to capitalize even more from its location through such projects as the Women's Basketball Hall of Fame, the Gateway Regional Visitor Center, Volunteer Landing, and the Knoxville Zoological Gardens.

Knoxville consistently is ranked among the best places to live in the country. According to Places Rated Almanac Millenium Edition, Knoxville was ranked the best place to live for cities under one million in population. Knoxville was ranked 13th for "Best Places for Business and Careers" in Forbes magazine 2004 and 3rd on the Best Cities for Relocating Families list of Worldwide ERC and Primary Relocation, 2004. Knoxville was also noted as "Top Mid-Market with populations between 250,000 and 750,000" by the Southern Business and Development Magazine June 2003 and 14th among the "Top Logistic Cities in the Southeast". The City has also been cited nationally for its low tax rate.

The quality of life, low cost of living, convenient interstate access, along with other factors make the area an attractive location for many types of operations, particularly those in the growing field of telecommunications. Knoxville serves as home to numerous customer service centers, including Jewelry Television by ACN, Cendant Corporation, ClientLogic Corporation, G.C Services, Kimberly-Clark Corporation, Nova Information Systems, U.S. Cellular and Whirlpool Corporation. The City has worked with these firms, and others, to help foster relocation to Knoxville, or expansion of existing facilities. Companies having their corporate headquarters in Knoxville include Home and Garden Television

(HGTV), Clayton Homes, CTI Molecular Imaging Corporation, DeRoyal Industries, Goody's Family Clothing, Pilot Corporation, and Sea Ray Boats.

The Metropolitan Knoxville Airport Authority (MCAA) has also contributed to area growth. McGhee Tyson Airport completed a \$70 million renovation and expansion project of its main terminal and concourses in the fall of 2000. The airport is served by two major and ten regional passenger airlines that combine for 61 daily departures connecting to fifteen hub airports with non-stop service. The direct and indirect economic impact of the airport is estimated by the MCAA to be approximately \$1 billion annually. This figure includes payroll, local spending, transportation cost savings, capital spending and other benefits.

In addition, Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's main campus with over 27,000 students, including its teaching hospital and veterinary school. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are six hospitals including the only two trauma centers for a 27-county area. The presence of the Tennessee Valley Authority, UT-Battelle, and BWXT-Bechtel serve as a magnet for technology-based corporations in the East Tennessee area. The growing trend toward allowing technology transfer to private industry is also benefiting the region. The development of the multi-billion dollar spallation neutron source project at the Oak Ridge National Laboratory is also expected to enhance economic activity and lure newer companies to the area.

Relevant Financial Policies/Controls

Management of the City of Knoxville is responsible for establishing and maintaining an internal control structure. This structure is designed to protect the assets of the government from loss, theft or misuse. The system also attempts to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary controls

The objective of the City of Knoxville's budgetary controls system is to ensure compliance with the City Code and Charter, as well as with state and federal guidelines regarding use of funds. No authority is granted to any department to expend above their annual appropriation without council approval. Appropriations for all funds, excluding capital projects, included in the annual budget process lapse at year-end and must be reappropriated annually. Additional budgetary controls include the City's encumbrance accounting system, which is designed to ensure that departments do not exceed or commit to exceed any appropriation for the fiscal year. Furthermore, the Mayor and the Finance Director can reserve or impound appropriations if there appears to be insufficient revenues to cover expenditures, or for any other valid reason.

Debt administration

Total general obligation indebtedness of the City decreased by \$14 million in fiscal year 2005/2006 through budgeted debt repayments. No new debt was issued during the fiscal year.

The total amount of general obligation debt outstanding as of June 30, 2006 is \$233.6 million. Of this amount, \$151.5 million represents proprietary fund debt on the Convention Center and the Locust Street Garage. In addition to the above debt, the City has responsibility for \$1.285 million in debt relating to its portion of Animal Welfare Center, this debt being issued by Knox County.

Several indicators are useful in evaluating the City's debt position. These include the ratio of net general obligation bonded debt to assessed valuation and the amount of general obligation debt per capita. The debt ratio for the City of Knoxville (excluding component unit debt) at the end of fiscal year 2005 is as follows:

General Obligation Debt	Amount (in thousands)		Ratio of Amount to Assessed Valuation 100%		Ratio of Amount to Estimated Actual Value		Debt per Capita	
	FY 05/06	FY 04/05	FY 05/06	FY 04/05	FY 05/06	FY 04/05	FY 05/06	FY 04/05
Net direct bonded debt	\$ 234,840	\$ 248,831	7.02 %	8.33 %	2.22 %	2.70 %	\$ 1,303	\$ 1,381
Overlapping debt of Knox County	\$ 219,362	\$ 199,693	6.55 %	6.69 %	2.07 %	2.16 %	\$ 1,217	\$ 1,109
Total	\$ 454,202	\$ 448,524	13.57 %	15.02 %	4.29 %	4.86 %	\$ 2,520	\$ 2,490

The City's current and prior bond ratings are as follows:

Debt Type	Fitch/ICBA		S & P		Moody's	
	FY 05/06	FY 04/05	FY 05/06	FY 04/05	FY 05/06	FY 04/05
General Obligation Bonds	AA+	AA+	AA	AA	Aa2	Aa2
Revenue Bonds:						
Electric (KUB)	N/A	N/A	AA	AA	Aa3	Aa3
Gas (KUB)	N/A	N/A	AA	AA	Aa3	Aa3
Water (KUB)	N/A	N/A	AA+	AA+	Aa3	Aa3
Waste Water (KUB)	N/A	N/A	AA	AA	Aa3	Aa3

Cash management

The City of Knoxville operates a cash management program under a master banking service agreement with a major Tennessee banking institution. Idle funds are invested in accordance with the City's Investment Policy on the basis of security, liquidity and, lastly, yield. Investments are governed by state statute and City ordinances, which limit both the type and length of investments. Maturities are generally limited to two years and investments are restricted to treasury bonds and notes, agencies and instrumentalities guaranteed by the federal government, various money market instruments such as certificates of deposit, high-grade commercial paper, and bankers acceptances, and various state or local bonds. The policies also allow for participation in the State of Tennessee managed Local Government Investment Pool (LGIP).

As required by statute and ordinance, all deposits and certificates of deposit are secured by similar grade collateral pledges at 105% of market value for all amounts in excess of that guaranteed through federally sponsored insurance programs or are collateralized by participation of depository institutions in the Tennessee collateral pool.

The average yield on investments, excluding the pension fund investments, was 2.22%. Average weighted maturities in days ranged between 99 and 126 days. Duration was very short.

The City Charter mandates that portfolio management and control of the City's Pension Fund be vested in the City Pension Board. The Board is advised by Summit Strategies and engages professional investment firms in an advisory capacity.

Risk management

The City of Knoxville's risk management program is responsible for the administration of the City's self-insured liability and worker's compensation programs. The risk management division is also responsible for the administration of the City's commercial insurance and OSHA programs. An increase in net assets of \$3.264 million was reported for the Risk Management fund as of June 30, 2006, due mainly to supplemental funding coming from the City's General Fund. Total net assets in this fund equal \$5.476 million as of June 30, 2006.

Other information

Independent Audit

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee selected Pugh & Company, P.C., Certified Public Accountants, to perform the fiscal year 2006 audit.

MAJOR INITIATIVES

For the Year ended June 30, 2006:

Economic development has been the primary focus during the past year. Significant work has been devoted to the preparation of a South Knoxville Waterfront Master plan which will serve as a guide and incentive to future development in this area. Work has continued on the redevelopment of the downtown, and the I-275 Business Park. Capital funding was devoted on on-going maintenance of the City's infrastructure as well as the expansion of parks and facilities.

For the Future:

The focus in FY 06/07 is continued economic development, and increased operational efficiency. Major projects include funding to address chronic problem properties, facades in commercial areas of the city and funding to promote historical restoration of properties in the city. Capital projects scheduled for the year include the additional funding for infrastructure improvements and expanded maintenance, traffic calming, parks and recreation initiatives and improvements to drainage in areas prone to flooding. Funding is also provided to increase job creation efforts in the City of Knoxville and the Knoxville MSA.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Knoxville for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the twentieth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

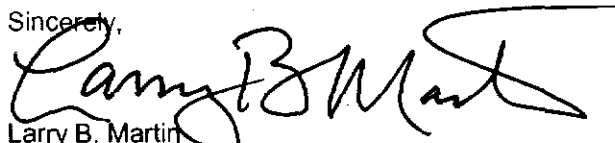
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Knoxville received GFOA's Distinguished Budget Presentation Award for the annual operating budget dated July 1, 2006. This marks the eighteenth consecutive year that the City has won this Award. The Distinguished Budget Presentation Award recognizes that the City's budget document is a proficient policy document, financial plan, operation guide and communications medium.

Acknowledgments

The preparation of this report results from the combined efforts of many people. Special recognition and appreciation goes to the City's Finance Department, Melissa Peters, the City's Internal Auditor, the City's independent auditors, Pugh & Company, P.C., and the City Council audit committee comprised of Marilyn Roddy (Chair), Bob Becker, Joe Hultquist, Barbara Pelot, and Chris Woodhull.. The national recognition afforded the City of Knoxville could not have been achieved without the increasing participation and enthusiasm of the citizens of this community. Their exceptional response to the annual survey has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvilleans.

Sincerely,



Larry B. Martin
Sr. Director of Finance & Accountability

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Knoxville
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

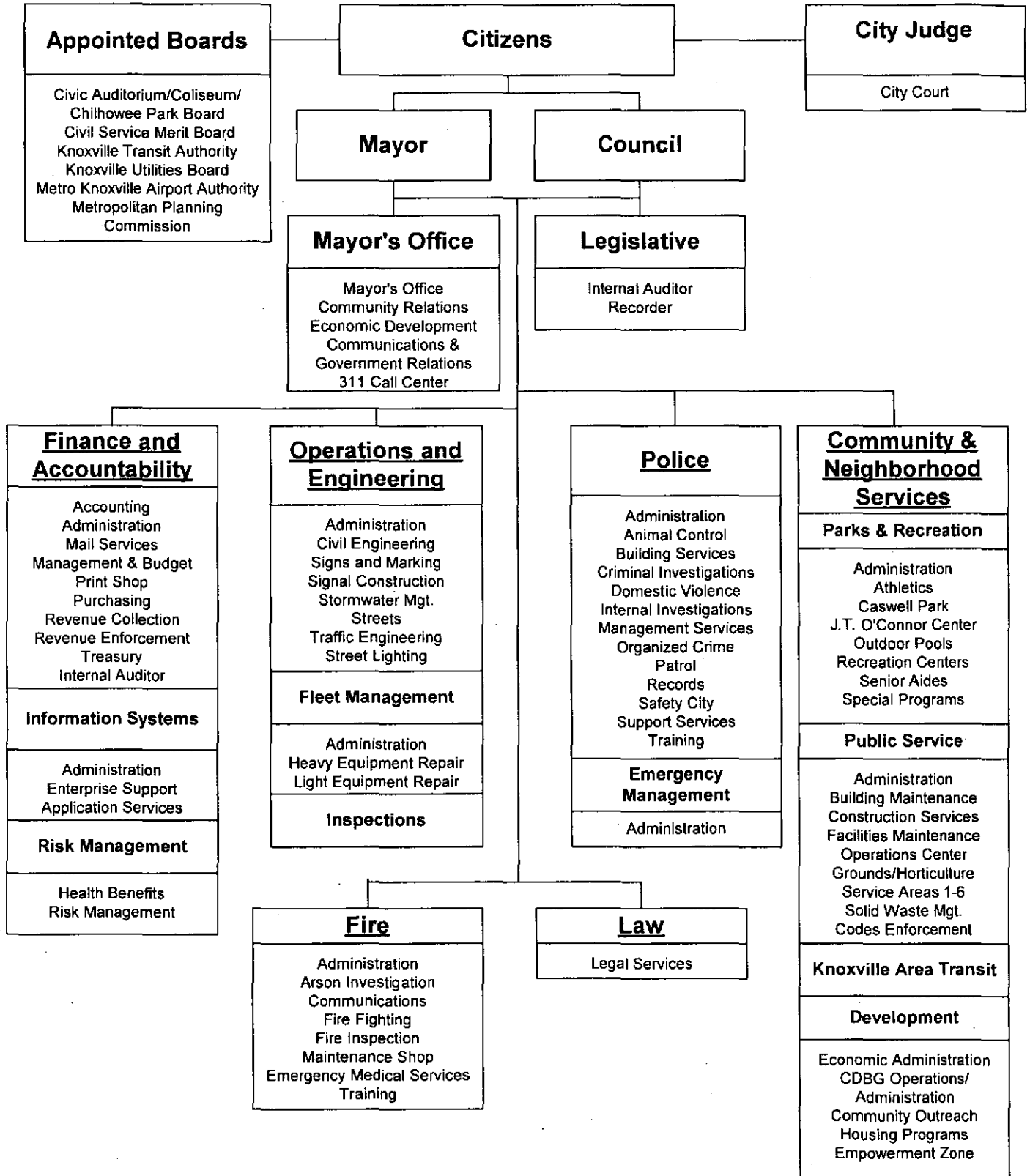
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

City of Knoxville

Organizational Structure



Appointed Boards

Civic Auditorium/Coliseum/
Chilhowee Park Board
Civil Service Merit Board
Knoxville Transit Authority
Knoxville Utilities Board
Metro Knoxville Airport Authority
Metropolitan Planning
Commission

Citizens

City Judge

City Court

Mayor

Council

Mayor's Office

Mayor's Office
Community Relations
Economic Development
Communications &
Government Relations
311 Call Center

Legislative

Internal Auditor
Recorder

Finance and Accountability

Accounting
Administration
Mail Services
Management & Budget
Print Shop
Purchasing
Revenue Collection
Revenue Enforcement
Treasury
Internal Auditor

Information Systems

Administration
Enterprise Support
Application Services

Risk Management

Health Benefits
Risk Management

Operations and Engineering

Administration
Civil Engineering
Signs and Marking
Signal Construction
Stormwater Mgt.
Streets
Traffic Engineering
Street Lighting

Fleet Management

Administration
Heavy Equipment Repair
Light Equipment Repair

Inspections

Fire

Administration
Arson Investigation
Communications
Fire Fighting
Fire Inspection
Maintenance Shop
Emergency Medical Services
Training

Police

Administration
Animal Control
Building Services
Criminal Investigations
Domestic Violence
Internal Investigations
Management Services
Organized Crime
Patrol
Records
Safety City
Support Services
Training

Emergency Management

Administration

Law

Legal Services

Community & Neighborhood Services

Parks & Recreation

Administration
Athletics
Caswell Park
J.T. O'Connor Center
Outdoor Pools
Recreation Centers
Senior Aides
Special Programs

Public Service

Administration
Building Maintenance
Construction Services
Facilities Maintenance
Operations Center
Grounds/Horticulture
Service Areas 1-6
Solid Waste Mgt.
Codes Enforcement

Knoxville Area Transit

Development

Economic Administration
CDBG Operations/
Administration
Community Outreach
Housing Programs
Empowerment Zone

OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR
Bill Haslam

CITY COUNCIL

Joe Bailey
Bob Becker
Rob Frost

Mark Brown, Vice Mayor
Steve Hall
Joe Hultquist

Barbara B. Pelot
Marilyn Roddy
Chris Woodhull

CITY JUDGE
John Rosson

CITY RECORDER
Cindy Mitchell

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Airport – Bill Marrison, President
Civil Service Merit Board – Vicki Hatfield, Executive Secretary
Communications & Government Relations Department – Margie Nichols, Sr. Director
Community Development – Madeline Rogero
Community & Neighborhood Services Department – Samuel P. Anderson, Sr. Director
Community Relations – Thomas E. Strickland, Jr. – Director
Engineering Division – Steve King – Director
Finance & Accountability Department – Larry B. Martin, Sr. Director
Fire Department – Robert Key
Fleet Service Division – Mark Kollander, Director
Information Systems Division – Janet Wright, Director
Knoxville Area Transit (KAT) – Cindy McGinnis, General Manager
Knoxville Utilities Board – Mintha Roach, President
Law Department – Morris Kizer, Sr. Director
Police Department – Sterling P. Owen IV, Chief
Policy Development – William Lyons, Sr. Director
Public Assembly Division – Robert Polk, Director
Public Service Division – Robert Whetsel, Director
South Waterfront Development – Dave Hill, Sr. Director
Special Events Division – Mickey Mallonee, Director

FINANCIAL SECTION

PUGH & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

WILL J. PUGH, CPA
RONNIE G. CATE, CPA
C. LARRY ELMORE, CPA
W. JAMES PUGH, JR., CPA
DANIEL C. FRANKLIN, CPA
JAMES H. JONES, CPA
LISA W. HILL, CPA
SUSAN R. FOARD, CPA
ANDREW R. HARPER, CPA
R.E. FOUST, CPA
A. TED HOTZ, CPA

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TELECOPIER 865-769-1660

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

City Mayor and City Council Members of the
City of Knoxville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Knoxville Area Transit, which is presented as a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Knoxville Utilities Board, the Metropolitan Knoxville Airport Authority, or the City Employees' Pension Fund. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Knoxville Utilities Board, Metropolitan Knoxville Airport Authority, and the City Employees' Pension Fund, is based 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-19 and the schedule of funding progress of the pension plans on pages 73 to 74 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund financial statements and schedules on pages 76 to 106 and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the data included in the introductory or statistical sections of this report and, accordingly, we express no opinion on such data.

Pugh & Company, P.C.

Certified Public Accountants
December 21, 2006

Management's Discussion and Analysis

The City of Knoxville is including this Management Discussion and Analysis (MD & A) to enhance the reader's understanding of the City's financial position. This section is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page "i" and with the financial statements that follow. All amounts are expressed in dollars, unless otherwise specified, for the results of operations for the Fiscal Year ending June 30, 2006.

Financial Highlights

- The assets of the City of Knoxville primary government exceeded its liabilities at the close of the most recent fiscal year by \$328,841,839 (*net assets*). Of this amount, \$124,230,667 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets increased by \$31,203,763, an increase of 10.5% over fiscal 2005 as a result of favorable financial operations with strong revenues and effective budgetary controls.
- The Fund Balance for the City's General Fund increased by \$9,702,342, an increase of 38.7%. This was the result of stronger than expected revenues accompanied by lower than expected expenditures. Only \$248,079 is reserved for specific purposes, and the remaining 99.3%, or \$34,500,566, is available for spending at the City's discretion (unreserved fund balance).
- Overall, the City's total general obligation debt for the primary government decreased by \$10.5 million (11.4%) to \$82,080,000 during the current fiscal year as a result of normal debt service payment activity.

Overview of the Financial Statements

Like previous comprehensive annual financial reports, there are three sections to the City's new financial report – *Introductory, Financial and Statistical*. However, with the implementation of the new reporting model, some changes have been made. The first section, *The Introductory Section*, contains the City's Letter of Transmittal, a facsimile of the Certificate of Achievement, an organization chart, and a list of officials. Next, *The Financial Section* is composed of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. Finally, *The Statistical Section* discloses data designed to further enhance the readers understanding of the City's financial health.

The heart of this financial document lies within *The Financial Section*. Here the City presents government-wide statements, funds statements, notes of explanation, required supplementary information, combining statements, information regarding capital assets used in the operation of governmental funds and other various schedules. The government-wide statements provide a thumbnail sketch of the City's entire operations, and the funds statements provide relevant information on the various funds. Further detail and explanation of pertinent information and operations is provided in the financial statements and in the notes that follow in this section.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Knoxville's finances, in a manner similar to a private-sector business. Government-wide statements are provided on a full accrual basis. Activities are considered either as those of Primary Government (the government as legally defined) or those of Component Units (legally separate entities for which

the primary government is financially accountable). Public utility and transportation services are performed by the Component Units. Activities are delineated as noted:

Primary Government

1. Governmental Activities
2. Business-Type Activities

Component Units

1. Knoxville Utilities Board
2. Metropolitan Knoxville Airport Authority
3. Knoxville Area Transit

STATEMENT OF NET ASSETS

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

The Statement of Net Assets presents the consolidated financial condition of the City at a moment of time. This statement presents assets, liabilities and total net assets categorized as either primary government or component units. Primary government activities are further delineated as either governmental or business-type. Under GASB Statement 34, the City presents a valuation of its infrastructure assets and its debt structure on one page.

STATEMENT OF ACTIVITIES

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events 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 (e.g., uncollected taxes and earned but unused vacation leave).

The focus of the Statement of Activities is to present the City's combined operational activities over the past fiscal year. Governmental and business-type items are presented with the total revenues and expenses. Governmental fund activities are financed primarily by local taxes, user fees, charges for services, or subsidized by direct appropriations from the City's General Fund. Business-type operations, by their very nature, recover costs through user fees and/or operational transfers.

Funds Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Knoxville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Knoxville can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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.

Governmental funds statements are provided on a modified accrual basis. The City's major funds are presented in their own columns and the remaining funds are combined with a column titled "Other Gov-

ernmental Funds.” (Other Governmental Funds are also noted as Nonmajor Governmental Funds or Special Revenue Funds.) Governmental funds are noted as follows:

Major Governmental Funds

1. General
2. Debt Service
3. Capital Projects

Non-Major Governmental Funds/ Other/ Special Revenue Funds

1. State Street Aid
2. Community Development Block Grants
3. Abandoned Vehicles
4. City Inspections
5. City Court
6. Miscellaneous Grants
7. Animal Control
8. Miscellaneous Special Revenue Funds
9. Miscellaneous Community Development Funds
10. Storm Water
11. Solid Waste
12. Coster Redevelopment
13. Krutch Park Trust
14. Knoxville Civic Revitalization
15. City Choice Plus

A budgetary comparison statement for the General Fund (Statement of Revenues, Expenditures, and Changes in Fund Balances) is presented in the Fund Financial Statements section of the Basic Financial Statements. Budgetary comparison schedules for the debt service and capital projects funds (Statement of Revenues, Expenditures, and Changes in Fund Balances) are found in the Combining and Individual Fund Statements and Schedules section. Readers who wish to obtain information on non-major funds can do so in the Combining Statements section of this report.

The Balance Sheet provides a picture of the financial (but not capital) assets associated with governmental activities, liabilities payable from current financial resources and the net fund balance.

The Statement of Revenues, Expenditures and Changes in Fund Balances is used for reporting all transactions, events and inter-fund activity that increase or decrease fund balances.

Because Government-Wide Statements are provided on a full accrual basis and governmental funds statements are provided on a modified accrual basis, a reconciliation is necessary. Reconciliation statements are provided following the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

Proprietary Funds

The City of Knoxville maintains two different types of proprietary funds: enterprise funds and internal service funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Knoxville uses enterprise funds to account for its Convention Center, its Public Assembly Facilities consisting of the Civic Auditorium/ Coliseum and Chilhowee Park, and the operation of two public parking garages, operating under the Metro Parking Fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Knoxville's various functions. The City uses internal service funds to account for its Print Shop operations, fleet operations, insurance functions, both risk and employee health care, replacement of non-rolling stock equipment, and maintenance operations relating to the various city buildings. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds statements are provided on a full accrual basis. Proprietary funds are noted as follows:

Business-type Activities	Governmental Activities/Internal Service Funds
1. Knoxville Convention Center	1. Office Services Fund
2. Other Business-type activities:	2. Fleet Maintenance Fund
Nonmajor Enterprise Funds -	3. Risk Management Fund
a. Metro Parking Fund	4. Employee Health Insurance Fund
b. Public Assembly Facilities Fund	5. Equipment Replacement Fund
	6. City Buildings Fund

Like the government-wide statement, the Proprietary Fund Statement of Assets reports all assets and liabilities, including capital assets and long-term liabilities. Proprietary funds are required to list their net assets according to their availability for use in operations.

The Statement of Revenues, Expenditures, and Changes in Net Assets isolates operating revenues and operating expenses from other changes in net assets to allow for the measurement of how sufficiently a given activity is self-supporting. Non-operating items are also included immediately following operating income/loss.

The Statement of Cash Flows is provided to allow for the assessment of the adequacy of a proprietary fund's cash flows.

Fiduciary Component Unit Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Knoxville's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City Employees' Pension Fund is the City of Knoxville's sole fiduciary component unit.

Unlike proprietary funds, fiduciary funds are not required to list their net assets based on their availability for use in operations.

The Statement of Changes in Fiduciary Net Assets notes all changes in net assets without distinguishing earnings related changes from other types of changes. These changes to net assets are simply noted as additions and deletions.

Notes to the Financial Statements

Completing the document are notes to the financial statements. The notes reveal additional information in order to provide a more informed understanding of the government-wide and fund financial statements.

Other Information

Following the notes, this document provides required supplementary information regarding Knoxville's progress in funding its obligation to provide pension benefits to its employees. The combining statements for nonmajor governmental funds, nonmajor enterprise funds and internal service funds, schedules for the Debt Service and Capital Projects Funds, schedules regarding Capital Assets, and other supplementary information are also provided for further clarification.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following analysis focuses on the total primary government, which includes both governmental and business-type activities.

Statement of Net Assets at June 30, 2006

A condensed version of the Statement of Net Assets follows:

Condensed Financial Information
Statement of Net Assets
Primary Government
For Fiscal Year Ending June 30
(In \$1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets:						
Cash and investments	\$ 136,580	\$ 120,481	\$ 7,205	\$ 6,308	\$ 143,785	\$ 126,789
Other assets	43,412	33,971	4,598	4,715	48,010	38,686
Capital assets	224,512	240,738	182,509	173,602	407,021	414,340
Total assets	\$ 404,504	\$ 395,190	\$ 194,312	\$ 184,625	\$ 598,816	\$ 579,815
Other liabilities						
Other liabilities	\$ 32,808	\$ 33,182	\$ 5,937	\$ 5,499	\$ 38,745	\$ 38,681
Noncurrent liabilities	84,421	91,920	146,808	151,576	231,229	243,496
Total liabilities	\$ 117,229	\$ 125,102	\$ 152,745	\$ 157,075	\$ 269,974	\$ 282,177
Net assets:						
Invested in capital assets, net of debt	\$ 139,547	\$ 137,765	\$ 32,217	\$ 18,712	\$ 171,764	\$ 156,477
Restricted	32,847	31,119	-	-	32,847	31,119
Unrestricted	114,881	101,204	9,350	8,838	124,231	110,042
Total net assets	\$ 287,275	\$ 270,088	\$ 41,567	\$ 27,550	\$ 328,842	\$ 297,638

Governmental Activities

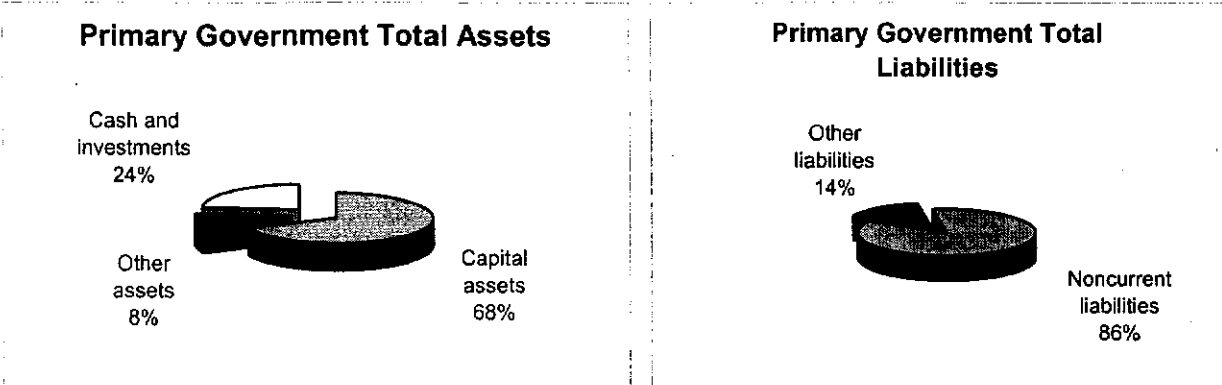
Assets have increased modestly (2.4%) and liabilities have decreased (6.3%) when compared to 2005 levels. The net result of these changes is an increase of 6.4% in total net assets. No particular activity is responsible for a disproportionate amount of the changes. Overall positive financial performance of all activities contributed to the positive results of this category.

Business-Type Activities

Assets have increased by 5.2% percent and liabilities have decreased 2.8% over 2005 levels, resulting in an increase of 51% in total net assets. The cause for the significant increase in total net assets is the increase in building & building improvements in the Nonmajor Enterprise Funds consisting of Metro Parking (\$10.1MM) and Public Assembly Facilities (\$3.3MM).

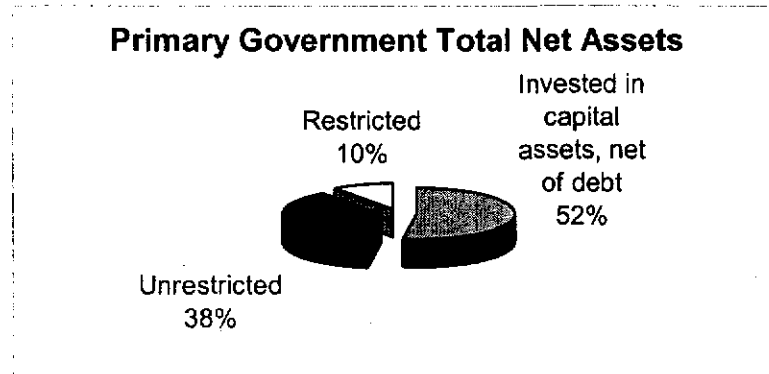
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 68% of \$599 million in total assets. Taxes and governmental receivables constitute 8%. Current liquidity, as shown by cash and investments, composes the remaining 24% in total assets.



Eighty-six percent of the total government liabilities are in long-term debt outstanding. Of this long-term debt, approximately \$149.5 million, or 98% is related to debt issued to finance the convention complex.

A portion of the City's total net assets is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. The unrestricted net assets of the City's governmental activities represent 38% of total net assets.



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

A summary version of the Statement of Activities follows.

Condensed Financial Information
 Primary Government
 Statement of Activities
 For Fiscal Year Ending June 30
 (in \$1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 10,177	\$ 10,568	\$ 7,506	\$ 8,170	\$ 17,683	\$ 18,738
Operating grants & contributions	13,661	14,899	-	-	13,661	14,899
Capital grants & contributions	9,693	4,064	-	-	9,693	4,064
General revenues:						
Taxes	177,585	168,050	7,085	5,147	184,670	173,197
Interest	5,392	2,759	249	100	5,641	2,859
Other	5,452	2,356	15,027	198	20,479	2,554
Total revenues	\$ 221,960	\$ 202,696	\$ 29,867	\$ 13,615	\$ 251,827	\$ 216,311
Expenses:						
General government	\$ 15,015	\$ 12,218	\$ -	\$ -	\$ 15,015	\$ 12,218
Public safety	69,949	65,384	-	-	69,949	65,384
Physical Environment	70,288	49,678	-	-	70,288	49,678
Transportation	5,728	6,844	-	-	5,728	6,844
Parks and recreation	10,760	10,484	-	-	10,760	10,484
Economic development	8,070	12,428	-	-	8,070	12,428
Health & Sanitation	9,740	9,696	-	-	9,740	9,696
Interest on long-term debt	4,005	4,754	-	-	4,005	4,754
Other	1,683	1,830	25,385	24,393	27,068	26,223
Total expenses	\$ 195,238	\$ 173,316	\$ 25,385	\$ 24,393	\$ 220,623	\$ 197,709
Increase (decrease) in net assets before transfers	\$ 26,722	\$ 29,380	\$ 4,482	\$ (10,778)	\$ 31,204	\$ 18,602
Transfers	(9,535)	(11,032)	9,535	11,032	-	-
Changes in net assets	17,187	18,348	14,017	254	31,204	18,602
Beginning net assets	270,088	251,740	27,550	27,296	297,638	279,036
Ending net assets	\$ 287,275	\$ 270,088	\$ 41,567	\$ 27,550	\$ 328,842	\$ 297,638

Governmental Activities

As shown on the Government-Wide Statement of Activities for the year ending June 30, 2006, other than the activity noted as Other, primarily representing various grant projects, only the City Court was self-supporting. The City Court generated revenue in excess of its current expenditures. Any excess revenue above and beyond actual expenditures in the City Court is transferred to the General Fund to finance general operations. Federal grant revenue proceeds of \$2.5 million were earmarked for the City's Community Development division. Public safety operations accounted for approximately 35.8% and 36% re-

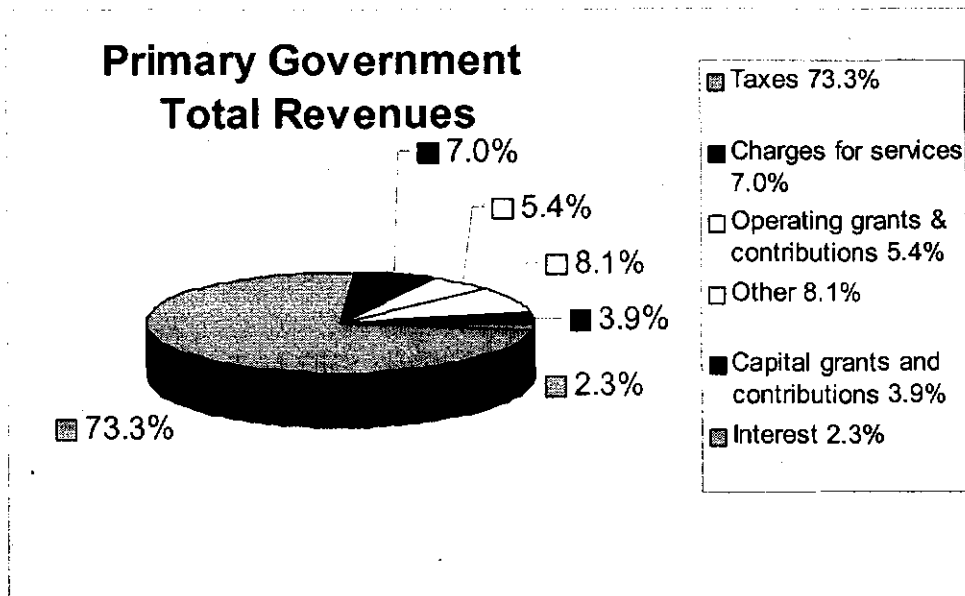
spectively of the City's total governmental operations of \$195.2 million. All other City of Knoxville sections and operations are financed by either local or state taxes, grants, or various shared revenues.

Business-type Activities

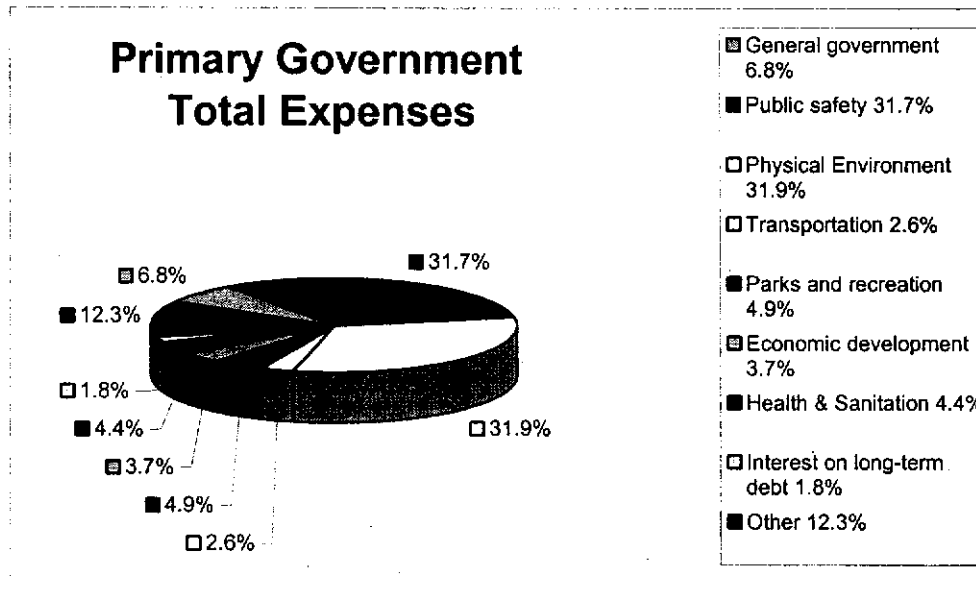
The City's business-type activities include public parking and public assembly facilities. The City also operates the current Knoxville Convention Center and the Knoxville Municipal Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands of visitors yearly for various sporting events. Neyland Stadium, the nation's second largest on campus football stadium, attracts over one hundred thousand loyal fans per home game. Proximity to outdoor recreational facilities such as the lake region and The Great Smoky Mountains National Park makes the Knoxville area an ideal tourist destination. With this in mind, local government leaders deemed it necessary to build a new convention center to take advantage of Knoxville's unique geographic location. Although current expenses exceed revenues for these activities, the local economy benefits greatly by the impact of lodging, restaurant, and various recreational consumer spending.

Total Government

Primary Government Revenues were \$251.8 million. The largest portion of these revenues (\$184.7MM - 73.3%) was from taxes.



Total primary government expenses totaled \$220.6 million, 31.7% of which was directed toward public safety.



Component Units

The Government Accounting Standards Board (GASB 14) requires that certain organizations affiliated with the primary government be reported as component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The nature and significance of component units are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units for the City of Knoxville include the Knoxville Utilities Board, the Metropolitan Knoxville Airport Authority, and the Knoxville Area Transit Fund. A summary of the City's component unit operations follows:

Condensed Financial Information
Component Units
For Fiscal Year Ending June 30,
(In \$1,000's)

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Program Revenues	\$ 616,391	\$ 534,130	\$ 32,653	\$ 25,762	\$ 18,493	\$ 14,846	\$ 667,537	\$ 574,738
Program Expenses	(595,437)	(519,415)	(29,418)	(28,202)	(24,937)	(23,035)	(649,792)	(570,652)
Total General Revenues	8,380	3,972	898	557	5,806	6,595	15,084	11,124
Change in Net Assets	\$ 29,334	\$ 18,687	\$ 4,133	\$ (1,883)	\$ (638)	\$ (1,594)	\$ 32,829	\$ 15,210
Net Assets at Year End	\$ 657,814	\$ 628,480	\$ 96,547	\$ 92,414	\$ 14,236	\$ 15,618	\$ 768,597	\$ 736,512

Financial Analysis of the Government's Funds

Balance Sheet at June 30, 2006

The Government fund balance as of June 30, 2006 is \$115 million. Of this total governmental fund balance, the general fund balance is approximately \$34.7 million, of which only \$0.25 million is reserved. This general fund balance of \$34.7 million is thirty-nine percent greater than last year's ending balance of \$25 million.

Statement of Revenues, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2006

The following schedule presents a summary of total governmental funds, which includes general fund, debt service fund, capital projects fund and other governmental funds for this fiscal year ended June 30, 2006, and the amount and percentage of increases and decreases in relation to prior year revenues.

Condensed Financial Information					
Total Governmental Funds - Revenues					
For Fiscal Year Ending June 30					
(In \$1,000's)					
Revenues	June 30, 2006	June 30, 2005	Percent of Total 2006	Increase (De- crease) from Prior Year	Percent of Increase (Decrease)
Taxes, assessments, interest & penalties	\$160,146	\$153,817	72.57%	\$6,329	4.11%
Licenses, permits and inspection charges	2,341	2,313	1.06%	28	1.21%
Intergovernmental revenue	36,908	31,632	16.73%	5,276	16.68%
Charges for services	5,405	5,546	2.45%	(141)	(2.54%)
Fines and forfeitures	3,127	1,536	1.42%	1,591	103.58%
Other	12,727	8,714	5.77%	4,013	46.05%
Total	\$220,654	\$203,558	100.00%	\$17,096	8.40%

A comparison of revenues between FY 04/05 and FY 05/06 shows the total general government revenues increased by approximately \$17.076 million or 8.4%. The largest dollar change occurs in the "Taxes" category of revenue.

The increase in the tax category is due to an increased tax rate, slightly higher assessed values, and an increase in the overall collection rate. The latter has been a point of emphasis in recent years.

The City has increased the cost for building permits, which account for much of the growth in the category of licenses and permits. New construction and renovation, particularly in the downtown area, also contribute to the revenue growth in this area.

The increase within the intergovernmental category is primarily due to growth in the state shared sales tax and Hall income tax revenue, the latter being a tax on dividends, including capital gains distributions, and interest earnings. Unlike previous years, the State did not reduce any shared revenue in FY 05/06, which enabled the City to capture the real growth in these revenues.

Charges for service were down slightly when compared to FY 04/05. Minor various increases in the General Fund of \$160,000 were offset by various decreases occurring primarily in the Miscellaneous Special Revenue fund (\$180,000) and the Abandoned Vehicle Fund (\$337,000).

The "Other" revenue category shows an increase for various reasons. The growth in interest rates, coupled with an increase in available funds for investment, primarily in the capital funds, resulted in a major jump in interest revenues. This was partially offset by lower income from parking meters, reported in this

category, due to ongoing construction in the downtown area resulting in the availability of fewer parking spaces. There was also some reclassification between fines and forfeitures and the other category, which partially accounts for some of the growth in this category, as well as the reduction in the fines and forfeiture grouping.

The following schedule presents a more detailed summary of the general fund, special revenue fund, capital projects fund and debt service fund expenditures for the fiscal year ended June 30, 2005, and the percentage of increases and decreases in relation to prior year amounts.

Condensed Financial Information
Total Governmental Funds - Expenditures
For Fiscal Years Ending 06/30/06 and 06/30/05
(In \$1,000's)

Expenditures	FY 05/06	FY 04/05	Percent of Total FY 05/06	Increase (Decrease) from Prior Year	Percentage Change from Prior Year
Administration	\$ 2,762	\$ 2,099	1.46%	\$ 663	31.59%
Finance and Accountability	5,976	5,742	3.16%	234	4.08%
Operations and Engineering	17,014	16,319	9.00%	695	4.26%
Community and Neighborhood Services	38,174	38,024	20.20%	150	0.39%
Law	2,426	2,133	1.28%	293	13.74%
Police	40,448	39,014	21.40%	1,434	3.68%
Fire	27,999	25,629	14.82%	2,370	9.25%
Legislative	923	821	0.49%	102	12.42%
Civil Service	887	919	0.47%	(32)	(3.48%)
Metropolitan Planning Commission	726	652	0.38%	74	11.35%
Knoxville Zoological Park	738	693	0.39%	45	6.49%
Community agency grants	864	864	0.46%	-	0.00%
Waterfront operations	1,238	1,328	0.66%	(90)	(6.78%)
Community Action Committee	323	348	0.17%	(25)	(7.18%)
Reserve	445	449	0.24%	(4)	(0.89%)
Mass Transit	5,728	5,058	3.03%	670	13.25%
Capital and grant projects	27,666	27,802	14.64%	(136)	(0.49%)
Debt service:					
Principal retirement	10,646	10,973	5.63%	(327)	(2.98%)
Interest on bonds and notes	4,004	4,592	2.12%	(588)	(12.80%)
Other services and charges	-	162	0.00%	(162)	(100.00%)
Total Expenditures	\$ 188,987	\$ 183,621	100.00%	\$ 5,366	2.92%

Overall general government expenditures for FY 05/06 increased by approximately \$5.4 million or 2.9% when compared to FY 04/05. This increase is primarily due to greater spending of \$3.8 million for public safety related expenditures. Overall spending for on-going operations was up for the year, due primarily to increased costs of health care and risk management expenses. The latter shows in increases for worker's compensation costs, and liability and property insurance premiums. The City's health care premiums increased by 10%, beginning in January 2005, which followed a 15% increase in January 2004.

Proprietary Funds Statements

Statement of Net Assets at June 30, 2006

The Knoxville Convention Center, noted under Business-type Activities, and equipment replacement and fleet maintenance, noted under governmental activities, represent the largest portion of the assets associated with Proprietary Funds.

Statement of Revenues, Expenditures and Changes in Fund Net Assets for the Year Ended June 30, 2006

A summary of the revenues, expenses, and interfund transfers indicates that there is an increase in total proprietary fund net assets, including internal service funds, of \$24.9 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2006

The three main business type activities of the City are the Convention Center, the Main and State Street parking garages, and the Public Assembly Facilities operations. As expected, overall operations experienced a net operating loss. Both parking garages operate at a profit, if interest on debt is excluded. Main Avenue garage has debt outstanding. The revenues from the combined properties are sufficient to cover total costs including debt service, with gains from the State Street Garage, more than offsetting the loss on the Main Street Garage. Public Assembly Facilities also operated at a loss. This is due the inclusion of Chilhowee Park. This park is not expected to generate a profit due to the public nature of the area.

The following table shows revenues, expenses, net interfund transfers, net income and net assets at fiscal year end for the various proprietary funds.

Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2006	2005	2006	2005	2006	2005
I. Business-type Activities						
A. Knoxville Convention Center	\$12,280	\$10,249	\$20,846	\$19,562	\$7,811	\$8,845
B. Other (Non-major enterprise funds)						
1. Metro Parking	11,600	1,078	819	857	0	0
2. Public Assembly Facilities	5,986	1,914	3,718	3,971	1,724	2,187
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	167	387	156	370	0	0
2. Fleet Maintenance	11,017	10,471	10,664	9,423	5,392	207
3. Risk Management	7,209	6,168	9,048	7,074	5,104	2,901
4. Employee Health Insurance	13,400	12,645	12,868	12,488	1,113	2,266
5. Equipment Replacement	2,222	2,780	2,217	2,712	72	652
6. City Buildings	1,421	1,488	1,254	1,276	0	0
TOTAL	\$65,302	\$47,180	\$61,590	\$57,733	\$21,216	\$17,058

Condensed Financial Information (Continued)
Proprietary Funds
For Fiscal Year Ending June 30
(In \$1,000's)

	Change in Net Assets		Net Assets at Year End	
	2006	2005	2006	2005
I. Business-type Activities				
A. Knoxville Convention Center	\$ (755)	\$ (468)	\$10,800	\$11,555
B. Other (Non-major enterprise funds)				
1. Metro Parking	10,781	221	17,841	7,060
2. Public Assembly Facilities	3,992	130	12,926	8,934
II. Governmental Activities				
A. Internal Service Funds				
1. Office Services	11	17	50	39
2. Fleet Maintenance	5,745	1,255	22,966	17,221
3. Risk Management	3,265	1,995	5,476	2,211
4. Employee Health Insurance	1,645	2,423	6,724	5,079
5. Equipment Replacement	77	720	12,808	12,731
6. City Buildings	167	212	662	495
TOTAL	\$24,928	\$6,505	\$90,253	\$65,325

Fiduciary Component Unit Statements

The Pension Trust Fund is reported as the sole fiduciary component unit. The City's defined benefit plan consists of contributions for general government, uniformed, utility and school board employees. The following table notes the contribution rates:

	Condensed Financial Information Pension Trust Fund Contribution Rates		
	FY 05/06	FY 06/07	Estimated FY 07/08
	Contribution Rates	Contribution Rates	Contribution Rates
General Government Employees:			
Defined Contribution (G1)	5.20%	7.55%	8.65%
Defined Benefit (G2)	3.70%	6.05%	7.15%
Police and Fire Employees	11.49%	13.79%	16.55%

The City's Pension Fund remains fully funded at year-end. The fund, like similar funds, was hard hit by the decline in the stock market. It is expected that net outflows will exceed contributions, before investment income, in the near term. The loss in investments will result in increased contributions by the City in the future. These increases have been budgeted.

General Fund Budgetary Highlights

During the year there was a \$4.88 million increase in appropriations between the original and final amended budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2006

Department	Encumbrances	Other	Total Changes
Administration	\$ 1,002	\$ 12,860	\$ 13,862
Finance and Accountability	95,606	(1,810)	93,796
Operations and Engineering	54,697	40,130	94,827
Community and Neighborhood Services	557,891	233,010	790,901
Law	26,841	50,170	77,011
Police	313,525	239,730	553,255
Fire	63,886	481,540	545,426
Legislative	170,632	11,540	182,172
Civil Service	-	7,200	7,200
Community Agency Grants	-	40,000	40,000
Other	-	(738,700)	(738,700)
Transfers	-	3,218,940	3,218,940
Total General Fund Expenditures	\$ 1,284,080	\$ 3,594,610	\$ 4,878,690

The largest change occurred in the transfers to other funds. A much larger contribution was made to the Risk Management Fund in order to cover loss reserves in this fund. A second large change was due to a re-appropriation of prior year's contractual encumbrances. The reduction in the reserve shown above is the reallocation of funds for performance pay bonuses to employees. This is a planned change that occurs in the latter part of the year. The reallocation is shown in the increases in the budgets for other departments. The budget was also amended to provide \$40,000 in funding for a seasonal downtown ice rink operation.

Capital Asset and Debt Administration

As of June 30, 2006 the primary government of the City had invested \$407 million in capital assets as reflected by the following table. The total amount represents an overall decrease primarily due to depreciation and the completion of various projects that were carried in construction in progress last year. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets in the other categories, primarily equipment, which includes vehicles. This accounts for the growth in the past year.

Capital Assets at Year-End
(Net of Depreciation)
(In \$1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land and site improvements	\$ 37,287	\$ 36,473	\$ 6,743	\$ 6,042	\$ 44,030	\$ 42,515
Buildings and improvements	39,060	38,952	219,922	206,456	258,982	245,408
Equipment, furniture & fixtures	57,440	55,697	3,713	2,863	61,153	58,560
Infrastructure	224,167	176,314	-	-	224,167	176,314
Construction in progress	11,661	68,161	-	-	11,661	68,161
Less accumulated depreciation	(145,103)	(134,859)	(47,869)	(41,759)	(192,972)	(176,618)
Total	\$ 224,512	\$ 240,738	\$ 182,509	\$ 173,602	\$ 407,021	\$ 414,340

The following table reconciles the change in capital assets. Included in this table are the total activities for both the government and business-type activities of the total primary government. Further detail can be provided by referring to Note 7 of the Notes to Financial Statements, as well as the section concerning Capital Assets Used in the Operation of Governmental Funds.

Change in Capital Assets
(In \$1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Beginning balance	\$375,597	\$358,408	\$215,361	\$215,505	\$590,958	\$573,913
Additions	83,760	26,266	15,068	12	98,828	26,278
Deletions	(89,742)	(9,077)	(51)	(156)	(89,793)	(9,233)
Balance before depreciation	369,615	375,597	230,378	215,361	599,993	590,958
Accumulated depreciation	(145,103)	(134,859)	(47,869)	(41,759)	(192,972)	(176,618)
Balance after depreciation	<u>\$224,512</u>	<u>\$240,738</u>	<u>\$182,509</u>	<u>\$173,602</u>	<u>\$407,021</u>	<u>\$414,340</u>

As of the year-end, the City's Total Primary Government had \$247.8 million in general obligation debt outstanding. In addition to this amount the City is obligated to pay \$1.346 million to Knox County, representing the City's portion in the joint construction of a new City/County animal shelter. During FY 04/05, the City issued \$13.725 million in refunding bonds, which were used to defease outstanding debt of \$13.395 million and capture saving as a result of the refunding. The present value savings from this refunding were approximately \$0.9 million, with estimated annual savings of approximately \$50,000. The City also retired approximately \$10.8 million in debt in FY 04/05.

Outstanding Debt at Year - End
(In \$1,000's)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current						
Bonds, notes and capital leases due within one year	\$ 9,773	\$ 10,576	\$ 3,565	\$ 3,830	\$ 13,338	\$ 14,406
Noncurrent						
Bonds, notes and capital leases due in more than one year	73,592	83,365	147,910	151,060	221,502	234,425
Subtotal	83,365	93,941	151,475	154,890	234,840	248,831
Unamortized premiums, discounts and gains on refunding	1,600	2,963	(1,183)	(428)	417	2,535
TOTAL	\$ 84,965	\$ 96,904	\$ 150,292	\$ 154,462	\$ 235,257	\$ 251,366

The City currently maintains a Fitch/ICBA rating of AA+, which was the same as last year's rating. Standard and Poor's rates the City's general obligation bonds AA while the City carries a Moody's rating of Aa2. For additional information on the long-term debt of the City, please refer to Note 9 of the Notes to Financial Statements, as well as in the Schedule of Long-Term Bonds and Notes Payable.

Economic Factors

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes \$130.1 million or 85% of the total operating revenue to the General Fund. Within this category of revenue, the largest amount comes from property taxes. In turn, property taxes are divided among realty, personal, and public utility. The growth rate for assessed value on real estate has historically been relatively moderate, a trend that is expected to continue. The future forecast for overall growth in real property is 1.8%. Within this grouping the highest anticipated growth is in commercial property. Residential property growth is expected to be slightly lower than the overall average, while the value of industrial property is expected to decline. For FY 05/06 the projected assessed value of real property is \$3.36 billion. Historically, the city has collected an average of 93.6% of real property taxes in the year they are due. The trend in recent years has been higher than the long-term average due to better economic conditions and enhanced collection efforts. Personal property growth has been higher than real property in the recent past and we expect that to continue in the future. We expect no real growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately \$34.5 million or 22.6% of total General Fund revenues. Knoxville has experienced a dramatic growth in sales tax receipts in FY 05/06. We attribute this growth to overall economic growth, which was mirrored statewide. Recent commercial/retail development in the Turkey Creek area of the city has also contributed to growth. As sales tax collections are situs based revenues, the Turkey Creek development has shifted some sales from other areas to the City. The second largest revenue category to the General Fund is intergovernmental revenue, and accounts for \$18.3 million or 12.1% of total revenue. This category of revenue had declined as a percentage of the total in recent years, but grew in FY 05/06. In the past the ending of certain grants, as well as state cuts in shared revenue had contributed to a decline in this funding category. The State economy has, however, fared better than expected and has led to a rescinding of previous cuts during the past two years. These changes have been evidenced in higher state shared sales tax revenue and proceeds from the Hall income tax.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system have grown in the past two years and are expected to continue to do so. This is due to the imposition of some new charges as well as efficiency improvements in Court processes. The category of miscellaneous revenue includes interest earnings. The increase in short-term interest rates, combined with higher balances available for investment, has resulted in continued increases in this revenue source.

Health care benefits are accounted for in a separate internal service fund. The City's Employee Health Insurance Fund is funded by both employer and employee contributions. The City has experienced double digit premium increases in recent years. In FY 05/06 the City was able to slow these increases and actually temporarily reduce premiums due to a change in plans, and the implementation of programs that focus on wellness and disease prevention.

Other areas experiencing particularly high expenditure growth include pension costs and utility increases. The city uses a multi-year smoothing technique to determine pension contributions. Lower than expected returns in the portfolio in last few years has resulted in increased contributions. Performance in FY 04/05 and FY 05/06 have returned to assumed levels and if these continue the increases should taper off or even decline in future years. The City has also implemented other pension plan changes, such as a floor on City contributions. The latter is expected to lower the annual volatility of pension contributions. The City is also conducting energy audits and taking other steps to reduce the cost of utilities and fuel.

The City of Knoxville is also very dependent upon sales tax revenues. This tends to be somewhat less elastic than other taxes and will consequently be impacted less in an economic recovery. The continued increase in internet shopping also serves to lower growth in this revenue source. Changes in the communication industry, including the potential switch of direct phone service to the internet, also poses some issues in the future.

On the plus side, the performance of the new Convention Center has improved in the past two years, which will lower the expected operating loss on the facility. The downtown area is also experiencing a rebirth, and should continue to grow in the future. The relocation of two major employers to the downtown area should further provide an economic stimulus to the area.

As part of its efforts to deal with potential problems, the City does long-term budget forecasting. This allows us to recognize problems and respond to them before they get out of hand. The City is also actively engaged in performance measurement and productivity improvement efforts. We believe that these efforts will allow us to slow down or avoid future expenditure increases.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Director of Finance and Accountability at 400 Main Avenue, Knoxville, Tennessee 37901.

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CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
June 30, 2006

	Governmental Activities	Business Type Activities	Total Primary Government	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Reporting Unit
Assets							
Cash & cash equivalents	\$ 10,037,008	\$ 665,177	\$ 10,702,185	\$ 46,458,444	\$ 5,043,900	\$ 5,206	\$ 62,209,735
Investments	126,547,096	6,539,417	133,086,513	54,880,013	22,669,406	825,229	211,461,161
Receivables (net of allowance for uncollectibles):							
Accounts	21,828,877	3,665,288	25,494,165	62,615,417	2,704,213	3,646,744	94,460,539
Taxes on real & personal property	6,065,423	-	6,065,423	-	-	-	6,065,423
Notes	10,229,400	821,197	11,050,597	206,220	-	-	11,256,817
TVA conservation program	-	-	-	3,843,260	-	-	3,843,260
Net assets held by convention center managers	-	150,000	150,000	-	-	-	150,000
Other	-	-	-	142,850	-	-	142,850
Internal balances	225,000	(225,000)	-	-	-	-	-
Due from component units	4,020,000	-	4,020,000	-	-	-	4,020,000
Inventory	1,035,240	-	1,035,240	6,029,982	-	724,127	7,789,349
Prepaid items	4,278	187,000	191,278	18,986,117	251,737	186,468	19,615,600
Deferred charges	-	-	-	7,809,865	1,795,698	-	9,605,563
Restricted assets:							
Temporarily restricted:							
Bond funds	-	-	-	11,275,336	643,749	-	11,919,085
Unused bond proceeds	-	-	-	59,976,228	-	-	59,976,228
Receivables	-	-	-	-	500,000	-	500,000
Other	-	-	-	287,563	27,884	-	315,447
Other assets	-	-	-	4,511,002	3,309,391	-	7,820,393
Capital assets:							
Land & site improvements	37,286,836	6,743,270	44,030,106	-	144,374,081	-	188,404,187
Building & building improvements	39,060,757	219,922,141	258,982,898	-	124,328,100	5,025,175	388,336,173
Utility plant in service	-	-	-	1,226,255,259	-	-	1,226,255,259
Equipment, furniture & fixtures	57,439,879	3,712,233	61,152,112	-	9,629,232	25,373,587	96,154,931
Infrastructure	224,166,780	-	224,166,780	-	-	-	224,166,780
Construction in progress	11,660,784	-	11,660,784	124,781,229	7,194,876	-	143,636,889
Less accumulated depreciation	(145,102,953)	(47,868,672)	(192,971,625)	(445,966,435)	(118,450,409)	(17,200,417)	(774,588,886)
Total assets	404,504,405	194,312,051	598,816,456	1,182,092,350	204,021,858	18,586,119	2,003,516,783
Liabilities							
Accounts payable	4,617,373	558,868	5,176,241	44,295,338	1,849,863	195,920	51,517,362
Matured principal & interest on bonds	-	-	-	6,115,650	-	-	6,115,650
Accrued liabilities	2,625,443	1,436,065	4,061,508	9,813,586	755,159	-	14,630,253
Due to primary government	-	-	-	-	-	4,020,000	4,020,000
Due to other governmental agencies	1,253,117	-	1,253,117	-	-	-	1,253,117
Unearned revenue	8,140,935	91,504	8,232,439	-	-	134,246	8,366,685
Customer deposits, plus accrued interest	205,636	263,457	469,093	8,546,546	-	-	9,015,639
Liabilities payable with restricted assets:							
Long-term debt due within one year	15,378,688	3,587,013	18,965,701	15,470,000	2,785,000	-	37,220,701
Accrued interest	586,510	-	586,510	-	404,847	-	991,357
Noncurrent liabilities:							
Long-term debt due in more than one year	75,921,481	146,808,527	222,730,008	431,010,000	101,679,634	-	755,419,642
Other noncurrent liabilities	8,500,000	-	8,500,000	9,027,428	-	-	17,527,428
Total liabilities	117,229,183	152,745,434	269,974,617	524,278,548	107,474,503	4,350,166	906,077,834
Net assets							
Invested in capital assets, net of related debt	139,547,274	32,217,179	171,764,453	470,824,628	66,031,833	13,942,539	722,563,453
Restricted for:							
Debt service	32,846,719	-	32,846,719	5,159,686	-	-	38,006,405
Other	-	-	-	287,562	1,171,633	-	1,459,195
Unrestricted	114,881,229	9,349,438	124,230,667	181,541,926	29,343,889	293,414	335,409,896
Total net assets	\$ 287,275,222	\$ 41,566,617	\$ 328,841,839	\$ 657,813,802	\$ 96,547,355	\$ 14,235,953	\$ 1,097,438,949

CITY OF KNOXVILLE, TENNESSEE

**Statement of Activities
For the year ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General Government	\$ 15,015,079	\$ 518,535	\$ 700,424	\$ -
Public Safety	69,948,970	7,473,261	5,216,006	1,064,505
Physical Environment	70,288,551	855,537	-	2,345,467
Transportation	5,728,180	665,438	-	-
Economic Development	8,070,080	-	7,745,144	6,187,347
Parks & Recreation	10,760,174	634,284	-	-
Health & Sanitation	9,740,081	29,705	-	95,520
Other	1,682,680	-	-	-
Interest on long-term debt	4,004,563	-	-	-
Total governmental activities	195,238,358	10,176,760	13,661,574	9,692,839
Business-type activities:				
Metro parking	819,460	697,793	-	-
Public assembly facilities	3,717,947	1,994,136	-	-
Knoxville Convention Center	20,847,368	4,813,633	-	-
Total business-type activities	25,384,775	7,505,562	-	-
Total primary government	\$ 220,623,133	\$ 17,682,322	\$ 13,661,574	\$ 9,692,839
Component units:				
Knoxville Utilities Board	\$ 595,437,027	\$ 611,131,769	\$ -	\$ 5,258,938
Metropolitan Knoxville Airport Authority	29,418,485	24,848,559	-	7,805,242
Knoxville Area Transit	24,937,214	3,312,447	6,545,177	8,635,215
Total component units	\$ 649,792,726	\$ 639,292,775	\$ 6,545,177	\$ 21,699,395

General revenues:

- Property taxes
- Intergovernmental revenue, unrestricted
- Other taxes
- Excise tax
- Alcoholic beverage tax
- Business tax
- Cable television franchise tax
- Other revenue
- Unrestricted investment earnings
- Gain on disposal of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning
Net assets - ending

Net (Expense) Revenue and Changes in Net Assets						
Primary Government			Knoxville	Metropolitan Knoxville	Knoxville	Total
Governmental Activities	Business-type Activities	Total	Utilities Board	Airport Authority	Area Transit	Reporting Unit
\$ (13,796,120)	\$ -	\$ (13,796,120)	\$ -	\$ -	\$ -	\$ (13,796,120)
(56,195,198)	-	(56,195,198)	-	-	-	(56,195,198)
(67,087,547)	-	(67,087,547)	-	-	-	(67,087,547)
(5,062,742)	-	(5,062,742)	-	-	-	(5,062,742)
5,862,411	-	5,862,411	-	-	-	5,862,411
(10,125,890)	-	(10,125,890)	-	-	-	(10,125,890)
(9,614,856)	-	(9,614,856)	-	-	-	(9,614,856)
(1,682,680)	-	(1,682,680)	-	-	-	(1,682,680)
(4,004,563)	-	(4,004,563)	-	-	-	(4,004,563)
<u>(161,707,185)</u>	<u>-</u>	<u>(161,707,185)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(161,707,185)</u>
-	(121,667)	(121,667)	-	-	-	(121,667)
-	(1,723,811)	(1,723,811)	-	-	-	(1,723,811)
-	(16,033,735)	(16,033,735)	-	-	-	(16,033,735)
-	(17,879,213)	(17,879,213)	-	-	-	(17,879,213)
<u>(161,707,185)</u>	<u>(17,879,213)</u>	<u>(179,586,398)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(179,586,398)</u>
-	-	-	20,953,680	-	-	20,953,680
-	-	-	-	3,235,316	-	3,235,316
-	-	-	-	-	(6,444,375)	(6,444,375)
-	-	-	20,953,680	3,235,316	(6,444,375)	17,744,621
104,289,977	-	104,289,977	-	-	-	104,289,977
56,902,137	154,953	57,057,090	-	-	-	57,057,090
-	7,084,734	7,084,734	-	-	-	7,084,734
663,844	-	663,844	-	-	-	663,844
9,687,526	-	9,687,526	-	-	-	9,687,526
4,599,198	-	4,599,198	-	-	-	4,599,198
1,441,454	-	1,441,454	-	-	-	1,441,454
2,581,187	14,872,092	17,453,279	-	-	5,026,304	22,479,583
5,392,459	249,090	5,641,549	8,379,914	894,139	32,922	14,948,524
2,871,510	-	2,871,510	-	3,880	2,750	2,878,140
(9,534,810)	9,534,810	-	-	-	-	-
<u>178,894,482</u>	<u>31,895,679</u>	<u>210,790,161</u>	<u>8,379,914</u>	<u>898,019</u>	<u>5,061,976</u>	<u>225,130,070</u>
17,187,297	14,016,466	31,203,763	29,333,594	4,133,335	(1,382,399)	63,288,293
270,087,925	27,550,151	297,638,076	628,480,208	92,414,020	15,618,352	1,034,150,656
<u>\$ 287,275,222</u>	<u>\$ 41,566,617</u>	<u>\$ 328,841,839</u>	<u>\$ 657,813,802</u>	<u>\$ 96,547,355</u>	<u>\$ 14,235,953</u>	<u>\$ 1,097,438,949</u>

CITY OF KNOXVILLE, TENNESSEE

**Balance Sheet
Governmental Funds
June 30, 2006**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash & Cash Equivalents	\$ 3,208,065	\$ 1,291,081	\$ 2,231	\$ 3,421,978	\$ 7,923,355
Investments	16,325,264	24,448,436	29,664,483	17,940,002	88,378,185
Accounts Receivable	15,921,807	-	2,360,497	3,533,433	21,815,737
Taxes on Real & Personal Property Receivable	4,446,598	1,618,825	-	-	6,065,423
Notes Receivable	-	2,271,600	-	7,957,800	10,229,400
Due from Other Funds	2,070,000	4,390,000	1,358,370	-	7,818,370
Inventory	248,079	-	-	-	248,079
Prepaid Items	-	3,170	-	-	3,170
Total assets	\$ 42,219,813	\$ 34,023,112	\$ 33,385,581	\$ 32,853,213	\$ 142,481,719
Liabilities and fund balances					
Liabilities:					
Accounts Payable	\$ 758,208	\$ -	\$ 1,212,890	\$ 1,311,932	\$ 3,283,030
Accrued Liabilities	2,204,315	-	-	300,476	2,504,791
Customer Deposits	-	-	-	205,636	205,636
Due to Other Funds	-	-	4,165,000	3,428,370	7,593,370
Due to Other Governmental Agencies	1,227,191	-	-	25,926	1,253,117
Deferred Revenue	3,281,454	1,176,393	-	8,140,935	12,598,782
Total liabilities	7,471,168	1,176,393	5,377,890	13,413,275	27,438,726
Fund balances:					
Reserved for:					
Inventories	248,079	-	-	-	248,079
Prepaid Items	-	3,170	-	-	3,170
Notes Receivable	-	2,271,600	-	7,957,800	10,229,400
Designated for expendable trust funds	-	-	-	2,899,366	2,899,366
Unreserved, reported in:					
General fund	34,500,566	-	-	-	34,500,566
Special revenue	-	-	-	8,582,772	8,582,772
Debt service	-	30,571,949	-	-	30,571,949
Capital projects	-	-	28,007,691	-	28,007,691
Total fund balances	34,748,645	32,846,719	28,007,691	19,439,938	115,042,993
Total liabilities and fund balances	\$ 42,219,813	\$ 34,023,112	\$ 33,385,581	\$ 32,853,213	\$ 142,481,719

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

CITY OF KNOXVILLE, TENNESSEE

**Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2006**

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

Ending fund balance - governmental funds		\$ 115,042,993
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheets of the governmental funds.		210,761,146
Revenues that have been deferred in the balance sheet of the governmental funds because they were not available to pay current liabilities of the period are recognized as revenue in the statement of activities and therefore are not included in the statement of net assets.		4,457,847
Internal service funds are used by management to charge the costs of office service, fleet management, risk management, health insurance and equipment replacement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		48,687,433
Accrued interest payable is not due and payable in the current period and therefore is not reported as a liability in the balance sheets of the governmental funds.		(586,510)
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Debt	\$ (82,080,000)	
Debt Participation Agreement	(1,284,847)	
Discounts and Premiums (net)	(1,599,962)	
Compensated Absences	(6,122,878)	(91,087,687)
		<u> </u>
Net assets of governmental activities		<u><u>\$ 287,275,222</u></u>

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes, assessments, interest & penalties	\$ 130,055,187	\$ 24,508,839	\$ -	\$ 5,582,326	\$ 160,146,352
Licenses, permits & inspection charges	294,097	-	-	2,047,447	2,341,544
Fines & forfeitures	414,914	-	-	2,711,701	3,126,615
Charges for services	1,123,818	-	-	4,280,821	5,404,639
Other	2,346,968	4,069,522	3,536,677	2,773,599	12,726,766
Intergovernmental revenue	18,398,268	-	6,187,347	12,322,327	36,907,942
Total revenues	152,633,252	28,578,361	9,724,024	29,718,221	220,653,858
Expenditures					
Current:					
Administration	1,996,001	-	-	495,179	2,491,180
Finance & Accountability	5,975,932	-	-	-	5,975,932
Operations & Engineering	5,058,140	-	-	11,955,742	17,013,882
Community & Neighborhood Services	24,125,761	-	-	14,047,887	38,173,648
Law	1,550,812	-	-	875,129	2,425,941
Police	37,243,104	-	-	3,204,496	40,447,600
Fire	27,979,769	-	-	19,563	27,999,332
Legislative	845,429	-	-	77,850	923,279
Civil Service	887,441	-	-	-	887,441
City Elections	271,265	-	-	-	271,265
Metropolitan Planning Commission	726,400	-	-	-	726,400
Knoxville Zoological Park	737,550	-	-	-	737,550
Agency grants	864,210	-	-	-	864,210
Waterfront	1,237,700	-	-	-	1,237,700
Community Action Committee	322,516	-	-	-	322,516
Reserve	444,980	-	-	-	444,980
Mass transit	5,098,180	-	-	630,000	5,728,180
Capital & Grant Projects	-	-	27,666,392	-	27,666,392
Debt service:					
Principal retirement	-	10,645,762	-	-	10,645,762
Interest payments on bonds & notes	-	4,003,813	-	-	4,003,813
Other services & charges	-	750	-	-	750
Total expenditures	115,365,190	14,650,325	27,666,392	31,305,846	188,987,753
Excess (deficiency) of revenues over (under) expenditures	37,268,062	13,928,036	(17,942,368)	(1,587,625)	31,666,105
Other financing sources (uses)					
Transfers In	3,240,660	-	15,923,790	10,309,491	29,473,941
Transfers Out	(30,806,380)	(12,200,640)	(59,150)	(7,622,800)	(50,688,970)
Total other financing sources (uses)	(27,565,720)	(12,200,640)	15,864,640	2,686,691	(21,215,029)
Net change in fund balances	9,702,342	1,727,396	(2,077,728)	1,099,066	10,451,076
Fund balance - beginning	25,046,303	31,119,323	30,085,419	18,340,872	104,591,917
Fund balance - ending	\$ 34,748,645	\$ 32,846,719	\$ 28,007,691	\$ 19,439,938	\$ 115,042,993

CITY OF KNOXVILLE, 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, 2006**

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

Net change in fund balances - total governmental funds	\$ 10,451,076
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. This is the amount by which capital outlay exceed the depreciation expenses.	(15,806,265)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(346,239)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	11,884,428
Accrued interest associated with long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds.	92,369
The internal service fund is used by management to charge the costs of office services.	12,423
The internal service fund is used by management to charge the costs of fleet maintenance.	5,745,711
The internal service fund is used by management to charge the costs of risk management.	3,264,224
The internal service fund is used by management to charge the costs of employee health insurance.	1,645,650
The internal service fund is used by management to charge the costs of equipment replacement.	77,279
The internal service fund is used by management to charge the costs of City buildings.	<u>166,641</u>
Change in net assets of governmental activities	<u>\$ 17,187,297</u>

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Taxes, assessments, interest & penalties	\$ 124,959,370	\$ 124,959,370	\$ 130,055,187	\$ 5,095,817
Licenses, permits & inspection charges	269,540	269,540	294,097	24,557
Fines & forfeitures	259,660	259,660	414,914	155,254
Charges for services	920,700	920,700	1,123,818	203,118
Other	698,730	6,007,710	2,346,968	(3,660,742)
Intergovernmental revenue	16,205,650	16,205,650	18,398,268	2,192,618
Total revenues	<u>143,313,650</u>	<u>148,622,630</u>	<u>152,633,252</u>	<u>4,010,622</u>
EXPENDITURES				
Current:				
Administration	2,061,890	2,075,752	1,996,001	79,751
Finance & Accountability	6,381,420	6,414,715	5,975,932	438,783
Operations & Engineering	5,170,500	5,265,327	5,058,140	207,187
Community & Neighborhood Services	24,098,790	24,880,932	24,125,761	755,171
Law	1,503,090	1,580,101	1,550,812	29,289
Police	39,252,210	39,636,465	37,243,104	2,393,361
Fire	27,517,840	28,063,267	27,979,769	83,498
Legislative	821,830	1,004,002	845,429	158,573
Civil Service	946,310	953,510	887,441	66,069
City Elections	265,000	271,300	271,265	35
Metropolitan Planning Commission	696,580	731,580	726,400	5,180
Knoxville Zoological Park	737,550	737,550	737,550	-
Agency grants	864,210	864,210	864,210	-
Waterfront	1,197,700	1,237,700	1,237,700	-
Community Action Committee	359,380	364,380	322,516	41,864
Reserve	444,980	444,980	444,980	-
Miscellaneous expenditures	1,965,000	1,180,000	-	1,180,000
Mass transit	5,098,180	5,098,180	5,098,180	-
Total expenditures	<u>119,382,460</u>	<u>120,803,951</u>	<u>115,365,190</u>	<u>5,438,761</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,931,190</u>	<u>27,818,679</u>	<u>37,268,062</u>	<u>9,449,383</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	2,994,950	2,988,260	3,240,660	252,400
Transfers Out	<u>(26,926,140)</u>	<u>(30,806,939)</u>	<u>(30,806,380)</u>	559
Total other financing sources (uses)	<u>(23,931,190)</u>	<u>(27,818,679)</u>	<u>(27,565,720)</u>	<u>252,959</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	9,702,342	<u>\$ 9,702,342</u>
FUND BALANCE - BEGINNING			<u>25,046,303</u>	
FUND BALANCE - ENDING			<u>\$ 34,748,645</u>	

CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds			Internal Service Funds
	Knoxville	Other	Total	
	Convention Center	Nonmajor Activities		
Assets				
Cash & temporary investments	\$ 620,440	\$ 44,737	\$ 665,177	\$ 2,113,653
Investments	-	6,539,417	6,539,417	38,168,911
Accounts receivable	3,188,126	477,162	3,665,288	13,140
Notes receivable	-	821,197	821,197	-
Net assets held by convention center managers	150,000	-	150,000	-
Due from other funds	-	-	-	7,918,109
Inventory	-	-	-	787,161
Prepaid items	187,000	-	187,000	1,108
Total current assets	<u>4,145,566</u>	<u>7,882,513</u>	<u>12,028,079</u>	<u>49,002,082</u>
Noncurrent assets				
Land & site improvements	2,952,020	3,791,250	6,743,270	-
Building & building improvements	180,064,153	39,857,988	219,922,141	195,764
Equipment	2,924,989	787,244	3,712,233	53,098,791
Less: accumulated depreciation	(27,976,116)	(19,892,556)	(47,868,672)	(39,543,618)
Total noncurrent assets	<u>157,965,046</u>	<u>24,543,926</u>	<u>182,508,972</u>	<u>13,750,937</u>
Total assets	<u>162,110,612</u>	<u>32,426,439</u>	<u>194,537,051</u>	<u>62,753,019</u>
Liabilities				
Current liabilities				
Accounts payable	477,469	81,399	558,868	1,334,343
Accrued liabilities	1,343,797	92,268	1,436,065	120,652
Customer deposits	-	263,457	263,457	-
Due to other funds	-	225,000	225,000	3,898,109
Deferred revenue	-	91,504	91,504	-
Compensated absences	-	-	-	212,482
Long-term debt due within one year	3,085,013	502,000	3,587,013	-
Total current liabilities	<u>4,906,279</u>	<u>1,255,628</u>	<u>6,161,907</u>	<u>5,565,586</u>
Noncurrent liabilities				
Long-term debt due in more than one year	146,404,612	403,915	146,808,527	-
Estimated litigation liability	-	-	-	8,500,000
Total noncurrent liabilities	<u>146,404,612</u>	<u>403,915</u>	<u>146,808,527</u>	<u>8,500,000</u>
Total liabilities	<u>151,310,891</u>	<u>1,659,543</u>	<u>152,970,434</u>	<u>14,065,586</u>
Net assets				
Net Assets - Capital net of debt	8,475,421	23,741,758	32,217,179	13,750,937
Unrestricted	2,324,300	7,025,138	9,349,438	34,936,496
Total net assets	<u>\$ 10,799,721</u>	<u>\$ 30,766,896</u>	<u>\$ 41,566,617</u>	<u>\$ 48,687,433</u>

CITY OF KNOXVILLE, TENNESSEE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating revenues				
Charges for services	\$ 4,813,633	\$ 2,691,929	\$ 7,505,562	\$ 33,783,731
Total operating revenues	<u>4,813,633</u>	<u>2,691,929</u>	<u>7,505,562</u>	<u>33,783,731</u>
Operating expenses				
Personal Services	-	1,901,657	1,901,657	2,699,456
Materials & Supplies	-	109,154	109,154	3,815,552
Maintenance	-	924,024	924,024	674,314
Depreciation & Amortization	4,865,514	1,238,660	6,104,174	5,575,644
Other Services and Charges	9,076,129	313,348	9,389,477	23,255,819
Total operating expenses	<u>13,941,643</u>	<u>4,486,843</u>	<u>18,428,486</u>	<u>36,020,785</u>
Operating income (loss)	<u>(9,128,010)</u>	<u>(1,794,914)</u>	<u>(10,922,924)</u>	<u>(2,237,054)</u>
Nonoperating revenue (expense)				
Interest Income	-	249,090	249,090	1,120,215
Intergovernmental revenue	7,239,687	-	7,239,687	-
Other Revenues	226,892	14,645,200	14,872,092	532,631
Gain (loss) on disposal of capital assets	-	-	-	(184,083)
Interest expense	(6,905,725)	(50,564)	(6,956,289)	-
Total nonoperating revenue (expense)	<u>560,854</u>	<u>14,843,726</u>	<u>15,404,580</u>	<u>1,468,763</u>
Income (loss) before transfers	<u>(8,567,156)</u>	<u>13,048,812</u>	<u>4,481,656</u>	<u>(768,291)</u>
Transfers:				
Transfers in	7,811,290	1,723,520	9,534,810	11,682,329
Transfers out	-	-	-	(2,110)
Change in net assets	<u>(755,866)</u>	<u>14,772,332</u>	<u>14,016,466</u>	<u>10,911,928</u>
Total net assets - beginning	<u>11,555,587</u>	<u>15,994,564</u>	<u>27,550,151</u>	<u>37,775,505</u>
Total net assets - ending	<u>\$ 10,799,721</u>	<u>\$ 30,766,896</u>	<u>\$ 41,566,617</u>	<u>\$ 48,687,433</u>

CITY OF KNOXVILLE, TENNESSEE

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006**

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating activities				
Cash received from customers and users	\$ 3,226,216	\$ 2,393,360	\$ 5,619,576	\$ -
Receipts from interfund services provided	-	-	-	33,828,161
Cash paid to suppliers	(7,405,569)	(1,190,418)	(8,595,987)	(8,391,955)
Cash paid to employees	-	(1,867,680)	(1,867,680)	(2,574,509)
Cash paid for interfund services used	(93,520)	(149,299)	(242,819)	(319,841)
Payments of claims and insurance	-	-	-	(14,759,612)
Net cash provided by (used in) operating activities	<u>(4,272,873)</u>	<u>(814,037)</u>	<u>(5,086,910)</u>	<u>7,782,244</u>
Noncapital financing activities				
Transfers from other funds	7,811,290	1,948,520	9,759,810	4,510,020
Transfers to other funds	-	-	-	(12,101)
Tax, intergovernmental and other revenues	7,466,579	14,645,200	22,111,779	532,631
Net cash provided by (used in) by noncapital financing activities	<u>15,277,869</u>	<u>16,593,720</u>	<u>31,871,589</u>	<u>5,030,550</u>
Capital and related financing activities				
Principal paid on general obligation bond maturities	(3,777,271)	(392,832)	(4,170,103)	-
Interest paid	(6,905,725)	(50,564)	(6,956,289)	-
Proceeds from sale of capital assets	-	-	-	1,122
Principal received from capital lease	(303,239)	-	(303,239)	-
Acquisition and construction of capital assets	-	(14,708,100)	(14,708,100)	(5,341,861)
Net cash provided by (used in) capital and related financing activities	<u>(10,986,235)</u>	<u>(15,151,496)</u>	<u>(26,137,731)</u>	<u>(5,340,739)</u>
Investing activities				
Sales/(Purchases) of investments	-	(1,380,162)	(1,380,162)	(6,941,147)
Investment earnings	-	249,090	249,090	1,120,215
Net cash provided by (used in) investing activities	<u>-</u>	<u>(1,131,072)</u>	<u>(1,131,072)</u>	<u>(5,820,932)</u>
Net increase (decrease) in cash and cash equivalents	<u>18,761</u>	<u>(502,885)</u>	<u>(484,124)</u>	<u>1,651,123</u>
Cash and cash equivalents				
Beginning of year	<u>601,679</u>	<u>547,622</u>	<u>1,149,301</u>	<u>462,530</u>
End of year	<u>\$ 620,440</u>	<u>\$ 44,737</u>	<u>\$ 665,177</u>	<u>\$ 2,113,653</u>

Continued:

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006**

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (9,128,010)	\$ (1,794,914)	\$ (10,922,924)	\$ (2,237,054)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,865,514	1,238,660	6,104,174	5,575,644
Change in assets and liabilities				
(Increase) decrease in receivables	(337,747)	(403,591)	(741,338)	44,430
(Increase) decrease in inventory	-	-	-	313,376
(Increase) decrease in prepayments	(187,000)	-	(187,000)	3,683
(Increase) decrease in deferred charges	810,993	9,101	820,094	-
Increase (decrease) in accounts payable	221,336	11,808	233,144	1,143,657
Increase (decrease) in accrued expenses	731,711	28,978	760,689	30,679
Increase (decrease) in deferred revenue	(1,249,670)	-	(1,249,670)	-
Increase (decrease) in estimated liability for litigation and claims	-	-	-	2,907,829
Increase (decrease) in customer deposits	-	95,921	95,921	-
Total adjustments	<u>4,855,137</u>	<u>980,877</u>	<u>5,836,014</u>	<u>10,019,298</u>
Net cash provided by (used in) operating activities	<u>\$ (4,272,873)</u>	<u>\$ (814,037)</u>	<u>\$ (5,086,910)</u>	<u>\$ 7,782,244</u>

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Fiduciary Net Assets
Fiduciary Component Unit
June 30, 2006

	City Employees' Pension Fund
Assets	
Cash	\$ 9,937
Investments (held by trustee):	
Cash Equivalents	38,716,345
United States Government Securities	53,388,175
State & Municipal Government Securities	6,258,202
International Securities	118,999,409
Corporate Bonds & Debentures	43,878,752
Real Estate	52,732,293
Equity Securities	190,195,917
Receivables:	
Pending Sales Proceeds	1,308,321
Other Receivables	13,143
Accrued Interest & Dividends	1,576,256
Capital assets:	
Equipment, Furniture & Fixtures	70,472
Accumulated Depreciation	(57,875)
Total assets	<u>507,089,347</u>
Liabilities	
Accounts Payable	692,932
Investment Purchase Pending	11,544,533
Total liabilities	<u>12,237,465</u>
Net assets	
Held in Trust for:	
Pension Benefits	494,851,882
Total net assets	<u>\$ 494,851,882</u>

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Changes in Fiduciary Net Assets
Fiduciary Component Unit
For the Year Ended June 30, 2006**

	City Employees' Pension Fund
Additions	
Employee Contributions	\$ 3,035,866
Employer Contributions	4,444,688
Investment Income	50,471,656
Total additions	<u>57,952,210</u>
Deductions	
Benefits Paid	32,706,300
Refunds	527,145
Administration:	
Depreciation	7,126
Other	3,081,311
Total deductions	<u>36,321,882</u>
Change in net assets	21,630,328
Total net assets - beginning	<u>473,221,554</u>
Total net assets - ending	<u><u>\$ 494,851,882</u></u>

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Knoxville, Tennessee is a municipal corporation governed by elected executive and legislative bodies, which consist of a Mayor and nine-member City Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Knoxville, Tennessee (the primary government) and its component units, entities for which the government is considered to be financially accountable. A component unit is a legally separate entity that satisfies at least one of the following criteria: (1) elected officials of a primary government are financially accountable for the entity, (2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Component units are generally presented discretely unless one of the following two circumstances are present, in which case they would be blended: (1) similar governing bodies and (2) scope of services provided are either directly or indirectly, exclusively or almost exclusively for the primary government.

All component units are discretely presented and are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the City. The governing bodies of each of these component units are appointed by the City Council, except for the Pension Board. Pension Board directors are elected by eligible City employees. All component units have a June 30 year-end.

1. Knoxville Utilities Board - (KUB) provides electric, gas and water and wastewater services to residents of the City and surrounding areas. KUB may not issue debt without the City's approval, although the City does not have any obligation for KUB debt.
2. Metropolitan Knoxville Airport Authority (MCAA) operates two airport facilities that serve Knoxville and the surrounding area. MCAA must obtain City approval to issue debt.
3. City of Knoxville Pension System (Pension) operates a defined benefit plan for employees of the City, KAT and MCAA. The Pension receives significant contributions from the City. Changes to the pension plan recommended by the Pension Board must be approved by the City.
4. Knoxville Area Transit (KAT) operates the public transportation system in Knoxville. The City approves the KAT budget. The City also provides significant operating subsidies to KAT.

Complete financial statements for each of the component units, except KAT for which separate financial statements are not issued, may be obtained from their respective administrative offices as follows:

Knoxville Utilities Board
626 South Gay Street
Knoxville, Tennessee 37929

Metropolitan Knoxville Airport Authority
P. O. Box 15600
Knoxville, Tennessee 37901

City of Knoxville Pension Board
917B E Fifth Avenue
Knoxville, Tennessee 37917

Joint Ventures

The City is a participant in the following joint ventures with Knox County which are not considered part of the reporting entity as the City does not exercise financial accountability for their operations:

Public Building Authority of the County of Knox and the City of Knoxville, Tennessee
Metropolitan Planning Commission

Complete financial statements of the joint ventures can be obtained from the City Finance Department, P. O. Box 1631, Knoxville, Tennessee 37901.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related and Jointly Governed Organizations

The following related agencies provide services within the City:

Knoxville's Community Development Corporation - the Mayor appoints members to the governing board; however, the City exercises no budgetary control and provides no direct financial assistance.

Knoxville Zoological Park, Chilhowee Park, and IJAMS Nature - the City has management agreements with each of these entities (Note 14) but has no involvement in directing the respective entities' budgets, rates, debt obligations and board membership.

Government-wide and Fund Financial Statements

The government-wide financial statements, which consist of the statement of net assets and the statement of activities, report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from the government-wide statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are funded to a significant extent by user fees and charges. Each legally separate component unit, for which the primary government is financially accountable, is reported separately in the government-wide financial statements.

Direct expenses are those that are clearly identifiable with a specific function or segment. The statement of activities demonstrates the extent to which the direct expenses of each function or segment are offset by program revenues. Program revenues include charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided or given by the function or segment. Program revenues also include grants and contributions that are restricted for meeting the operational or capital requirements of a particular function or segment. Taxes and other non-program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Although they are excluded from the government-wide financial statements, separate financial statements are also provided for the fiduciary fund. Each major governmental and enterprise fund is reported in a separate column in the financial statements.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements and the proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and other restricted revenues are recognized as revenue when all eligibility requirements imposed by the provider have been met.

The financial statements of the discretely presented component units (Knoxville Utilities Board, Metropolitan Knoxville Airport Authority, and Knoxville Area Transit) that are included in the government-wide financial statements are accounted for on the same basis as the City's proprietary funds. Further, the accounts of Knoxville Utilities Board are maintained in conformity with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Similar to the accrual basis of accounting, expenditures generally are recorded when a liability is incurred. However, debt service expenditures, expenditures relating to long-term liabilities such as compensated absences and claims and judgments are recorded when payment is due.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, shared revenues, licenses, interest and charges for services associated with the current fiscal year are considered to be susceptible to accrual and have been recognized as revenues of the current year. Other revenue items are considered to be measurable and available when the government receives cash.

The City reports the following major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. It is the City's primary operating fund.

Debt Service Fund - The debt service fund accounts for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

Capital Projects Fund - The capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The City reports the following major proprietary funds:

Knoxville Convention Center - This fund accounts for the operations of the Knoxville Convention Center.

Additionally, the City reports the following fund type:

Internal Service Funds - Internal service funds account for replacement of capital assets, office services, fleet management, risk management, and employee health insurance services provided to other departments or agencies of the City, on a cost reimbursement basis.

As allowed by the Governmental Accounting Standards Board Statement of Governmental Accounting Standard No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", the City's policy is to apply only those Financial Accounting Standards Board Statements, related Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or prior to November 30, 1989 in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Knoxville Utilities Board, the Knoxville Area Transit and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 and all taxes are reported as general revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The Knoxville Utilities Board also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses of the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first and unrestricted sources as they are needed.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, and net assets or equity

Deposits and investments - The City pools idle cash from all funds (except the Pension Trust Fund, the Knoxville Utilities Board, and the Metropolitan Knoxville Airport Authority component units) for the purpose of increasing income through investment activities. Deficits in pooled cash are classified as due to other funds or due from other funds on the financial statements of the borrowing and advancing fund, respectively.

Except for certain money market investments that have a remaining maturity at the time of purchase of one year or less which are carried at amortized cost, investments are carried at fair value. Interest income on investments is allocated to all funds on the basis of average daily cash and investment balances.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables - The City bills and collects its own property taxes. Property taxes are levied (based on the assessed valuation as of January 1) and become payable on October 1. Property taxes attach as a lien on the property as of January 1. Such taxes become delinquent on February 28. A lawsuit is filed against property owners for taxes that remain uncollected on March 1 of the year following the date such taxes become delinquent. Property tax revenues are recognized when levied to the extent that they result in current receivables; that is, are received within 60 days of the end of the fiscal year. An allowance for uncollectibles or deferred revenue is provided for remaining property tax receivables.

All trade receivables, including those of discretely presented component units are presented net of an allowance for uncollectibles. Because loans receivable are subject to grant restrictions, an amount equal to the loan has been provided as deferred revenue.

Inventories and prepaid items - Inventories in proprietary fund types are stated at the lower of average cost or replacement value. Inventories in the governmental fund types are stated at cost. Proprietary fund inventories consist of expendable supplies held for consumption. Inventories of governmental funds are reported under the consumption method of accounting.

Prepaid items in both the government-wide and fund financial statements represent payments to vendors that reflect costs applicable to future periods.

Restricted assets - Certain unexpended debt proceeds, as well as resources set aside for debt repayment, are classified on the balance sheet as restricted. These funds are maintained in separate bank accounts and their use is limited by applicable debt covenants.

Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as those assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of two years. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Total interest expense incurred by the Knoxville Convention Center was \$6,905,725. Because there was no construction during 2006, no interest was capitalized. Total interest expense incurred by the Metropolitan Knoxville Airport Authority was \$4,594,918 and no interest was capitalized as part of construction.

Depreciation on property, plant and equipment is provided using the straight-line method of accounting over the following useful lives:

Buildings	25 to 40 years
Improvements	5 to 20 years
Infrastructure	25 years
Equipment	3 to 10 years
Sewer lines	50 years

The original cost of KUB utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in results of operations.

Compensated absences - City employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee can be reimbursed twice the annual accrual of accumulated vacation, up to a maximum of 48 days. Employees are reimbursed up to 45 days of accumulated sick leave upon retirement or death only if the individual has accumulated 120 or more days. The cost of accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation and sick leave that is payable as a result of employee resignation or retirement and which is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it (i.e. the fund that pays the employee's salary or wages).

Long-term obligations - The City reports long-term debt and other long-term obligations in the applicable activities in the government-wide financial statements and the proprietary fund type fund financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Master plans - Master plans represent costs incurred in developing a long-term expansion plan for the Metropolitan Knoxville Airport Authority. Master plans are stated at cost. Amortization is computed using the straight-line method over the plans' estimated useful lives of five years.

Passenger facility charges - The collection of Passenger Facility Charges ("PFCs") has been approved to be used for qualifying capital improvement projects. PFCs, along with related interest earnings, are recorded as deferred revenue until used or authorized for use under FAA approved application to use. Once authorized to use, the PFC receipts are recognized and recorded as non-operating revenue in the year collected by the air carriers. In 2006, all PFCs were authorized for use and no deferred revenue was recorded.

Fund equity - In fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that can be changed by management.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Environmental cleanup matters - The Knoxville Utilities Board accrues environmental cleanup costs when those costs are believed to be both probable and reasonably estimated. For certain matters KUB expects to share costs with other parties. KUB does not include anticipated recoveries from insurance carriers in the estimated liability.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Certain differences exist between the governmental fund financial statements and the government-wide financial statements. These differences relate to differences between the modified accrual basis of accounting used in the fund financial statements and the accrual basis of accounting used in the government-wide financial statements and to the consolidation of the internal service funds into the governmental activities in the government-wide financial statements.

Reconciliations between the governmental fund balance sheet and the government-wide statement of net assets and between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are shown on pages 25 and 27, respectively.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City is required by its charter to adopt annual budgets for those operating funds that are under the direct control of City Council. This includes all governmental funds except the Miscellaneous Grants Fund, Animal Control Fund, Miscellaneous Special Revenue Funds, Miscellaneous Community Development Funds, Coster Redevelopment Fund, Krutch Park Fund, Knoxville Civic Revitalization Fund and City Choice Fund. City Council adopts project-length budgets for the capital projects fund. In addition City Council adopts annual operating budgets for all enterprise and internal service funds. The City prepares its budget on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP).

The Mayor is required by the City Charter to propose a balanced budget to the City Council on or before May 1 for the fiscal year commencing the following July 1. The proposed budget includes anticipated expenditures by department and sources of financing the expenditures.

Public hearings are conducted to allow taxpayers an opportunity to comment on the proposed budgets before they become law.

The Mayor is authorized to transfer budgeted amounts within departments within any fund. All other transfers or supplemental appropriations must be enacted by City Council. Other management is not authorized to make such changes. Appropriations lapse at each fiscal year end. Encumbered appropriations are reappropriated in the ensuing year's budget.

The following supplemental and reductions in appropriations were enacted by City Council during the fiscal year 2006.

General Fund	\$	5,320,290
Special revenue funds		3,963,740
Capital projects funds		2,134,100

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Encumbrance accounting is employed in governmental funds. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

A comparison of revenues and expenses - budget and actual for proprietary funds for which City Council has legally adopted budgets is as follows:

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 20,998,998	\$ 20,091,502	\$ (907,496)	\$ 20,998,998	\$ 20,847,368	\$ 151,630
Metro Parking	1,235,820	11,600,503	10,364,683	1,235,820	819,460	416,360
Public Assembly Facilities	4,125,921	7,709,236	3,583,315	4,125,921	3,717,947	407,974
Knoxville Area Transit (Component unit)	16,144,320	23,554,815	7,410,495	16,144,320	24,937,214	(8,792,894)
<i>Internal Service Funds</i>						
Office Services	454,500	168,048	(286,452)	454,500	155,625	298,875
Fleet Maintenance	11,267,491	16,408,662	5,141,171	11,267,491	10,662,951	604,540
Risk Management	10,693,524	12,312,438	1,618,914	10,693,524	9,048,214	1,645,310
Employee Health Insurance	15,121,843	14,514,668	(607,175)	15,121,843	12,869,018	2,252,825
Equipment Replacement	2,526,997	2,294,307	(232,690)	2,526,997	2,217,028	309,969
City Buildings	1,503,329	1,420,783	(82,546)	1,503,329	1,254,142	249,187

NOTE 4 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds except the Pension Trust Fund and the Knoxville Utilities Board and Metropolitan Knoxville Airport Authority component unit enterprise funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash". Deficits in pooled cash are reported as interfund liabilities. See Note 8 for a schedule of interfund receivables and payables. In addition, investments are separately held by several of the City's funds.

Deposits - Deposits are included in the City's financial statements as "Cash and cash equivalents", "Cash and temporary investments", "Restricted cash and investments", "Cash float on pooled cash", and "Unused bond proceeds." Certain certificates of deposit are included in "Investments." Cash equivalents are defined as short-term, highly liquid investments.

Investments - Statutes authorize the City to invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool. The state treasurer's investment pool is a SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value. The City is exempt from sharing in any realized gains and losses of the fund.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

The Pension Trust Fund's investment policies allow its agents to invest in government securities, certificates of deposit, bankers' acceptances, repurchase agreements, bonds and notes (with "A" or better ratings) and common stocks and common stock equivalents. The Pension Trust Fund is required to maintain a minimum of 25% of its carrying value in fixed income accounts. State statutes and Pension Trust Fund investment policies allow the Pension Trust Fund to lend its securities to a list of approved broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The total amount of securities on loan is restricted to no more than 30% of the assets of the fund. The lending is managed by the Pension Trust Fund's custodial bank. The Pension Trust Fund lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102%.

The Pension Trust Fund has no credit risk exposure to borrowers because the amounts the Pension Trust Fund owes the borrowers exceed the amounts the borrowers owe the Pension Trust Fund. The contract with the Pension Trust Fund's custodian requires it to indemnify the Pension Trust Fund if the borrowers fail to return the securities (if the collateral is inadequate to replace the securities lent) or fail to pay the Pension Trust Fund for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Pension Trust Fund or the borrowers, although the average term of the loan is forty-five (45) days. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted-average maturity of fifty-two (52) days. The relationship between the maturities of the investment pool and the Pension Trust Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Pension Trust Fund cannot determine. The Pension Trust fund cannot pledge or sell collateral securities received unless the borrower defaults.

Investment policies

Investment Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limits investments to no more than two years. As of June 30, 2006, the average weighted maturity, in days, of the City's portfolio was 39 days.

Credit Risk: Statutes authorize the City to invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool. The state treasurer's investment pool is a non-rated, SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value. The City is exempted from sharing in any realized gains and losses of the fund.

The City is not authorized to enter into reverse repurchase agreements. The City's Investment Policy allows only investments in the highest-grade securities. Investments in commercial paper require that the issuer be rated A1, P1, or F1 by at least two rating agencies. The City's investments meet this requirement.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The City's investments are typically uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Certificates of deposit are secured by collateral held by the State's Collateral Pool. These would again include uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The City's Investment Policy imposes several limits on the amount and type of investments in order to avoid having a large percentage of the portfolio in a single issuer. First, the policy states that, with the exception of U.S. treasuries, agency securities, and the state investment pool, no more than thirty-five percent of the portfolio shall be invested in a single security type. The policy further limits, with respect to banker's acceptances and commercial paper, that no more than ten percent of the portfolio, or \$10 million whichever is less, shall be from a single issuer. As of June 30, 2006, the City held 9% of its investments in various commercial paper instruments including General Electric which represents 2% of the total portfolio. Also, the City held securities of the Federal Home Loan Bank of \$10.9 million or approximately 8% of the total portfolio.

As of June 30, 2006, the City had the following investments and maturities.

Investments:	<u>Fair Value</u>	<u>Less Than 6 Months</u>	<u>6 - 12 Months</u>	<u>1 - 2 Years</u>
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	\$ 10,901,410	\$ 665,754	\$ 3,090,846	\$ 7,144,810
Federal Home Loan Mortgage Corp (FHLMC)	3,170,073	-	-	3,170,073
Federal Farm Credit Bureau (FFCB)	2,461,464	471,562	-	1,989,902
Federal National Mortgage Assoc. (FNMA)	3,273,570	-	486,503	2,787,067
Banker's Acceptances	1,972,904	1,972,904	-	-
Commercial Paper	11,816,177	11,816,177	-	-
Certificates of Deposit	2,000,000	1,000,000	-	1,000,000
Other Governmental Bonds	3,124,680	-	2,464,346	660,334
Corporate Equities	180,740	-	-	-
Tennessee Local Government Investment Pool	94,185,495	94,185,495	-	-
	<u>\$ 133,086,513</u>	<u>\$ 110,111,892</u>	<u>\$ 6,041,695</u>	<u>\$ 16,752,186</u>

Investments are included in the City's financial statements as "Cash and temporary investments", "Investments", "Restricted cash and investments", "Unused bond proceeds", and "Restricted assets".

Deposits and investments of component units are classified in the statement of net assets as follows:

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City of Knoxville Pension System</u>
Deposits:				
Bank balances	\$ 134,883,788	\$ 6,096,765	\$ -	\$ 9,937
Carrying amounts:				
Deposits (outstanding checks) in financial institutions	\$ (8,729,659)	\$ 5,687,649	\$ -	\$ 9,937
Certificates of deposit	75,021,409	-	-	-
Super NOW Account	42,118,000	-	-	-
Total deposits - carrying value	<u>\$ 108,409,750</u>	<u>\$ 5,687,649</u>	<u>\$ -</u>	<u>\$ 9,937</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Component unit deposits and investments at June 30, 2006 are summarized as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City of Knoxville Pension System	Total Amount	Fair Value
Investments:						
Cash equivalents	\$ -	\$ -	\$ 5,206	\$ 38,716,345	\$ 38,721,551	\$ 38,721,551
United States government securities	48,322,786	22,669,406	-	10,693,559	81,685,751	81,685,751
Equity securities	-	-	-	207,787,524	207,787,524	207,787,524
Corporate bonds	-	-	-	42,034,191	42,034,191	42,034,191
State and municipal government securities	-	-	-	6,258,202	6,258,202	6,258,202
International securities	-	-	-	118,999,409	118,999,409	118,999,409
Total classified investments	<u>48,322,786</u>	<u>22,669,406</u>	<u>5,206</u>	<u>424,489,230</u>	<u>495,486,628</u>	<u>495,486,628</u>
Investments not categorized:						
Investments held by broker-dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States government securities	-	-	-	41,821,972	41,821,972	41,821,972
Equity securities	-	-	-	35,140,686	35,140,686	35,140,686
Corporate bonds	-	-	-	1,844,561	1,844,561	1,844,561
Third parties holding cash collateral:						
United States government securities	-	-	-	872,644	872,644	872,644
Investments in state treasurer's investment pool	14,403,309	-	825,229	-	15,228,538	15,228,538
Total investments	<u>\$ 62,726,095</u>	<u>\$ 22,669,406</u>	<u>\$ 830,435</u>	<u>\$ 504,169,093</u>	<u>\$ 590,395,029</u>	<u>\$ 590,395,029</u>
Total deposits and investments	<u>\$ 171,135,845</u>	<u>\$ 28,357,055</u>	<u>\$ 830,435</u>	<u>\$ 504,179,030</u>		

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City of Knoxville Pension System
Cash and cash equivalents	\$ 46,458,444	\$ 5,043,900	\$ 5,206	\$ 9,937
Investments	54,880,013	22,669,406	825,229	504,169,093
Other Assets	286,567	-	-	-
Bond funds	71,251,564	643,749	-	-
Other temporarily restricted assets	287,563	-	-	-
	<u>173,164,151</u>	<u>28,357,055</u>	<u>830,435</u>	<u>504,179,030</u>
Less accrued interest	2,028,306	-	-	-
Total deposits and investments	<u>\$ 171,135,845</u>	<u>\$ 28,357,055</u>	<u>\$ 830,435</u>	<u>\$ 504,179,030</u>

The City of Knoxville Pension System also has a credit risk exposure for cash held in its securities lending short-term collateral investment pools (not included in the City of Knoxville Pension System financial statements) for \$79,813,481 held by broker dealers and \$890,154 held by third parties. The contract with the Pension System's custodian requires it to indemnify the Pension System if the borrowers fail to return the borrowed securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan. Because collateral exceeds the fair value of securities lent, there is no credit risk exposure to the borrowers at June 30, 2006.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 5 - RECEIVABLES

Receivables at June 30, 2006, including the applicable allowance for uncollectible accounts, consisted of the following:

	Intergovern- mental	Interest and Dividends	Grants	Customers	Other	Allowance for Doubtful Accounts	Total
General fund	\$ 15,804,436	\$ -	\$ 107,046	\$ -	\$ 10,325	\$ -	\$ 15,921,807
Capital projects fund	-	-	2,360,497	-	-	-	2,360,497
Other governmental activities	1,711,723	-	1,821,710	-	-	-	3,533,433
Knoxville Convention Center	-	-	-	-	3,188,126	-	3,188,126
Other business-type activities	-	-	-	477,162	-	-	477,162
Internal service funds	-	-	-	13,140	-	-	13,140
Total primary government	<u>17,516,159</u>	<u>-</u>	<u>4,289,253</u>	<u>490,302</u>	<u>3,198,451</u>	<u>-</u>	<u>25,494,165</u>
Component units:							
Knoxville Utilities Board	-	-	-	63,497,963	-	(882,546)	62,615,417
Metropolitan Knoxville Airport Authority	-	234,506	1,679,886	789,821	-	-	2,704,213
Knoxville Area Transit	-	-	3,646,744	-	-	-	3,646,744
Knoxville Employees' Pension Plan	-	1,576,256	-	-	1,321,464	-	2,897,720
Total reporting entity	<u>\$ 17,516,159</u>	<u>\$ 1,810,762</u>	<u>\$ 9,615,883</u>	<u>\$ 64,778,086</u>	<u>\$ 4,519,915</u>	<u>\$ (882,546)</u>	<u>\$ 97,358,259</u>

NOTE 6 - LEASES RECEIVABLE

Public Assembly Facilities Fund

The Public Assembly Facilities Fund leases a portion of the exhibition center to an adjoining hotel. Components of the Public Assembly Facilities investment in the capitalized lease at June 30, 2006, are as follows:

Total minimum lease payments receivable	\$ 1,625,275
Less unearned income	804,078
Net investment in lease receivable	<u>\$ 821,197</u>

Lease payments under the agreement are \$100,000 a year.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 6 - LEASES RECEIVABLE (Continued)

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2028. As of June 30, 2006, minimum future base rentals to be received on noncancellable leases are as follows:

Years ended June 30:	
2007	\$ 6,805,578
2008	6,680,863
2009	4,140,676
2010	1,563,490
2011	1,449,551
Thereafter	22,954,707
	<u>\$ 43,594,865</u>

Under the terms of one of the Metropolitan Knoxville Airport Authority leases, payments in future years increase significantly. The Authority recognizes income from this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately \$1,037,000 are included in other assets in the accompanying statement of net assets as of June 30, 2006. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$1,414,553 for the year ended June 30, 2006.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers In</u>	<u>Retirements and Transfers Out</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 36,473,308	\$ 813,528	\$ -	\$ 37,286,836
Construction in progress	<u>68,160,750</u>	<u>27,526,375</u>	<u>(84,026,341)</u>	<u>11,660,784</u>
Total non depreciable capital assets	<u>104,634,058</u>	<u>28,339,903</u>	<u>(84,026,341)</u>	<u>48,947,620</u>
<i>Depreciable:</i>				
Buildings and building improvements	38,951,753	109,004	-	39,060,757
Equipment, furniture and fixtures	55,696,955	7,458,874	(5,715,950)	57,439,879
Infrastructure	<u>176,313,845</u>	<u>47,852,935</u>	<u>-</u>	<u>224,166,780</u>
Total depreciable capital assets	<u>270,962,553</u>	<u>55,420,813</u>	<u>(5,715,950)</u>	<u>320,667,416</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(18,281,435)	(1,231,999)	-	(19,513,434)
Equipment, furniture and fixtures	(45,967,103)	(7,803,986)	5,535,041	(48,236,048)
Infrastructure	<u>(70,610,737)</u>	<u>(6,742,734)</u>	<u>-</u>	<u>(77,353,471)</u>
Total accumulated depreciation	<u>(134,859,275)</u>	<u>(15,778,719)</u>	<u>5,535,041</u>	<u>(145,102,953)</u>
Total depreciable capital assets, net	136,103,278	39,642,094	(180,909)	175,564,463
Governmental activities capital assets, net	<u>\$ 240,737,336</u>	<u>\$ 67,981,997</u>	<u>\$ (84,207,250)</u>	<u>\$ 224,512,083</u>
Business-type activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 6,743,270	\$ -	\$ -	\$ 6,743,270
Artwork	<u>764,875</u>	<u>-</u>	<u>-</u>	<u>764,875</u>
Total non depreciable capital assets	<u>7,508,145</u>	<u>-</u>	<u>-</u>	<u>7,508,145</u>
<i>Depreciable:</i>				
Buildings and building improvements	205,754,499	14,167,642	-	219,922,141
Equipment, furniture and fixtures	<u>2,098,017</u>	<u>900,365</u>	<u>(51,024)</u>	<u>2,947,358</u>
Total depreciable capital assets	<u>207,852,516</u>	<u>15,068,007</u>	<u>(51,024)</u>	<u>222,869,499</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(40,933,532)	(5,738,008)	-	(46,671,540)
Equipment, furniture and fixtures	<u>(825,322)</u>	<u>(422,834)</u>	<u>51,024</u>	<u>(1,197,132)</u>
Total accumulated depreciation	<u>(41,758,854)</u>	<u>(6,160,842)</u>	<u>51,024</u>	<u>(47,868,672)</u>
Total depreciable capital assets, net	166,093,662	8,907,165	-	175,000,827
	<u>\$ 173,601,807</u>	<u>\$ 8,907,165</u>	<u>\$ -</u>	<u>\$ 182,508,972</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 7 - CAPITAL ASSETS (Continued)

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

<u>Governmental Activities</u>	
General Government	\$ 1,615,246
Public Safety	3,479,100
Physical Environment	7,953,273
Economic Development	329,024
Parks & Recreation	2,251,246
Health & Sanitation	150,830
	<u>\$ 15,778,719</u>
 <u>Business-type activities</u>	
Knoxville Convention Center	\$ 4,922,182
Metro Parking	553,894
Public Assembly Facilities	684,766
	<u>\$ 6,160,842</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for component units for the year ended June 30, 2006 was as follows:

Component Units	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Knoxville Utilities Board:				
<i>Nondepreciable: Construction in Progress</i>	\$ 93,532,682	\$ 43,096,007	\$ (11,847,460)	\$ 124,781,229
<i>Depreciable:</i>				
Pumping and treatment plant	141,710,135	17,421,761	(200,000)	158,931,896
Distribution & collection plant	903,201,365	60,126,018	(5,690,151)	957,637,232
General plant	92,488,074	20,756,650	(3,558,593)	109,686,131
Total depreciable assets	1,137,399,574	98,304,429	(9,448,744)	1,226,255,259
Accumulated depreciation	(417,019,494)	(38,013,644)	9,066,703	(445,966,435)
Total depreciable capital assets, net	720,380,080	60,290,785	(382,041)	780,288,824
Total Knoxville Utilities Board	\$ 813,912,762	\$ 103,386,792	\$ (12,229,501)	\$ 905,070,053
Metropolitan Knoxville Airport Authority:				
<i>Nondepreciable:</i>				
Land	\$ 22,018,026	\$ 174,293	\$ -	\$ 22,192,319
Construction in progress	7,680,509	7,185,032	(7,670,665)	7,194,876
Total nondepreciable capital assets	29,698,535	7,359,325	(7,670,665)	29,387,195
<i>Depreciable:</i>				
Land improvements	121,046,084	1,135,678	-	122,181,762
Buildings and building improvements	118,647,113	5,680,987	-	124,328,100
Equipment, furniture and fixtures	7,942,137	1,763,521	(76,426)	9,629,232
Total depreciable assets	247,635,334	8,580,186	(76,426)	256,139,094
<i>Accumulated depreciation:</i>				
Land improvements	(66,057,003)	(5,601,114)	-	(71,658,117)
Buildings and building improvements	(34,904,489)	(4,507,142)	-	(39,411,631)
Equipment, furniture and fixtures	(6,868,793)	(552,414)	40,546	(7,380,661)
Total accumulated depreciation	(107,830,285)	(10,660,670)	40,546	(118,450,409)
Total depreciable capital assets, net	139,805,049	(2,080,484)	(35,880)	137,688,685
Total Metropolitan Knoxville Airport Authority	\$ 169,503,584	\$ 5,278,841	\$ (7,706,545)	\$ 167,075,880
Knoxville Area Transit:				
<i>Nondepreciable: Construction in progress</i>				
	\$ 744,195	\$ -	\$ (744,195)	\$ -
<i>Depreciable:</i>				
Buildings and building improvements	5,025,175	-	-	5,025,175
Equipment, furniture and fixtures	23,793,613	1,582,407	(2,433)	25,373,587
Total depreciable assets	28,818,788	1,582,407	(2,433)	30,398,762
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(2,060,384)	(125,282)	-	(2,185,666)
Equipment, furniture and fixtures	(12,887,515)	(2,129,669)	2,433	(15,014,751)
Total accumulated depreciation	(14,947,899)	(2,254,951)	2,433	(17,200,417)
Total depreciable capital assets, net	13,870,889	(672,544)	-	13,198,345
Total Knoxville Area Transit	\$ 14,615,084	\$ (672,544)	\$ (744,195)	\$ 13,198,345
Knoxville Employees' Pension Plan				
<i>Depreciable: Equipment, furniture and fixtures</i>	\$ 84,884	\$ -	\$ (14,412)	\$ 70,472
<i>Accumulated Depreciation</i>	(65,161)	(7,126)	14,412	(57,875)
Total Knoxville Employees' Pension Plan	\$ 19,723	\$ (7,126)	\$ -	\$ 12,597

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 7 - CAPITAL ASSETS (Continued)

Estimated costs to complete construction in progress for the West Aviation Area and the Security Fence at McGhee Tyson Airport and other construction projects totals approximately \$9,500,000 (including approximately \$8,900,000 under contractual obligation) as of June 30, 2006. The work will be funded through proceeds from AIP grants and other Authority funds.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2006 is as follows:

	Due From Other Funds	Due to Other Funds	Internal Balances	Due From Component Units	Due to Primary Government
Governmental activities					
<i>General Fund</i>	\$ 2,070,000	\$ -	\$ 2,070,000	\$ -	\$ -
<i>Special Revenue Fund:</i>					
Community Development Block Grants	-	335,000	(335,000)	-	-
City Inspections	-	25,000	(25,000)	-	-
City Court	-	5,000	(5,000)	-	-
Miscellaneous Special Revenue Funds	-	2,958,370	(2,958,370)	-	-
Storm Water	-	15,000	(15,000)	-	-
Solid Waste	-	15,000	(15,000)	-	-
City Choice Plus	-	75,000	(75,000)	-	-
<i>Debt Service Fund</i>	4,390,000	-	4,390,000	-	-
<i>Capital Projects Fund</i>	1,358,370	4,165,000	(2,806,630)	-	-
<i>Governmental activity internal service funds</i>	-	3,898,109	(3,898,109)	-	-
Total governmental activities	<u>7,818,370</u>	<u>11,491,479</u>	<u>(3,673,109)</u>	<u>-</u>	<u>-</u>
Business-type activities					
Public Assembly Facilities	-	225,000	(225,000)	-	-
<i>Internal Service Funds</i>					
Fleet Management	3,898,109	-	3,898,109	-	-
Risk Management	-	-	-	4,020,000	-
Total business-type activities	<u>3,898,109</u>	<u>225,000</u>	<u>3,673,109</u>	<u>4,020,000</u>	<u>-</u>
Component Units:					
Knoxville Area Transit	-	-	-	-	4,020,000
	<u>\$ 11,716,479</u>	<u>\$ 11,716,479</u>	<u>\$ -</u>	<u>\$ 4,020,000</u>	<u>\$ 4,020,000</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT

Bonds and notes payable at June 30, 2006, are comprised of the following issues:

Primary Government	Governmental Activities	Business-type Activities	Total
<i>General Obligation Bonds :</i>			
General Obligation Refunding Bonds, Series 1999A maturing through 2008 at varying rates of interest ranging from 4.25% to 4.5%	\$ -	\$ 800,000	\$ 800,000
General Obligation Public Improvement Bonds, Series 2000A maturing through 2020 at varying rates of interest ranging from 5.0% to 5.6%	1,550,000	-	1,550,000
General Improvement Bonds, Series 2004A maturing through 2024 at varying rates of interest ranging from 2.0% to 4.0%	31,495,000	-	31,495,000
General Obligation Refunding Bonds, Series 2004B maturing through 2017 at varying rates of interest ranging from 4.0% to 5.5%	35,395,000	-	35,395,000
General Obligation Bonds Series III F through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	-	38,015,000	38,015,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2002A maturing through 2024 at varying rates of interest ranging from 3.5% to 5.0%	-	52,690,000	52,690,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	13,640,000	-	13,640,000
Total general obligation bonds	\$ 82,080,000	\$ 151,475,000	\$ 233,555,000

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units:	<u>Bonds</u>
<i>Knoxville Utilities Board:</i>	
Electric Revenue Bonds Series S to X, maturing through 2032 at varying rates of interest ranging from 2.0% to 5.1%	\$ 117,545,000
Water Revenue Bonds Series O to S maturing through 2030 at varying rates of interest ranging from 2.0% to 5.2%	44,175,000
Gas Revenue Bonds Series H to M, maturing through 2031 at varying rates of interest ranging from 2.0% to 5.2%	86,950,000
Waste Water Revenue Bonds Series 1998, 2001, 2001A, 2004A, 2005 A&B, maturing through 2040 at varying rates of interest ranging from 3.0% to 5.1%	<div style="text-align: right;">192,535,000</div> <div style="text-align: right; border-top: 1px solid black;">\$ 441,205,000</div>
<i>Metropolitan Knoxville Airport Authority:</i>	
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. The remaining principal bears interest at 5.79%	\$ 16,440,000
Local Government Public Improvement Bonds, 2001 Series III-A maturing through 2028. \$49,845,000 bears interest at 4.748%. The remaining principal bears interest at a variable rate (3.96% at June 30, 2006).	<div style="text-align: right;">88,650,000</div> <div style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 105,090,000</div>

Each of the Divisions of the Knoxville Utilities Board have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2006, these requirements had been satisfied.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT (Continued)

Debt service requirements to maturity for bonds and notes are as follows:

Primary Government	General Obligation Bonds			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 9,710,000	\$ 3,278,400	\$ 3,565,000	\$ 6,972,730
2008	8,470,000	3,181,620	3,670,000	6,819,950
2009	7,340,000	3,076,810	3,430,000	6,662,310
2010	5,325,000	2,975,900	3,580,000	6,514,190
2011	4,560,000	2,830,250	3,735,000	6,359,560
2012 - 2016	24,265,000	11,695,480	21,335,000	29,165,230
2017 - 2021	15,555,000	6,569,290	26,745,000	23,814,100
2022 - 2026	6,855,000	1,293,020	33,960,000	16,628,780
2027 - 2031	-	-	42,020,000	7,943,420
2032	-	-	9,435,000	424,580
	<u>82,080,000</u>	<u>\$ 34,900,770</u>	<u>151,475,000</u>	<u>\$ 111,304,850</u>
Unamortized premium and deferred gain on refunding	1,599,962		7,171	
Unamortized discounts	-		(1,190,378)	
Total	<u>\$ 83,679,962</u>		<u>\$ 150,291,793</u>	

Component Units	Principal Revenue Bonds		Interest
	Principal	Revenue Bonds	
2007	\$ 12,980,000	\$ 23,968,572	
2008	14,395,000	23,994,844	
2009	15,015,000	23,373,730	
2010	16,090,000	21,586,111	
2011	16,255,000	21,426,249	
2012 - 2016	83,773,000	98,659,192	
2017 - 2021	94,751,000	78,545,820	
2022 - 2026	111,478,000	55,444,182	
2027 - 2031	82,304,000	32,241,173	
2032-2036	53,299,000	17,377,713	
2037-2040	45,955,000	6,540,850	
	<u>546,295,000</u>	<u>\$ 403,158,435</u>	
Unamortized discount and deferred loss on refunding		(625,366)	
Total	<u>\$ 545,669,634</u>		

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT (Continued)

Interest Swap Agreements

Primary government

During 2002, the City transferred the \$45,000,000 liability for the General Obligation Bonds Series IIF bonds, along with the related cost of the convention center construction, from the governmental activity of the capital projects fund to the Knoxville Convention Center fund. As a hedge against rising interest rates, the City entered into an interest swap agreement with Wachovia Bank. The City pays Wachovia (through a trust with Morgan Keegan) interest at a fixed rate of 3.955%. Wachovia pays the trust interest at a variable rate based on LIBOR. The trust pays the bondholders interest at a variable rate based on BMA. The City has a risk that if the LIBOR rate is less than the BMA rate, it will have to pay additional amounts to the trust to cover bondholder interest. During 2006, the City paid \$414,150 in additional interest due to an unfavorable difference in the LIBOR and BMA rates.

Component units

The Metropolitan Knoxville Airport Authority Series II-D-1 and III-A Bonds bear interest at variable rates. Portions of the Series II-D-1 and III-A Bonds totaling \$16,440,000 and \$49,845,000, respectively, are subject to interest rate swap agreements to effectively fix the interest rate. Based on the swap agreements, the Authority owes interest at an effective fixed rate of 5.79% and 4.74% on the Series II-D-1 and III-A Bonds, respectively. In return, the counterparty owes the Authority interest based on a variable rate that is calculated based on a published index rate. The \$16,440,000 and \$48,845,000 in bond principal are not exchanged; only the net difference in interest payments is actually exchanged with the counterparty and recorded by the Authority as interest expense. The Authority, through the trustee, continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt plus or minus the difference between the variable rate due the bondholders and the variable rate received from the counterparty. The Authority would be exposed to variable rates if the counterparty to the swaps defaults, if the variable rate received from the counterparty is less than that due to bondholders or if the swap is terminated. A termination of the swap agreements could also result in the Authority's making or receiving termination payments. The fair value of the swap agreements is a deferred loss of \$3,613,377 as of June 30, 2006. These amounts, which were estimated by obtaining quotes from the bank, have not been recorded in the accompanying financial statements. Other than the net interest expenditures resulting from the swap agreement, no other amounts are recorded in the financial statements.

The debt service requirements for both primary government and Airport Authority bonds subject to interest swap arrangements are based on the fixed rate. Other than the net interest expenditures resulting from the swap agreement, no other amounts are recorded in the financial statements. The Authority incurred additional interest costs of approximately \$1,045,000 in 2006 related to the swap agreements.

Advance and Current Refundings

Primary government

The City issued the 2005A General Obligation Refunding Bonds totaling \$13,725,000 for the purpose of refunding a portion of the City's Series 2000A Series General Obligation Bonds. U. S. Government State and Local Government Series securities were purchased and placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$13,395,000 of the City's Series 2000A General Obligation Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The outstanding principal balances on defeased bond issues were \$13,395,000 at June 30, 2006.

The City transferred funds to an irrevocable trust in 2003 to pay the remaining maturities of principal and interest of its Series 1999B General Obligation Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The outstanding principal balances on defeased bond issues were \$775,000 at June 30, 2006.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT (Continued)

Component units

Knoxville Utilities Board

KUB's Electric Division issued the Series S 1998 bonds to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the 1992 Series P revenue bonds, as well as a portion of the 1993 Series Q revenue bonds and 1995 Series R revenue bonds. During fiscal year 2001, KUB issued Series T 2001 bonds in part to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on 1993 Series Q Revenue bonds and 1995 Series R Revenue bonds, as such amounts mature. In fiscal year 2001, KUB's Electric Division issued Series U 2001 bonds to fund Electric capital improvements. During fiscal year 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series S 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 revenue bonds. The outstanding principal balances on defeased bond issues were \$87.6 million at June 30, 2006.

KUB's Gas Division issued the Series H 1998 bonds in part to retire certain existing, debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series E revenue bonds, as such amounts mature. During fiscal year 2001, KUB issued Series I 2001 bonds in part to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series F Revenue bonds and 1997 Series G Revenue bonds, as such amounts mature. During fiscal year 2001, KUB's Gas division issued Series J 2001 bonds to fund capital improvements. During fiscal year 2004, KUB issued Series K 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series H 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Gas Division issued Series L 2005 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series J 2001 bonds, as such amounts mature. KUB's Gas Division also issued Series M 2006 bonds in part to retire certain existing debt and to fund capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series H 1998 revenue bonds. The outstanding principal balances on defeased bond issues were \$67.8 million at June 30, 2006. Subsequent to year end, in July 2006, the Division issued a short-term revenue anticipation note (line of credit) not to exceed \$30 million to a local commercial bank for the purpose of managing seasonal cash flow.

KUB's Water Division issued the Series O 2001 bonds to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1992 Series L Revenue bonds and 1993 Series M Revenue bonds, as such amounts mature. During fiscal year 2001, KUB's Water division issued Series P 2001 bonds to fund capital improvements. During fiscal year 2004, KUB issued Series Q 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series N 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Water Division issued Series R 2005 for the purpose of funding improvements and extensions to the water system. KUB's Water Division also issued Series S 2005 in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature. The outstanding principal balances on defeased bond issues were \$25.5 million at June 30, 2006.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT (Continued)

KUB's Wastewater Division issued Series 1998 bonds in part to retire certain existing debt and to fund Wastewater capital improvements. During fiscal year 2002, KUB's Wastewater Division issued the Series 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series Q revenue bonds as such amounts mature. KUB's Wastewater Division also issued Series 2001A to fund capital improvements to the wastewater system. During fiscal year 2004, the Wastewater Division issued Series 2004A bonds to fund Wastewater capital improvements. During fiscal year 2006, KUB's Wastewater Division issued Series 2005A for the purpose of funding improvements and extensions to the wastewater system and to pay off a previously issued \$30 million revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature. Remaining principal balances outstanding at June 30, 2006, on these defeased bond issues were \$32.4 million.

Metropolitan Knoxville Airport Authority

Proceeds from the Metropolitan Knoxville Airport Authority Series III-A bonds totaling \$75,930,000 were used to refund the remaining principal balances of the Series E-1, E-2, II-G-2, III-B-I, III-G-2 and IV-A-I general obligation bonds. The Authority recognized a loss of \$999,159 in 2001 on the refunding which has been deferred and is being amortized over the remaining life of the refunded bonds. The remaining unamortized balance of the loss at June 30, 2006 was \$625,366 .

Other Agreements

Primary government

In 2002 the City entered into an agreement with Knox County to pay a portion of the debt service on bonds that were issued, in part, to fund construction of a new animal shelter. Under the agreement, the City must ratably reimburse Knox County \$1,520,754 of the County's \$80,000,000 bond issuance plus interest at the same rate of the County's bonds. Interest on the bonds ranges from 4.0% to 5.5% and is payable semiannually. Principal is payable annually through May 2021.

Debt service requirements to maturity for the agreement are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 63,310	\$ 66,400
2008	65,590	62,910
2009	68,060	59,310
2010	70,630	55,730
2011	73,480	52,030
2012-2016	417,850	197,430
2017-2021	525,927	81,523
	<u>\$ 1,284,847</u>	<u>\$ 575,333</u>

The City and Knox County have an interlocal agreement to support debt service of the General Obligation Public Improvement Bonds, Series 2002A. Under the agreement the County has agreed to pay the City 75% of the Hotel-Motel tax revenues received from the portion of the privilege tax imposed by the County that is in excess of 3% of the value being taxed up to a maximum amount of \$1,500,000 per year.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

Component units

Metropolitan Knoxville Airport Authority

During 2000, the Authority's Board of Commissioners adopted a Master Resolution allowing the Authority to issue Airport Revenue Obligations. Under this resolution, the Authority is required to establish certain funds, accounts and subaccounts to deposit funds to be held in trust by the Authority in order to meet the requirements of the resolution. These funds include:

Revenue Fund, including accounts for General Revenue and PFC Revenue into which the Authority is to deposit all such revenues.

Sinking Fund, including a payments account and a debt service reserve account, into which the Authority will deposit funds from the Revenue Fund as needed to pay revenue obligations as they come due.

Revenue and Extension Fund, into which the Authority may deposit any moneys or securities held in the Revenue Fund (excluding PFC funds) in excess of 45 days' estimated expenses.

Project Fund, into which proceeds from issuance of revenue obligations will be deposited to fund project costs.

Knoxville Utilities Board

During fiscal year 2000, the Knoxville Utilities Board (KUB) issued \$100 million in subordinated revenue notes that fully matured in 2005.

On July 21, 2005, KUB sold \$83.5 million in revenue refunding bonds across all divisions for the purpose of refinancing outstanding bonds issued in 1998 and 2001 at lower interest rates. The refunding resulted in a total net present value debt service savings of \$3.9 million.

KUB's Gas Division anticipates issuing a short-term revenue anticipation note (line of credit) not to exceed \$15.0 million during fiscal year 2006 for the purpose of managing seasonal cash flow during the winter heating season.

Changes in long-term liabilities

The following schedule is a summary of the changes in long-term debt (including current amounts) for the year ended June 30, 2006:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u> <u>and</u> <u>Transfers</u>	<u>Reductions</u> <u>and</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Primary Government:					
Governmental activities:					
General obligation bonds	\$ 92,595,000	\$ -	\$ 10,515,000	\$ 82,080,000	\$ 9,710,000
Debt participation agreement	1,346,152	-	61,305	1,284,847	63,310
	<u>93,941,152</u>	<u>-</u>	<u>10,576,305</u>	<u>83,364,847</u>	<u>9,773,310</u>
Add deferred amounts for issuance premiums	1,705,340	1,257,850	1,363,228	1,599,962	105,378
Add deferred amounts for gains on refundings	1,257,850	-	1,257,850	-	-
	<u>96,904,342</u>	<u>1,257,850</u>	<u>13,197,383</u>	<u>84,964,809</u>	<u>9,878,688</u>
Compensated absences payable	6,067,773	5,498,806	5,231,219	6,335,360	5,500,000
Total governmental activity long-term liabilities	<u>\$ 102,972,115</u>	<u>\$ 6,756,656</u>	<u>\$ 18,428,602</u>	<u>\$ 91,300,169</u>	<u>\$ 15,378,688</u>
Business-type Activities:					
General obligation bonds	\$ 154,890,000	\$ -	\$ 3,415,000	\$ 151,475,000	\$ 3,565,000
Add deferred amounts for issuance premiums	10,431	-	3,260	7,171	3,260
Less deferred amounts for issuance discounts	<u>(438,535)</u>	<u>(820,094)</u>	<u>(68,251)</u>	<u>(1,190,378)</u>	<u>(68,247)</u>
	<u>154,461,896</u>	<u>(820,094)</u>	<u>3,350,009</u>	<u>150,291,793</u>	<u>3,500,013</u>
Compensated absences payable	101,509	87,462	85,224	103,747	87,000
Total business-type activity long-term liabilities	<u>\$ 154,563,405</u>	<u>\$ (732,632)</u>	<u>\$ 3,435,233</u>	<u>\$ 150,395,540</u>	<u>\$ 3,587,013</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT (Continued)

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Component Units:					
Knoxville Utilities Board:					
Revenue bonds	\$ 275,220,000	\$ 277,160,000	\$ 111,175,000	\$ 441,205,000	\$ 10,195,000
Notes payable	30,000,000	-	30,000,000	-	-
Capital lease obligations	27,192	-	27,192	-	-
TVA conservation program	3,945,943	1,384,647	1,466,633	3,863,957	1,500,000
Accrued compensated absences	7,442,079	16,150,579	17,008,254	6,584,404	2,650,000
Customer advances for construction	460,644	263,970	153,949	570,665	150,000
Supplemental environmental project	-	1,700,000	-	1,700,000	450,000
Other	1,039,820	1,525,308	981,726	1,583,402	525,000
Total Knoxville Utilities Board	<u>318,135,678</u>	<u>298,184,504</u>	<u>160,812,754</u>	<u>455,507,428</u>	<u>15,470,000</u>
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	107,740,000	-	2,650,000	105,090,000	2,785,000
Less deferred amounts for loss on refunding	(692,330)	-	(66,964)	(625,366)	-
Total Metropolitan Knoxville Airport Authority	<u>107,047,670</u>	<u>-</u>	<u>2,583,036</u>	<u>104,464,634</u>	<u>2,785,000</u>
Total component units	<u>\$ 425,183,348</u>	<u>\$ 298,184,504</u>	<u>\$ 163,395,790</u>	<u>\$ 559,972,062</u>	<u>\$ 18,255,000</u>

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$212,482 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

Conduit Debt

The Authority issued \$8,500,000 Metropolitan Knoxville Airport Authority Special Purpose Revenue Bonds on June 18, 2002. The bonds bear interest at 8% and are due in an aggregate principal amount of \$8,500,000 on April 1, 2032. Interest is payable semiannually on each April 1 and October 1.

The bonds were issued pursuant to a lease agreement between the Authority and Northwest Airlines, Inc. ("Northwest") dated July 12, 2001, and subsequently amended. The proceeds of the bonds were used for the construction by Northwest of an aircraft maintenance hangar and related facilities to be leased by Northwest from the Authority under the lease agreement. Under the terms of the lease agreement, Northwest is obligated to pay base rental to a trustee assigned by the Authority in the amount necessary to meet debt service requirements on the bonds as they are due.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 9 - LONG-TERM DEBT (Continued)

Conduit Debt (continued)

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Northwest's parent company, Northwest Airlines Corporation, are the only security for the bondholders. As discussed in Note 17, Northwest Airlines Corporation voluntarily filed for reorganization under Chapter 11 of the United States Bankruptcy Code subsequent to June 30, 2005. The entire amount of the bonds was outstanding at June 30, 2006.

The Authority also issued \$9,500,000 Metropolitan Knoxville Airport Authority Special Obligation Revenue Bonds on October 1, 1980. The 9.5% bonds are to be repaid in varying amounts through 2010. The principal balance outstanding at June 30, 2006, was \$1,393,983.

Under the terms of a promissory note between the Authority and the Knoxville Airport Hotel Company (the "Developer"), the proceeds were used by the Developer to construct a hotel adjacent to the airport terminal. Note principal and interest payments consist of the amount necessary to make the principal and interest payments on the bonds. Under a forbearance agreement dated May 24, 1990, the Developer agreed to pay the other bondholders the sum of the principal currently due on all of the bonds, plus 30 days accrued interest on the bonds held by the bondholders, plus accrued interest on the bonds held by the Developer. On each note payment date thereafter, the Developer will pay all payments due on the note, other than interest on and attributable to the bonds held by the Developer. Interest on and attributable to bonds held by the Developer, together with all previously deferred interest payments, has been irrevocably waived and forgiven.

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. The note payments and property are the only security for the bondholders.

NOTE 10 - LEASES

Primary government

The City was committed to semiannual payments to the Public Building Authority for rental of the City-County Building. The lease expired during 2001 and the City is renting the space on a month-to-month basis until a new lease is established. Total rental payments for the year ending June 30, 2006 were \$1,046,787.

Component units

The Knoxville Utilities Board also has non-cancelable operating lease commitments for office equipment that expire in various years through June 30, 2010. Future minimum lease payments under leases having initial or remaining noncancelable terms in excess of one year as follows:

		Operating Leases
2007	\$	40,443
2008		32,794
2009		4,320
2010		4,299
	\$	81,856

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 11 - FUND BALANCES DESIGNATED FOR FUTURE USE

Certain fund balances are designated by the City to be used for future requirements relating to the stated purpose of each fund. At June 30, 2006, the following designations were made:

Fund	Amount Designated	Stated Purpose
Coster Redevelopment	\$ 73,566	Held for cleanup of various sites
Krutch Park Trust	769,823	Maintenance and groundskeeping of a downtown City park
Knoxville Civic Revitalization	2,055,977	Oversee the development of World's Fair Site
	<u>\$ 2,899,366</u>	

NOTE 12 - RISK MANAGEMENT

Primary government

The City 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 Risk Management Fund, an internal service fund, was established to consolidate all of the City's insurance under a comprehensive risk management program.

Revenues come from either the City's General Fund or from inter-fund charges. Revenues are forecasted to match expenses, which include estimated incurred losses from claims, premiums for excess insurance coverage, various taxes and assessments, and administrative operating expenses.

The City insures itself against potential losses by purchasing various types of insurance coverage including fiduciary liability, professional liability, crime coverage, long-term disability, boiler and machinery, and group life coverage. The City insures itself for potential losses as the result of auto liability, general liability, and workers compensation through participation in a risk management pool. The pool requires each participant in the pool to share the liability for claims if the pool becomes insolvent. At present, the City has no indication that it will incur a liability as a result of its participation in the pool. Settled claims have not exceeded the above coverage in any of the past three fiscal years.

Health Insurance Fund

The City maintains as an internal service fund, the Health Insurance Fund, to provide medical coverage for City employees and their families with the employees paying a portion of the costs. The City has experienced no significant reduction in insurance coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund, to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of \$8,500,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 12 - RISK MANAGEMENT (Continued)

An analysis of claims activity for the years ended June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Claims liability, beginning of year	\$ 5,592,171	\$ 5,592,171
Provision for incurred claims	4,483,214	3,607,140
Payments made on claims	<u>(1,575,385)</u>	<u>(3,607,140)</u>
Claims liability, end of year	<u>\$ 8,500,000</u>	<u>\$ 5,592,171</u>

Additionally, the City's attorney believes that there is a possible liability to the City of approximately \$2,832,000 related to the remaining lawsuits and claims not determined to be probable liabilities. Since the outcome is not probable, a liability has not been recorded for these lawsuits and claims.

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2006, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10.

Component units

Knoxville Utilities Board

In the normal course of business, there are various lawsuits pending against the Knoxville Utilities Board. Management has reviewed these lawsuits with counsel, is vigorously defending the Utilities Board's position, and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the Utilities Board's financial position, results of operations or cash flows.

The Knoxville Utilities Board is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

In 2002, in response to changes in availability and the cost of insurance, the Knoxville Utilities Board decreased its property insurance coverage. KUB also increased its deductible to a level where KUB is essentially self-insured for property insurance coverage. KUB's property insurance coverage excludes protection for fire, vandalism, flood and earthquake damage. During 2005, KUB modified its excess worker's compensation coverage to include statutory limit coverage, as required under Tennessee state law.

At June 30, 2006, the amount of these liabilities was \$2,275,752. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Claims liability, beginning of year	\$ 2,224,622	\$ 1,782,156
Provision for incurred claims	13,293,162	12,355,820
Payments made on claims	<u>(13,242,032)</u>	<u>(11,913,354)</u>
Claims liability, end of year	<u>\$ 2,275,752</u>	<u>\$ 2,224,622</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 12 - RISK MANAGEMENT (Continued)

Metropolitan Knoxville Airport Authority

The Authority is subject to risks that include personal injury, property damage, employee bodily injury, employee theft, employee medical, public officials and employee conduct and workers' compensation. The Authority has purchased insurance policies that transfer these risks, subject to policy limits. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13 - JOINT VENTURES

Public Building Authority

In 1975, the Authority was formed as a not-for-profit corporation incorporated pursuant to provisions of the Public Building Authority Act of the State of Tennessee and an operating agreement between the City and Knox County. The Authority constructed and presently maintains and operates the City/County Building, which houses the governments of the City and County. The City and County pay rent to the Authority sufficient to meet operating costs with the City responsible for 36.49% of the payments.

An eleven-member board comprised of six County appointees and five City appointees operates the Authority. As described in the operating agreement, the City and County acting jointly may terminate the lease when all debt service and other obligations of the Authority have been met. In the event of termination, the City and County shall direct the Authority to whom and in what manner title to the assets is to be transferred.

Metropolitan Planning Commission (MPC)

The MPC is a public agency formed under joint resolution by the City and Knox County to design and monitor the Metropolitan Planning Program. The MPC is governed by a fifteen-member board comprised of eight County appointees and seven City appointees. Although there is no specific funding agreement, the City and County have historically provided funding in approximately equal amounts.

Condensed Financial Information

The following is a summary of selected financial information of the City's joint ventures for the most recent period available:

	<u>Public Building Authority</u>	<u>Metropolitan Planning Commission</u>
	June 30, 2006	June 30, 2006
Balance sheet date		
Total assets	\$ 12,631,266	\$ 965,662
Long-term debt	-	115,268
Other liabilities	4,605,217	313,980
Net assets	8,026,049	536,414
Total revenues	14,194,753	3,505,784
Total expenses	13,923,042	3,470,283

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 13 - JOINT VENTURES (Continued)

Complete financial statements for each of these joint ventures may be obtained from their respective administrative offices as follows:

Public Building Authority
Room M22
400 Main Street
Knoxville, Tennessee 37902

Metropolitan Planning Commission
Suite 403, City/County Building
400 Main Street
Knoxville, Tennessee 37902

NOTE 14 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Knoxville Zoo - The City entered into a new agreement on July 1, 2001, with Knoxville Zoological Gardens, Inc. whereby Knoxville Zoological Gardens, Inc. shall lease the Zoo to provide for its operation and management. Under terms of the agreement the City shall grant to Knoxville Zoological Park \$855,000 by August 1 each year through 2006.

Whittle Springs Golf Course - The City has entered into a contract with Billy Casper Golf, LLC to manage and operate its Whittle Springs Municipal Golf Course from October 25, 2006, to December 31, 2007. Under the terms of the agreement Billy Casper Golf, LLC will receive a base fee of \$5,000 per month and an incentive fee equal to 20% of the annual gross revenues over \$500,000.

Knoxville Municipal Golf Course - The City entered into an agreement on March 25, 1983, with C. E. Roberts, Inc. to develop and operate the Knoxville Municipal Golf Course from December 23, 1982, to December 23, 2007. Under terms of the lease, Roberts shall remit one dollar per year to the City as well as place 20% of its annual net income in a sinking fund reserved specifically for capital improvements to the golf course.

Parking Garages - The City entered into an agreement with the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) on August 11, 2005 to manage and operate the State Street, Main Avenue, and Market Square Parking Garages and the Jackson Avenue Parking Lot. The terms of the agreement shall continue until terminated by either party. The terms call for the City and PBA to agree upon an annual budget for the management of the above, said budget to cover direct and indirect costs of PBA relating to the management of the facilities. The amount of this budget in FY 06/07 is \$593,510.

IJAMS Nature Park - The City entered into an agreement on August 2, 1993, with the IJAMS Nature Park whereby IJAMS will provide management and operation of a nature park. The agreement has been extended through July 31, 2007. The agreement calls for a management fee of \$109,250.

Knoxville Convention Center - The City has negotiated a revised agreement effective July 1, 2006, with SMG to manage the operations of the Convention Center for a period of five years, with an option for an additional five years. The agreement calls for a fixed base fee of \$250,000 in FY 2006/07, and increasing by the CPI each year thereafter. SMG is also to receive an incentive fee each year depending upon the increase in various revenue categories as defined by the contract, but which in no instance exceed the fixed base fee. SMG shall also receive an additional incentive fee based upon various qualitative factors, but which shall not exceed \$50,000 in FY 06/07, said maximum to be annually adjusted by the CPI.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal Financial Assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2006 in accordance with provisions of the Single Audit Act of 1984.

Urban Growth Plan - The City and Knox County entered into an agreement that defines City and County growth areas within the County. The agreement prohibits alteration to the Urban Growth Plan through December 31, 2004 and was automatically extended for an additional three years through December 31, 2007. The agreement prohibits the City from annexing certain property for the four-year period unless certain conditions exist. The County agreed to invest \$5,000,000 from its current five-year capital plan for the City to make capital projects within its Empowerment Zone. The County will also designate an additional \$2,000,000 from its capital plan beginning in August, 2005. Should the City take actions resulting in the residential annexation during the period of the agreement, all funds provided to the City by Knox County must be returned to the County within 15 days.

Knoxville Utilities Board

Purchased Gas Adjustments - Knoxville Utilities Board's gas division purchased gas adjustment mechanism allows the Division to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by Knoxville Utilities Board's Board of Commissioners. The purchased gas adjustment is intended to ensure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The purchased gas adjustment is also intended to ensure that no excess or deficient cost recovery from the Division's customers occurs.

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of underrecovered costs was \$565,219 at June 30, 2006.

Purchased Power Adjustment - In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power.

In March 2004, the Board modified the PPA to ensure that the effective date of any adjustment would appropriately correspond to any applicable TVA wholesale rate change and to reflect new retail electric rate schedules adopted in October 2003.

In October 2005, TVA increased its wholesale power rates for its electric power distributors, including KUB. The PPA was utilized to flow this increase in wholesale cost directly through to KUB's retail electric customers. Residential customers experienced an increase of approximately 5.7 percent; bills for small commercial and industrial customers increased by 5.9 to 6.4 percent; and large commercial and industrial customers saw increases of 6.9 to 8.0 percent.

In April 2006, TVA again increased its wholesale power rates and the PPA was again utilized to flow the costs through the retail rate structures. Residential increases averaged 7.6 percent; small commercial and industrial retail bills increased by 7.9 to 8.6 percent; and large commercial and industrial accounts experienced increases ranging from 9.3 to 10.5 percent.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2006, the Gas Division of the Knoxville Utilities Board hedged 62% of its total gas purchases via gas supply contracts. As of June 30, 2006, the Gas Division had hedged the price on approximately 24% of its anticipated gas purchases for fiscal year 2007.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

The Knoxville Utilities Board contracts separately for the purchase, transportation and storage of natural gas. Purchase commitments for the next five years are as follows:

	<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>
Demand:									
Transportation	\$ 13,241,077	\$	14,446,672	\$	10,700,409	\$	9,013,610	\$	6,811,965
Storage	2,414,957		2,414,957		2,414,957		2,414,957		2,414,957
Demand total	<u>\$ 15,656,034</u>	<u>\$</u>	<u>16,861,629</u>	<u>\$</u>	<u>13,115,366</u>	<u>\$</u>	<u>11,428,567</u>	<u>\$</u>	<u>9,226,922</u>
Commodity:									
Baseload	<u>\$ 39,208,240</u>	<u>\$</u>	<u>14,835,600</u>	<u>\$</u>	<u>14,835,600</u>	<u>\$</u>	<u>2,823,300</u>	<u>\$</u>	<u>-</u>

Other Commitments and Contingencies

In February 2005 a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, achieving the goal of remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by June 30, 2016. In addition, KUB is also required to perform an evaluation of the wet-weather performance and capacity of KUB's wastewater treatment plants. The Consent Decree also requires KUB to fund a Supplemental Environmental Project ("SEP") in the amount of \$2 million over an eight-year period, which commenced February 2005. The parties to the Consent Decree include KUB, the Department of Justice, the Environmental Protection Agency, the Tennessee Clean Water Network, and the City of Knoxville.

In order to comply with the terms of the Consent Decree related to the collection system, KUB anticipates the Wastewater Division will spend over \$500 million in capital investments. The potential cost of any plant improvements resulting from the evaluation of the wet-weather performance and capacity of the treatment plants is unknown at this time.

KUB's funding plan for the Consent Decree includes approximately \$400 million in long-term bond issues plus a series of rate increases phased in over the term of the Consent Decree. The Wastewater Division issued \$140 million in long-term bonds in August 2005 to fund capital improvements for the collection system. The KUB Board of Commissioners have also approved two large rate increases to help fund expenditures, including a 50 percent rate increase, which went into effect April 2005. An additional 50 percent rate increase, already approved by the Board, will go into effect January 2007. The magnitude and timing of rate increases subsequent to January 2007 will be subject to the cost of planned collection system projects plus any additional requirements resulting from the operational assessment of the wastewater treatment plants.

KUB recognizes its construction program to improve the wastewater collection system will have a dramatic impact on the Knoxville area in general and specifically on its wastewater customers. In an effort to educate the community and to solicit their input, KUB felt it was important to name its construction improvement program and to implement a public awareness initiative. In August 2004, KUB launched PACE 10, an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. PACE 10 stands for Partners Acting for a Cleaner Environment. KUB officials met with local business leaders and city, state, and federal officials to alert them to the magnitude of the program and the costs associated with making improvements to the wastewater system. KUB also implemented a PACE 10 Partners' Council, consisting of local business leaders and citizens, as another means of keeping the community informed over the life of PACE 10.

During fiscal year 2006, KUB also launched the Private Lateral Program (PLP), as required by the Consent Decree, under which KUB will test private collection system laterals on its wastewater system over a ten-year period. If a private lateral fails the respective inspection test, then the customer is required to have the lateral repaired/replaced within a specified time period. The \$2 million SEP provides funding for lateral repairs/replacements for eligible low-income customers.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 16 - POST-RETIREMENT BENEFITS

Former City employees are allowed to maintain health care coverage comparable to what they had at retirement. Premium payments are the responsibility of the retiree until they become eligible for Medicare.

In addition to providing pension benefits, KUB provides certain health care and life insurance benefits for retired employees, their spouses and dependent children. The cost of retired health care and life insurance benefits is recognized as expense as claims are paid. Substantially all KUB employees hired on or before July 1, 1999, are eligible for these benefits, if they meet the Rule of 80 upon termination of employment, with a minimum of 20 years of service. Approximately 1,427 retirees and dependents were eligible to receive such benefits at June 30, 2006. KUB's portion of total benefits and related administrative expenses for 2006 was approximately \$5,484,401.

NOTE 17 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on two major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for \$1,281,636 in aviation area revenue during 2006. In addition, a significant portion of terminal area revenue is directly and indirectly generated from this airline's passengers, which accounted for approximately 37% of total passengers during 2006 and approximately 44% of total passengers during 2005. As of June 30, 2006 and 2005, 28% and 32%, respectively, of trade accounts receivable are due from these major airlines.

During 2006, one of the major airlines above and another airline voluntarily filed for reorganization under Chapter 11 of the United States Bankruptcy Code. The Authority incurred approximately \$171,000 in bad debt expense related to the bankruptcy filings. The Authority does not currently feel that future operations will be impacted significantly by these filings, since both airlines have indicated they expect to continue to operate their full schedules. Also, if either of the airlines were to fail or to discontinue service from McGhee Tyson Airport, the Authority feels other airlines would replace any lost flights.

NOTE 18 - TRANSFERS

The general fund transfers funds, in accordance with its budget, to supplement revenues of the storm water, solid waste, Knoxville Convention Center, and public assembly facilities funds. Transfers are also made by the general fund to partially fund insurance and employee health insurance costs. The general fund and debt service fund transfer funds to the Knoxville Convention Center to partially fund debt service costs. Transfers from the general fund and state street aid fund are used to partially fund capital outlay costs in the capital projects fund.

Fines and court costs collected by city court are transferred to the general fund and certain special revenue funds based on approved schedules of costs.

The capital projects fund transferred funds to the debt service to fund retirement of the outstanding balance of the City's line of credit.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 18 - TRANSFERS (Continued)

A detailed reconciliation of operating transfers at June 30, 2006 is as follows:

	Governmental Activities						Internal Service Funds		Total
	General Fund	Debt Service	Capital Projects	State Street Aid	City Court	Miscellaneous Special Revenue Funds	Miscellaneous Community Development	Health Insurance	
Primary Government:									
Governmental Activities:									
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 3,240,660	\$ -	\$ -	\$ -	\$ 3,240,660
Capital Projects Fund	8,655,350	2,827,600	59,150	1,275,000	-	3,094,990	11,700	-	15,923,790
Community Development									
Block Grants	94,641	-	-	-	-	-	-	-	94,641
Miscellaneous grants	133,790	-	-	-	-	-	-	-	133,790
Miscellaneous Community Development									
Development	90,000	-	-	-	-	-	-	-	90,000
Storm Water	1,468,930	-	-	-	-	-	-	-	1,468,930
Solid Waste	8,522,130	-	-	-	-	-	-	-	8,522,130
Business-type Activities:									
Convention Center	3,738,250	4,073,040	-	-	-	-	-	-	7,811,290
Public Assembly Facilities	1,723,520	-	-	-	-	-	-	-	1,723,520
Internal Service Funds:									
Fleet Maintenance	1,591,870	3,800,000	-	-	-	-	-	-	5,391,870
Risk Management	3,603,560	1,500,000	-	-	-	-	-	-	5,103,560
Employee Health Insurance	1,115,080	-	-	-	-	-	-	-	1,115,080
Equipment Replacement	69,259	-	-	-	-	-	450	2,110	71,819
	<u>\$ 30,806,380</u>	<u>\$ 12,200,640</u>	<u>\$ 59,150</u>	<u>\$ 1,275,000</u>	<u>\$ 3,240,660</u>	<u>\$ 3,094,990</u>	<u>\$ 12,150</u>	<u>\$ 2,110</u>	<u>\$ 50,691,080</u>

NOTE 19 - RETIREMENT AND DISABILITY PLANS

Plan Descriptions

City Employees' Pension Plan

The City also maintains a single-employer defined benefit pension plan (City Employees' Pension Plan), administered by the City of Knoxville Pension Board, which is comprised of three divisions of current membership and a membership of certain former City School employees. All participants are fully vested in the plan after 5 years of service. The plan includes employees of the City of Knoxville and certain employees of the Metropolitan Knoxville Airport Authority (MCAA).

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Division A - All employees of the City who were hired on or after January 16, 1963, and prior to July 1, 1997 became members of Division A. Employees of the Metropolitan Knoxville Airport Authority (MCAA) are considered employees of the City of Knoxville for purposes of participating in the Pension System. Participants of Division A are covered by Social Security. Division A is now a closed plan. Participation in Division A requires employee contributions of 3% of the first four thousand eight hundred dollars of annual earnings and 5% of annual earnings in excess of four thousand eight hundred dollars. Division A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later.

Division B - All employees of the City of Knoxville who were employed on January 16, 1963, and who participated in the City Employees' Pension Fund as created by the City of Knoxville Pension Act of 1935, were deemed to be members of Division B of the System unless they elected to transfer to Division A. (This excludes firefighters and police officers who were participants of the Firemen and Policemen Pension Fund created by the Firemen and Police Pension Act of 1929.) Participants of Division B are not covered by Social Security. Division B is now a closed plan and no participants can be added. Participation in Division B requires employee contributions of 4% of annual earnings. Division B provides for retirement benefits after 25 years of service and the attainment of age 50.

Division C - All firefighters and police officers employed after January 2, 1971, and those transferring from the Firemen and Policemen Pension Act of 1929 (now Division F) or Division B by election are participants of the Division C Plan. Participants of Division C are covered by Social Security. Participation in Division C requires employee contributions of 6% of annual earnings subject to a maximum of 30 years. Division C provides for retirement benefits after 25 years of service and attainment of age 50. Retirement is compulsory after reaching age 60.

Division F - All firefighters and police officers employed prior to January 16, 1963 (former members of the Firemen and Policemen Pension Act of 1929 plan, a "pay-as-you-go" funded plan which terminated as of June 30, 2000) are participants of the Division F Plan. Participants of Division F are not covered by Social Security. Participation in Division F requires employee contributions of 5% of monthly earnings. Division F provides for retirement benefits after 25 years of service and attainment of age 50.

Division G - As a condition of employment, each employee hired on or after January 1, 1997 becomes a member of Division G after six months of service. In addition, members who elected to transfer from Division A prior to May 15, 1997, and former non-participants who elected participation prior to May 15, 1997 became members of Division G. Members of Division G are covered by Social Security. Participation in Division G requires employee contributions of 6% of annual earnings. Division G provides for normal retirement benefits at age 62 or later.

Board of Education Division - The City of Knoxville School System was abolished effective July 1, 1987 and absorbed into the operations of the Knox County School System. A court ruling has held and the Tennessee Court of Appeals has affirmed that the City is liable for the accrued pension liability, through June 30, 1987, for those former City School employees who remain in the City Employees' Pension Plan. Because of the abolition of the City School System, the Board of Education Division of the City Employees' Pension Plan has, in substance, been terminated. The City is responsible for any unfunded pension liability for the benefits that former City School employees would be entitled to if their earned benefits were frozen at July 1, 1987. No liability existed at June 30, 2006.

Benefit provisions are established in the City's Charter and can be amended by voter referendum. The City of Knoxville Pension Board issues a publicly available financial report that includes financial statements and required supplementary information for the City Employees' Pension Plan. That report may be obtained by writing to the City of Knoxville Pension Board, 917B East Fifth Avenue, Knoxville, Tennessee 37917. The Plan is also included in the reporting entity as a discretely presented fiduciary component unit.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Knoxville Utilities Board Pension Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, and is not subject to any of the provisions of the Act. The Plan is funded by contributions from KUB, if funding is required, and from Plan A and Plan B employee participants. The Plan is currently overfunded.

At December 31, 2005, the Plan had 730 retirees and beneficiaries currently receiving benefits and 54 terminated employees entitled to benefits but not yet receiving them. Of the approximately 969 current employees in the Plan, 816 were fully vested at December 31, 2005. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. The Plan consists of three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)

CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City System Plan A members who elected CEP coverage as of July 1, 1999.

All new eligible employees become participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A

Plan A benefits are for former City System Plan A active employees, vested terminated employees, retirees, and beneficiaries.

All employees participating in the City System Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3% of the first \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B

Plan B benefits are for former City System Plan B active employees, vested terminated employees, retirees, and beneficiaries.

All employees participating in the City System Plan B as of June 30, 1999, are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4% of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the plan year ended December 31, 2005 the actuarial-accrued liability for the Plan was less than the actuarial value of assets; however, a contribution of \$710,987 is required to be made because the amortization of the negative unfunded actuarial liability is less than the normal cost. The contribution is required to be made during the plan sponsor's fiscal year ending June 30, 2007. The annual required contribution was determined as part of the January 1, 2005 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8%, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 6.26% to 3.21%, and (d) cost of living adjustment of 3% annually for years 2002 through 2005 and 4% in 2001. Use of the RP2000 Mortality Table for 2005 in the actuarial valuation represents a change in actuarial assumption from prior years, when the 1983 Group Annuity Mortality Table was used. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

Annual Pension Costs

City Employees' Pension Plan

For the year ended June 30, 2006, the annual pension cost for the City and participating component units was \$4,210,793 and was equal to the required and actual contributions. The required contribution was determined as part of the July 1, 2006 actuarial valuation using the aggregate method with supplemental liability for Plan F. Under this method, the unfunded actuarial liability is only identified and amortized for Plan F. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 8.0% per year compounded annually, (b) annual projected salary increases based on plan experience for employees at various categories of years of service (from 3.5% to 12% and on which no explicit assumption is made regarding the portion attributable to the effect of inflation on salaries), and (c) projected post retirement increases of 3.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. The unfunded actuarial liability for Plan F is being amortized over 30 years on a closed basis beginning in July 1, 2001.

Trend information for the City's contributions to the City Employees' Pension Plan for the last three years is as follows:

Year Ended June, 30	General Government Divisions A, B and G		Board of Education		Firefighters and Police Divisions C and F		Total City Employees' Pension Plan	
	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed
2006	\$1,133,337	100%	\$ -	n/a	\$3,077,456	100%	\$4,210,793	100%
2005	610,584	100%	-	n/a	2,302,822	100%	2,913,406	100%
2004	279,612	100%	-	n/a	1,170,919	100%	1,450,531	100%

Knoxville Utilities Board Pension Plan

The Knoxville Utilities Board Pension Plan recommends employer contributions as a percentage of the monthly earnings of Plan members based on an actuarial valuation. The recommended contributions are determined using an individual entry age normal funding method. The System is required to contribute at an actuarially determined rate.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

The Plan's annual pension cost to the Plan for the current year was \$710,987. The annual required contribution for the current year was determined as part of the January, 2005, actuarial valuation. Significant actuarial assumptions used in the valuation include (a) rate of return on investments of 8%, (b) 1983 Group Annuity Mortality Table, (c) annual projected salary increased based on participants' ages ranging from age 25 to 65 with salary increases from 3.21% to 6.26%, and (d) cost of living adjustment of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a four-year period.

Trend information for KUB's contributions to the Plan for the last three years is as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
December 31, 2005	\$ 710,987	100%
December 31, 2004	-	N/A
December 31, 2003	-	N/A

Defined Contribution Plan

Knoxville Utilities Board

KUB has a defined contribution 401(k) employee retirement savings plan covering KUB employees who are eligible and elect to participate.

401(k) matching contributions for employees eligible to participate in the KUB Pension Plan were funded by the Pension Plan for the year ended June 30, 2006, using a portion of excess pension assets accumulated during past years. These funds are held by the trustee custodian until necessary for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan.

KUB funded 401(k) matching contributions of \$264 for the year ended June 30, 2006, for employees not covered under the Pension Plan.

Metropolitan Knoxville Airport Authority

The Metropolitan Knoxville Airport Authority provides retirement benefits for all of its full-time employees through a defined contribution plan (Metropolitan Knoxville Airport Authority Plan) which was established and amended under the authority of the Board of Commissioners and is administered by International City Management Association Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment.

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled \$557,889 in 2006. Employee contributions totaled \$14,812 in 2006.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2006

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Deferred Compensation Plan

Metropolitan Knoxville Airport Authority

The Metropolitan Knoxville Airport Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were \$98,455 in 2006.

NOTE 20 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	\$ 8,223,198
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	\$ 11,722,421
Subsidies paid by the City to Knoxville Area Transit	\$ 7,842,981

CITY OF KNOXVILLE

**Required Supplementary Information
June 30, 2006**

Schedule of Funding Progress - City Employees' Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2006						
Plan F	\$ 261,624,181	\$ 303,946,305	\$ 42,322,124	86.1%	\$ 25,585,467	165.4%
Other	209,277,244	N/A	N/A	N/A	27,970,881	N/A
July 1, 2005						
Plan F	254,746,885	298,752,660	44,005,775	85.3%	24,743,095	177.9%
Other	205,514,858	N/A	N/A	N/A	27,268,909	N/A
July 1, 2004						
Plan F	250,066,940	297,330,672	47,263,732	84.1%	24,358,199	194.0%
Other	203,099,651	N/A	N/A	N/A	26,974,521	N/A
July 1, 2003						
Plan F	252,508,388	287,789,466	35,281,078	87.7%	24,350,147	144.9%
Other	206,607,072	N/A	N/A	N/A	28,770,108	N/A
July 1, 2002						
Plan F	256,781,273	276,372,256	19,590,983	92.9%	24,466,370	80.1%
Other	212,032,907	N/A	N/A	N/A	27,786,373	N/A
July 1, 2001						
Plan F	251,483,373	265,729,297	14,245,924	94.6%	23,035,672	61.8%
Other	209,476,773	N/A	N/A	N/A	27,047,510	N/A
July 1, 2000	433,160,647	N/A	N/A	N/A	61,555,234	N/A
July 1, 1999	396,186,010	N/A	N/A	N/A	59,535,391	N/A
July 1, 1998	596,654,552	N/A	N/A	N/A	94,939,571	N/A

Note: In years 1998 through 2000 the Plan's funding method was changed to the aggregate method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Beginning in 2001, an unfunded liability is being calculated for the uniformed bodies section of the Plan as the result of the establishment of Division F. Division F had an initial frozen liability of \$14,246,000 at July 1, 2001. Other sections of the plan continue to use the aggregate method, which does not identify or separately amortize unfunded liabilities.

Years prior to 1999 include Knoxville Utilities Board.

Years beginning 2001 Board of Education payroll excludes teachers.

CITY OF KNOXVILLE

**Required Supplementary Information
June 30, 2006**

Schedule of Funding Progress - Knoxville Utilities Board Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2006	\$ 232,628,277	\$ 200,317,475	\$ (32,310,802)	116.1%	\$ 43,064,519	-75.0%
January 1, 2005	236,655,342	201,099,846	(35,555,496)	117.7%	42,925,588	-82.8%
January 1, 2004	244,131,736	198,626,376	(45,505,360)	122.9%	42,964,030	-105.9%
January 1, 2003	249,977,409	197,613,054	(52,364,355)	126.5%	41,832,536	-125.2%
January 1, 2002	266,240,494	196,131,495	(70,108,999)	135.7%	39,852,521	-175.9%
January 1, 2001	278,423,000	195,606,000	(82,817,000)	142.3%	38,094,000	-217.4%
July 1, 2000	385,367,000	201,751,000	(183,616,000)	191.0%	36,901,000	-497.6%
July 1, 1999	314,428,000	202,437,000	(111,991,000)	155.3%	36,194,000	-309.4%

Note: The Plan was established on July 1, 1999. Additional years will be presented as they become available.

Schedule of Funding Progress - Firemen and Policemen Pension Act of 1929

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2006	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2005	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2004	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2003	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2002	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2001	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2000	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 1999	\$ -	\$ 49,619	\$ 49,619	0.0%	248	N/A ⁽¹⁾
July 1, 1998	-	48,121	48,121	0.0%	264	N/A ⁽¹⁾
July 1, 1997	-	48,589	48,589	0.0%	280	N/A ⁽¹⁾

(1) - Because the plan is closed and there are few active participants, the relationship between covered payroll and the plan's liability is not meaningful.

Note: The plan was discontinued at June 30, 2000 and participants became members of the City Employees' Pension Plan.

Nonmajor Governmental Funds ***Special Revenue Funds***

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

State Street Aid Fund	To account for the State of Tennessee shared motor fuel tax revenues that are legally restricted to the maintenance of streets within the City's boundaries.
Community Development Block Grants Fund	To account for Community Development Block Grant Funds.
Abandoned Vehicles Fund	To account for revenues from impoundment and sale of abandoned and wrecked vehicles.
City Inspections Fund	To account for the City's building, electrical and plumbing inspection activities.
City Court Fund	To account for the activities of the City's local jurisdiction court.
Miscellaneous Grants Fund	To account for various police, safety and humane grants and funds.
Animal Control Fund	To account for the City's animal licensing and control activities.
Miscellaneous Special Revenue Fund	To account for funds arising from transportation and public affairs activities.
Miscellaneous Community Development Fund	To account for grant funds restricted for housing and humanity.
Storm Water Fund	To account for activities related to the City's water drainage system.
Solid Waste Fund	To account for the City's recycling and solid waste disposal activities.
Coster Redevelopment	To account for trust proceeds related to the cleanup of various sites.
Krutch Park Trust Fund	To account for funds bequeathed to the City for the purpose of constructing and maintaining a downtown city park.
Knoxville Civic Revitalization Fund	To account for the receipt and disbursement of Urban Development Action Grant funds.
City Choice Fund	To account for flexible benefits contributed by employees on a voluntary basis.

CITY OF KNOXVILLE, TENNESSEE

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Funds							Miscellaneous Special Revenue Funds
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control	
Assets								
Cash & Cash Equivalents	\$ -	\$ 142	\$ 4,737	\$ 1,298	\$ 2,684	\$ 2,600,369	\$ 1,850	\$ 155,782
Investments	946,918	-	1,444,910	748,555	1,178,021	6,444	275,251	5,376,962
Accounts Receivable	839,924	165,552	7,322	34,776	27,144	2,178,647	50	15,530
Notes Receivable	-	2,679,742	-	-	-	-	-	-
Total assets	<u>\$ 1,786,842</u>	<u>\$ 2,845,436</u>	<u>\$ 1,456,969</u>	<u>\$ 784,629</u>	<u>\$ 1,207,849</u>	<u>\$ 4,785,460</u>	<u>\$ 277,151</u>	<u>\$ 5,548,274</u>
Liabilities and fund balances								
Liabilities:								
Accounts Payable	\$ 253,369	\$ 70,060	\$ 12,757	\$ 1,470	\$ 4,749	\$ 632,177	\$ -	\$ 29,250
Accrued Liabilities	-	28,862	8,000	82,653	90,394	22,082	-	1,456
Customer Deposits	-	33,576	-	-	-	76,779	-	95,281
Due to Other Funds	-	335,000	-	25,000	5,000	-	-	2,958,370
Due to Other Governmental Agencies	-	-	-	-	-	25,926	-	-
Deferred Revenue	-	2,679,742	-	-	-	61,565	-	-
Total liabilities	<u>253,369</u>	<u>3,147,240</u>	<u>20,757</u>	<u>109,123</u>	<u>100,143</u>	<u>818,529</u>	<u>-</u>	<u>3,084,357</u>
Fund balances:								
Reserved for:								
Notes Receivable	-	2,679,742	-	-	-	-	-	-
Designated for expendable trust funds								
Undesignated	1,533,473	(2,981,546)	1,436,212	675,506	1,107,706	3,966,931	277,151	2,463,917
Total fund balances	<u>1,533,473</u>	<u>(301,804)</u>	<u>1,436,212</u>	<u>675,506</u>	<u>1,107,706</u>	<u>3,966,931</u>	<u>277,151</u>	<u>2,463,917</u>
Total liabilities and fund balances	<u>\$ 1,786,842</u>	<u>\$ 2,845,436</u>	<u>\$ 1,456,969</u>	<u>\$ 784,629</u>	<u>\$ 1,207,849</u>	<u>\$ 4,785,460</u>	<u>\$ 277,151</u>	<u>\$ 5,548,274</u>

Special Revenue Funds (continued)				Expendable Trust Funds						
Miscellaneous Community Development Funds	Storm Water	Solid Waste	Total Special Revenue Funds	Coster Redevelopment	Krutch Park Trust	Knoxville Civic Revitalization	City Choice Plus	Total Expendable Trust Funds	Total Nonmajor Governmental Funds	
\$ 373,567	\$ 1,661	\$ 1,869	\$ 3,143,959	\$ 73,566	\$ 201,261	\$ -	\$ 3,192	\$ 278,019	\$ 3,421,978	
1,044,251	435,359	3,807,205	15,263,876	-	568,562	2,055,976	51,588	2,676,126	17,940,002	
241,893	780	1,594	3,513,212	-	-	1	20,220	20,221	3,533,433	
5,278,058	-	-	7,957,800	-	-	-	-	-	7,957,800	
<u>\$ 6,937,769</u>	<u>\$ 437,800</u>	<u>\$ 3,810,668</u>	<u>\$ 29,878,847</u>	<u>\$ 73,566</u>	<u>\$ 769,823</u>	<u>\$ 2,055,977</u>	<u>\$ 75,000</u>	<u>\$ 2,974,366</u>	<u>\$ 32,853,213</u>	
\$ 140,622	\$ 3,775	\$ 163,703	\$ 1,311,932	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,311,932	
-	46,156	20,873	300,476	-	-	-	-	-	300,476	
-	-	-	205,636	-	-	-	-	-	205,636	
-	15,000	15,000	3,353,370	-	-	-	75,000	75,000	3,428,370	
-	-	-	25,926	-	-	-	-	-	25,926	
5,399,628	-	-	8,140,935	-	-	-	-	-	8,140,935	
<u>5,540,250</u>	<u>64,931</u>	<u>199,576</u>	<u>13,338,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>	<u>13,413,275</u>	
5,278,058	-	-	7,957,800	-	-	-	-	-	7,957,800	
-	-	-	-	73,566	769,823	2,055,977	-	2,899,366	2,899,366	
(3,880,539)	372,869	3,611,092	8,582,772	-	-	-	-	-	8,582,772	
<u>1,397,519</u>	<u>372,869</u>	<u>3,611,092</u>	<u>16,540,572</u>	<u>73,566</u>	<u>769,823</u>	<u>2,055,977</u>	<u>-</u>	<u>2,899,366</u>	<u>19,439,938</u>	
<u>\$ 6,937,769</u>	<u>\$ 437,800</u>	<u>\$ 3,810,668</u>	<u>\$ 29,878,847</u>	<u>\$ 73,566</u>	<u>\$ 769,823</u>	<u>\$ 2,055,977</u>	<u>\$ 75,000</u>	<u>\$ 2,974,366</u>	<u>\$ 32,853,213</u>	

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2006

	Special Revenue Funds							Miscellaneous Special Revenue Funds
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control	
Revenues								
Taxes, assessments, interest & penalties	\$ 4,895,026	\$ -	\$ -	\$ -	\$ 687,300	\$ -	\$ -	\$ -
Licenses, permits & inspection charges	-	-	-	2,047,447	-	-	-	-
Fines & forfeitures	-	-	-	-	1,185,797	104,176	-	1,421,728
Charges for services	-	-	371,313	-	2,248,599	40	29,705	647,693
Other	39,364	171,677	444,888	35,968	89,433	129,696	10,632	325,052
Intergovernmental revenue	-	2,476,383	-	-	-	5,887,369	-	-
Total revenues	4,934,390	2,648,060	816,201	2,083,415	4,211,129	6,121,281	40,337	2,394,473
Expenditures								
Current:								
Administration	-	-	-	-	-	1,154	-	-
Operations & Engineering	-	-	587,554	-	-	77,963	-	-
Community & Neighborhood Services	3,261,285	3,107,601	-	2,052,810	-	477,190	14,422	86,291
Law	-	-	-	-	765,129	-	-	-
Police	-	-	-	-	-	2,831,917	-	372,579
Fire	-	-	-	-	-	19,563	-	-
Legislative	-	-	-	-	-	-	-	-
Mass transit	630,000	-	-	-	-	-	-	-
Total expenditures	3,891,285	3,107,601	587,554	2,052,810	765,129	3,407,787	14,422	458,870
Excess (deficiency) of revenues over (under) expenditures	1,043,105	(459,541)	228,647	30,605	3,446,000	2,713,494	25,915	1,935,603
Other financing sources (uses)								
Transfers In	-	94,641	-	-	-	133,790	-	-
Transfers Out	(1,275,000)	-	-	-	(3,240,660)	-	-	(3,094,990)
Total other financing sources (uses)	(1,275,000)	94,641	-	-	(3,240,660)	133,790	-	(3,094,990)
Net change in fund balances	(231,895)	(364,900)	228,647	30,605	205,340	2,847,284	25,915	(1,159,387)
Fund balance - beginning	1,765,368	63,096	1,207,565	644,901	902,366	1,119,647	251,236	3,623,304
Fund balance - ending	\$ 1,533,473	\$ (301,804)	\$ 1,436,212	\$ 675,506	\$ 1,107,706	\$ 3,966,931	\$ 277,151	\$ 2,463,917

Special Revenue Funds (continued)				Expendable Trust Funds					
Miscellaneous Community Development Funds	Storm Water	Solid Waste	Total Special Revenue Funds	Coster Redevelopment	Krutch Park Trust	Knoxville Civic Revitalization	City Choice Plus	Total Expendable Trust Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 5,582,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,582,326
-	-	-	2,047,447	-	-	-	-	-	2,047,447
-	-	-	2,711,701	-	-	-	-	-	2,711,701
-	168,598	758,989	4,224,937	-	-	55,884	-	55,884	4,280,821
797,611	10,392	275,278	2,329,991	-	17,748	83,166	342,694	443,608	2,773,599
3,958,575	-	-	12,322,327	-	-	-	-	-	12,322,327
4,756,186	178,990	1,034,267	29,218,729	-	17,748	139,050	342,694	499,492	29,718,221
-	-	-	1,154	-	-	-	494,025	494,025	495,179
-	1,720,377	9,569,848	11,955,742	-	-	-	-	-	11,955,742
4,842,288	-	-	13,841,887	-	-	206,000	-	206,000	14,047,887
-	-	-	765,129	110,000	-	-	-	110,000	875,129
-	-	-	3,204,496	-	-	-	-	-	3,204,496
-	-	-	19,563	-	-	-	-	-	19,563
77,850	-	-	77,850	-	-	-	-	-	77,850
-	-	-	630,000	-	-	-	-	-	630,000
4,920,138	1,720,377	9,569,848	30,495,821	110,000	-	206,000	494,025	810,025	31,305,846
(163,952)	(1,541,387)	(8,535,581)	(1,277,092)	(110,000)	17,748	(66,950)	(151,331)	(310,533)	(1,587,625)
90,000	1,468,930	8,522,130	10,309,491	-	-	-	-	-	10,309,491
(12,150)	-	-	(7,622,800)	-	-	-	-	-	(7,622,800)
77,850	1,468,930	8,522,130	2,686,691	-	-	-	-	-	2,686,691
(86,102)	(72,457)	(13,451)	1,409,599	(110,000)	17,748	(66,950)	(151,331)	(310,533)	1,099,066
1,483,621	445,326	3,624,543	15,130,973	183,566	752,075	2,122,927	151,331	3,209,899	18,340,872
\$ 1,397,519	\$ 372,869	\$ 3,611,092	\$ 16,540,572	\$ 73,566	\$ 769,823	\$ 2,055,977	\$ -	\$ 2,899,366	\$ 19,439,938

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
State Street Aid
For the Year Ended June 30, 2006**

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes, assessments, interest & penalties	\$ 4,900,000	\$ 5,125,000	\$ 4,895,026	\$ (229,974)
Other	15,000	45,000	39,364	(5,636)
Total revenues	<u>4,915,000</u>	<u>5,170,000</u>	<u>4,934,390</u>	<u>(235,610)</u>
Expenditures				
Current:				
Community & Neighborhood Services	3,010,000	3,265,000	3,261,285	3,715
Mass transit	630,000	630,000	630,000	-
Total expenditures	<u>3,640,000</u>	<u>3,895,000</u>	<u>3,891,285</u>	<u>3,715</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,275,000</u>	<u>1,275,000</u>	<u>1,043,105</u>	<u>(231,895)</u>
Other financing sources (uses)				
Transfers Out	(1,275,000)	(1,275,000)	(1,275,000)	-
Total other financing sources (uses)	<u>(1,275,000)</u>	<u>(1,275,000)</u>	<u>(1,275,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(231,895)	<u>\$ (231,895)</u>
Fund balance - beginning			<u>1,765,368</u>	
Fund balance - ending			<u>\$ 1,533,473</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
Community Development Block Grants
For the Year Ended June 30, 2006**

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Other	\$ 1,783,940	\$ 3,402,883	\$ 171,677	\$ (3,231,206)
Intergovernmental revenue	2,144,920	2,144,920	2,476,383	331,463
Total revenues	<u>3,928,860</u>	<u>5,547,803</u>	<u>2,648,060</u>	<u>(2,899,743)</u>
Expenditures				
Current:				
Community & Neighborhood Services	2,758,270	5,196,663	3,107,601	2,089,062
Capital & Grant Projects	809,670	-	-	-
Total expenditures	<u>3,567,940</u>	<u>5,196,663</u>	<u>3,107,601</u>	<u>2,089,062</u>
Excess (deficiency) of revenues over (under) expenditures	<u>360,920</u>	<u>351,140</u>	<u>(459,541)</u>	<u>(810,681)</u>
Other financing sources (uses)				
Transfers In	139,080	148,860	94,641	(54,219)
Transfers Out	(500,000)	(500,000)	-	500,000
Total other financing sources (uses)	<u>(360,920)</u>	<u>(351,140)</u>	<u>94,641</u>	<u>445,781</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(364,900)</u>	<u>\$ (364,900)</u>
Fund balance - beginning			<u>63,096</u>	
Fund balance - ending			<u>\$ (301,804)</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
Abandoned Vehicles
For the Year Ended June 30, 2006**

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 311,050	\$ 311,050	\$ 371,313	\$ 60,263
Other	282,830	318,601	444,888	126,287
Total revenues	<u>593,880</u>	<u>629,651</u>	<u>816,201</u>	<u>186,550</u>
Expenditures				
Current:				
Operations & Engineering	593,880	629,651	587,554	42,097
Total expenditures	<u>593,880</u>	<u>629,651</u>	<u>587,554</u>	<u>42,097</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	228,647	<u>\$ 228,647</u>
Fund balance - beginning			<u>1,207,565</u>	
Fund balance - ending			<u>\$ 1,436,212</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
City Inspections
For the Year Ended June 30, 2006**

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Licenses, permits & inspection charges	\$ 1,753,000	\$ 1,788,000	\$ 2,047,447	\$ 259,447
Other	3,080	3,080	35,968	32,888
Total revenues	<u>1,756,080</u>	<u>1,791,080</u>	<u>2,083,415</u>	<u>292,335</u>
Expenditures				
Current:				
Community & Neighborhood Services	<u>2,004,740</u>	<u>2,055,170</u>	<u>2,052,810</u>	<u>2,360</u>
Total expenditures	<u>2,004,740</u>	<u>2,055,170</u>	<u>2,052,810</u>	<u>2,360</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(248,660)</u>	<u>(264,090)</u>	<u>30,605</u>	<u>294,695</u>
Other financing sources (uses)				
Transfers In	<u>248,660</u>	<u>264,090</u>	<u>-</u>	<u>(264,090)</u>
Total other financing sources (uses)	<u>248,660</u>	<u>264,090</u>	<u>-</u>	<u>(264,090)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>30,605</u>	<u>\$ 30,605</u>
Fund balance - beginning			<u>644,901</u>	
Fund balance - ending			<u>\$ 675,506</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
City Court
For the Year Ended June 30, 2006**

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes, assessments, interest & penalties	\$ 594,000	\$ 594,000	\$ 687,300	\$ 93,300
Fines & forfeitures	1,103,000	1,133,000	1,185,797	52,797
Charges for services	1,941,500	2,241,500	2,248,599	7,099
Other	40,000	40,000	89,433	49,433
Total revenues	<u>3,678,500</u>	<u>4,008,500</u>	<u>4,211,129</u>	<u>202,629</u>
Expenditures				
Current:				
Law	683,550	767,840	765,129	2,711
Total expenditures	<u>683,550</u>	<u>767,840</u>	<u>765,129</u>	<u>2,711</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,994,950</u>	<u>3,240,660</u>	<u>3,446,000</u>	<u>205,340</u>
Other financing sources (uses)				
Transfers Out	(2,994,950)	(3,240,660)	(3,240,660)	-
Total other financing sources (uses)	<u>(2,994,950)</u>	<u>(3,240,660)</u>	<u>(3,240,660)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	205,340	<u>\$ 205,340</u>
Fund balance - beginning			<u>902,366</u>	
Fund balance - ending			<u>\$ 1,107,706</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
Miscellaneous Special Revenue Funds
For the Year Ended June 30, 2006**

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Fines & forfeitures	\$ 3,204,000	\$ 1,319,000	\$ 1,421,728	\$ 102,728
Charges for services	120,000	219,030	647,693	428,663
Other	91,500	2,349,621	325,052	(2,024,569)
Total revenues	<u>3,415,500</u>	<u>3,887,651</u>	<u>2,394,473</u>	<u>(1,493,178)</u>
Expenditures				
Current:				
Community & Neighborhood Services	80,000	95,500	86,291	9,209
Police	497,151	497,151	372,579	124,572
Total expenditures	<u>577,151</u>	<u>592,651</u>	<u>458,870</u>	<u>133,781</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,838,349</u>	<u>3,295,000</u>	<u>1,935,603</u>	<u>(1,359,397)</u>
Other financing sources (uses)				
Transfers Out	<u>(2,838,349)</u>	<u>(3,295,000)</u>	<u>(3,094,990)</u>	<u>200,010</u>
Total other financing sources (uses)	<u>(2,838,349)</u>	<u>(3,295,000)</u>	<u>(3,094,990)</u>	<u>200,010</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(1,159,387)</u>	<u>\$ (1,159,387)</u>
Fund balance - beginning			<u>3,623,304</u>	
Fund balance - ending			<u>\$ 2,463,917</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
Miscellaneous Community Development Funds
For the Year Ended June 30, 2006**

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Other	\$ 280,000	\$ 430,000	\$ 797,611	\$ 367,611
Intergovernmental revenue	2,200,070	2,200,070	3,958,575	1,758,505
Total revenues	<u>2,480,070</u>	<u>2,630,070</u>	<u>4,756,186</u>	<u>2,126,116</u>
Expenditures				
Current:				
Community & Neighborhood Services	2,340,990	2,340,990	4,842,288	(2,501,298)
Total expenditures	<u>2,340,990</u>	<u>2,430,990</u>	<u>4,920,138</u>	<u>(2,423,448)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>139,080</u>	<u>199,080</u>	<u>(163,952)</u>	<u>(297,332)</u>
Other financing sources (uses)				
Transfers Out	(139,080)	(289,080)	(12,150)	276,930
Total other financing sources (uses)	<u>(139,080)</u>	<u>(199,080)</u>	<u>77,850</u>	<u>366,930</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(86,102)</u>	<u>\$ 69,598</u>
Fund balance - beginning			<u>1,483,621</u>	
Fund balance - ending			<u>\$ 1,397,519</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
Storm Water
For the Year Ended June 30, 2006**

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Charges for services	\$ 135,000	\$ 135,000	\$ 168,598	\$ 33,598
Other	7,000	51,875	10,392	(41,483)
Total revenues	<u>142,000</u>	<u>186,875</u>	<u>178,990</u>	<u>(7,885)</u>
Expenditures				
Current:				
Operations & Engineering	1,910,930	1,955,805	1,720,377	235,428
Total expenditures	<u>1,910,930</u>	<u>1,955,805</u>	<u>1,720,377</u>	<u>235,428</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,768,930)</u>	<u>(1,768,930)</u>	<u>(1,541,387)</u>	<u>227,543</u>
Other financing sources (uses)				
Transfers In	1,768,930	1,768,930	1,468,930	(300,000)
Total other financing sources (uses)	<u>1,768,930</u>	<u>1,768,930</u>	<u>1,468,930</u>	<u>(300,000)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(72,457)</u>	<u>\$ (72,457)</u>
Fund balance - beginning			<u>445,326</u>	
Fund balance - ending			<u>\$ 372,869</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
Solid Waste
For the Year Ended June 30, 2006**

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Charges for services	\$ 597,120	\$ 597,120	\$ 758,989	\$ 161,869
Other	190,000	1,146,790	275,278	(871,512)
Total revenues	<u>787,120</u>	<u>1,743,910</u>	<u>1,034,267</u>	<u>(709,643)</u>
Expenditures				
Current:				
Operations & Engineering	10,309,250	11,266,040	9,569,848	1,696,192
Total expenditures	<u>10,309,250</u>	<u>11,266,040</u>	<u>9,569,848</u>	<u>1,696,192</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,522,130)</u>	<u>(9,522,130)</u>	<u>(8,535,581)</u>	<u>986,549</u>
Other financing sources (uses)				
Transfers In	9,522,130	9,522,130	8,522,130	(1,000,000)
Total other financing sources (uses)	<u>9,522,130</u>	<u>9,522,130</u>	<u>8,522,130</u>	<u>(1,000,000)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(13,451)</u>	<u>\$ (13,451)</u>
Fund balance - beginning			<u>3,624,543</u>	
Fund balance - ending			<u>\$ 3,611,092</u>	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Debt Service Funds
June 30, 2006

Assets

Cash & Cash Equivalents	\$ 1,291,081
Investments	24,448,436
Taxes on Real & Personal Property Receivable	1,618,825
Notes Receivable	2,271,600
Due from Other Funds	4,390,000
Prepaid Items	3,170
Total assets	<u>\$ 34,023,112</u>

Fund balances

Liabilities:

Deferred Revenue	\$ 1,176,393
Total liabilities	<u>1,176,393</u>

Fund balances:

Reserved for:

Prepaid Items	3,170
Notes Receivable	2,271,600
Unreserved	30,571,949
Total fund balances	<u>32,846,719</u>

Total liabilities and fund balances	<u>\$ 34,023,112</u>
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CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis
Debt Service Funds
For the Year Ended June 30, 2006**

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes, assessments, interest & penalties	\$ 23,024,990	\$ 23,024,990	\$ 24,508,839	\$ 1,483,849
Other	(2,353,150)	4,316,850	4,069,522	(247,328)
Total revenues	<u>20,671,840</u>	<u>27,341,840</u>	<u>28,578,361</u>	<u>1,236,521</u>
Expenditures				
Current:				
Debt service:				
Principal retirement	10,525,770	10,645,770	10,645,762	8
Interest payments on bonds & notes	4,195,430	4,075,430	4,003,813	71,617
Other services & charges	50,000	50,000	750	49,250
Total expenditures	<u>14,771,200</u>	<u>14,771,200</u>	<u>14,650,325</u>	<u>120,875</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,900,640</u>	<u>12,570,640</u>	<u>13,928,036</u>	<u>1,357,396</u>
Other financing sources (uses)				
Transfers Out	<u>(5,900,640)</u>	<u>(12,570,640)</u>	<u>(12,200,640)</u>	<u>370,000</u>
Total other financing sources (uses)	<u>(5,900,640)</u>	<u>(12,570,640)</u>	<u>(12,200,640)</u>	<u>370,000</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>1,727,396</u>	<u>\$ 1,727,396</u>
Fund balance - beginning			<u>31,119,323</u>	
Fund balance - ending			<u>\$ 32,846,719</u>	

CITY OF KNOXVILLE, TENNESSEE

**Balance Sheet
Capital Projects Fund
June 30, 2006**

Assets

Cash & Cash Equivalents	\$	2,231
Investments		29,664,483
Accounts Receivable		2,360,497
Due from Other Funds		1,358,370
Total assets	\$	<u>33,385,581</u>

Liabilities and fund balances

Liabilities:

Accounts Payable	\$	1,212,890
Due to Other Funds		4,165,000
Total liabilities		<u>5,377,890</u>

Fund balances:

Unreserved		<u>28,007,691</u>
Total fund balances		<u>28,007,691</u>

Total liabilities and fund balances	\$	<u>33,385,581</u>
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CITY OF KNOXVILLE, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - From
Inception
Capital Projects Fund
For the Year Ended June 30, 2006**

	Actual		Total to Date	Project Authorization	Actual
	Prior Years	Current Year			Over (Under) Final Budget
Revenues					
Other	\$ 103,558	\$ 3,536,677	\$ 3,640,235	\$ 3,534,460	\$ 105,775
Intergovernmental revenue	380,680	6,187,347	6,568,027	5,869,711	698,316
Total revenues	<u>484,238</u>	<u>9,724,024</u>	<u>10,208,262</u>	<u>9,404,171</u>	<u>804,091</u>
Expenditures					
Current:					
Capital & Grant Projects	14,055,871	27,666,392	41,722,263	45,696,830	(3,974,567)
Total expenditures	<u>14,055,871</u>	<u>27,666,392</u>	<u>41,722,263</u>	<u>45,696,830</u>	<u>(3,974,567)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,571,633)</u>	<u>(17,942,368)</u>	<u>(31,514,001)</u>	<u>(36,292,659)</u>	<u>4,778,658</u>
Other financing sources (uses)					
Issuance of Debt	2,252,970	-	2,252,970	2,252,970	-
Transfers In	11,318,663	15,923,790	27,242,453	34,099,689	(6,857,236)
Transfers Out	-	(59,150)	(59,150)	(60,000)	850
Total other financing sources (uses)	<u>13,571,633</u>	<u>15,864,640</u>	<u>29,436,273</u>	<u>36,292,659</u>	<u>(6,856,386)</u>
Net change in fund balances	<u>\$ -</u>	<u>(2,077,728)</u>	<u>\$ (2,077,728)</u>	<u>\$ -</u>	<u>\$ (2,077,728)</u>
Fund balance - beginning		<u>30,085,419</u>			
Fund balance - ending		<u>\$ 28,007,691</u>			

Nonmajor Enterprise Funds

Enterprise funds are used to account for operations where it is the intent that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals; or the City has decided that periodic determination of net income is appropriate for accountability purposes.

Metro Parking Fund

To account for the operations of the City's municipal parking facilities.

Public Assembly Facilities Fund

To account for the operation of the City's municipal auditorium.

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2006

	<u>Metro Parking</u>	<u>Public Assembly Facilities</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets			
Current assets			
Cash & temporary investments	\$ 38,558	\$ 6,179	\$ 44,737
Investments	2,019,440	4,519,977	6,539,417
Accounts receivable	476,878	284	477,162
Notes receivable	-	821,197	821,197
Total current assets	<u>2,534,876</u>	<u>5,347,637</u>	<u>7,882,513</u>
Noncurrent assets			
Land & site improvements	2,079,796	1,711,454	3,791,250
Building & building improvements	21,535,754	18,322,234	39,857,988
Equipment	4,450	782,794	787,244
Less: accumulated depreciation	<u>(7,494,331)</u>	<u>(12,398,225)</u>	<u>(19,892,556)</u>
Total noncurrent assets	<u>16,125,669</u>	<u>8,418,257</u>	<u>24,543,926</u>
Total assets	<u>18,660,545</u>	<u>13,765,894</u>	<u>32,426,439</u>
Liabilities			
Current liabilities			
Accounts payable	568	80,831	81,399
Accrued liabilities	16,449	75,819	92,268
Customer deposits	-	263,457	263,457
Due to other funds	-	225,000	225,000
Deferred revenue	-	91,504	91,504
Long-term debt due within one year	415,000	87,000	502,000
Total current liabilities	<u>432,017</u>	<u>823,611</u>	<u>1,255,628</u>
Noncurrent liabilities			
Long-term debt due in more than one year	387,168	16,747	403,915
Other Non-Current Liabilities	-	-	-
Total noncurrent liabilities	<u>387,168</u>	<u>16,747</u>	<u>403,915</u>
Total liabilities	<u>819,185</u>	<u>840,358</u>	<u>1,659,543</u>
Net assets			
Net Assets - Capital net of debt	15,323,501	8,418,257	23,741,758
Unrestricted	2,517,859	4,507,279	7,025,138
Total net assets	<u>\$ 17,841,360</u>	<u>\$ 12,925,536</u>	<u>\$ 30,766,896</u>

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2006**

	Metro Parking	Public Assembly Facilities	Total Nonmajor Enterprise Funds
Operating revenues			
Charges for services	\$ 697,793	\$ 1,994,136	\$ 2,691,929
Total operating revenues	<u>697,793</u>	<u>1,994,136</u>	<u>2,691,929</u>
Operating expenses			
Personal Services	-	1,901,657	1,901,657
Materials & Supplies	-	109,154	109,154
Maintenance	-	924,024	924,024
Depreciation & Amortization	553,894	684,766	1,238,660
Other Services and Charges	215,002	98,346	313,348
Total operating expenses	<u>768,896</u>	<u>3,717,947</u>	<u>4,486,843</u>
Operating income (loss)	<u>(71,103)</u>	<u>(1,723,811)</u>	<u>(1,794,914)</u>
Nonoperating revenue (expense)			
Interest Income	96,458	152,632	249,090
Other Revenues	10,806,252	3,838,948	14,645,200
Interest expense	(50,564)	-	(50,564)
Total nonoperating revenue (expense)	<u>10,852,146</u>	<u>3,991,580</u>	<u>14,843,726</u>
Income (loss) before transfers	10,781,043	2,267,769	13,048,812
Transfers:			
Transfers in	<u>-</u>	<u>1,723,520</u>	<u>1,723,520</u>
Change in net assets	10,781,043	3,991,289	14,772,332
Total net assets - beginning	<u>7,060,317</u>	<u>8,934,247</u>	<u>15,994,564</u>
Total net assets - ending	<u>\$ 17,841,360</u>	<u>\$ 12,925,536</u>	<u>\$ 30,766,896</u>

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2006**

	Metro Parking	Public Assembly Facilities	Total Nonmajor Enterprise Funds
Operating activities			
Cash received from customers and users	\$ 237,619	\$ 2,155,741	\$ 2,393,360
Cash paid to suppliers	(205,695)	(984,723)	(1,190,418)
Cash paid to employees	-	(1,867,680)	(1,867,680)
Cash paid for interfund services used	(13,738)	(135,561)	(149,299)
Net cash provided by (used in) operating activities	18,186	(832,223)	(814,037)
Noncapital financing activities			
Transfers from other funds	-	1,948,520	1,948,520
Tax, intergovernmental and other revenues	10,806,252	3,838,948	14,645,200
Net cash provided by (used in) noncapital financing activities	10,806,252	5,787,468	16,593,720
Capital and related financing activities			
Principal paid on general obligation bond maturities	(392,832)	-	(392,832)
Interest paid	(50,564)	-	(50,564)
Acquisition and construction of capital assets	(10,806,252)	(3,901,848)	(14,708,100)
Net cash provided by (used in) capital and related financing activities	(11,249,648)	(3,901,848)	(15,151,496)
Investing activities			
Sales/(Purchases) of investments	312,358	(1,692,520)	(1,380,162)
Investment earnings	96,458	152,632	249,090
Net cash provided by (used in) investing activities	408,816	(1,539,888)	(1,131,072)
Net increase (decrease) in cash and cash equivalents	(16,394)	(486,491)	(502,885)
Cash and cash equivalents			
Beginning of year	54,952	492,670	547,622
End of year	\$ 38,558	\$ 6,179	\$ 44,737

Continued:

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2006**

	<u>Metro Parking</u>	<u>Public Assembly Facilities</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (71,103)	\$ (1,723,811)	\$ (1,794,914)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	553,894	684,766	1,238,660
Change in assets and liabilities			
(Increase) decrease in receivables	(469,275)	65,684	(403,591)
(Increase) decrease in deferred charges	9,101	-	9,101
Increase (decrease) in accounts payable	568	11,240	11,808
Increase (decrease) in accrued expenses	(4,999)	33,977	28,978
Increase (decrease) in customer deposits	-	95,921	95,921
Total adjustments	<u>89,289</u>	<u>891,588</u>	<u>980,877</u>
Net cash provided by (used in) operating activities	<u>\$ 18,186</u>	<u>\$ (832,223)</u>	<u>\$ (814,037)</u>

Internal Service Funds

Internal service funds are used for financing of goods and services provided by one department or agency to other departments or agencies of the government and to other governmental units, on a cost reimbursement basis.

Office Services Fund

To provide printing, copying, mailing and telephone services for all City departments, and office and operating inventory.

Fleet Maintenance Fund

To supply city departments with quality, cost effective rolling stock that is in continuous state of good repair and capable of efficient performance in the service for which it is assigned.

Risk Management Fund

To account for the cost of insurance and claims against City employees or injury to citizens while on City property.

Health Insurance Fund

To account for the City's comprehensive health and medical coverage plan for its employees and their families.

Equipment Replacement Fund

To account for the planned and systematic replacement of City department's operating equipment.

City Buildings Fund

To account for the cost of building rentals and maintenance costs.

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets

Internal Service Funds

June 30, 2006

	<u>Office Services</u>	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Assets							
Current assets							
Cash & temporary investments	\$ 57,110	\$ 703,698	\$ 238,756	\$ 1,044,570	\$ 20	\$ 69,499	\$ 2,113,653
Investments	-	12,803,930	9,741,473	6,558,840	8,471,770	592,898	38,168,911
Accounts receivable	-	12,073	-	1,067	-	-	13,140
Due from other funds	-	3,898,109	4,020,000	-	-	-	7,918,109
Inventory	36,453	738,509	-	12,199	-	-	787,161
Prepaid items	-	-	1,108	-	-	-	1,108
Total current assets	<u>93,563</u>	<u>18,156,319</u>	<u>14,001,337</u>	<u>7,616,676</u>	<u>8,471,790</u>	<u>662,397</u>	<u>49,002,082</u>
Noncurrent assets							
Building & building improvements	-	195,764	-	-	-	-	195,764
Equipment	47,784	37,692,561	14,908	-	15,343,538	-	53,098,791
Less: accumulated depreciation	(46,474)	(28,597,622)	(14,908)	-	(10,884,614)	-	(39,543,618)
Total noncurrent assets	<u>1,310</u>	<u>9,290,703</u>	<u>-</u>	<u>-</u>	<u>4,458,924</u>	<u>-</u>	<u>13,750,937</u>
Total assets	<u>94,873</u>	<u>27,447,022</u>	<u>14,001,337</u>	<u>7,616,676</u>	<u>12,930,714</u>	<u>662,397</u>	<u>62,753,019</u>
Liabilities							
Current liabilities							
Accounts payable	19,576	306,705	4,855	879,854	122,457	896	1,334,343
Accrued liabilities	3,284	101,706	10,999	4,663	-	-	120,652
Due to other funds	-	3,898,109	-	-	-	-	3,898,109
Compensated absences	20,060	174,493	9,824	8,105	-	-	212,482
Total current liabilities	<u>42,920</u>	<u>4,481,013</u>	<u>25,678</u>	<u>892,622</u>	<u>122,457</u>	<u>896</u>	<u>5,565,586</u>
Noncurrent liabilities							
Estimated litigation liability	-	-	8,500,000	-	-	-	8,500,000
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>8,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,500,000</u>
Total liabilities	<u>42,920</u>	<u>4,481,013</u>	<u>8,525,678</u>	<u>892,622</u>	<u>122,457</u>	<u>896</u>	<u>14,065,586</u>
Net assets							
Net Assets - Capital net of debt	1,310	9,290,703	-	-	4,458,924	-	13,750,937
Unrestricted	50,643	13,675,306	5,475,659	6,724,054	8,349,333	661,501	34,936,496
Total net assets	<u>\$ 51,953</u>	<u>\$ 22,966,009</u>	<u>\$ 5,475,659</u>	<u>\$ 6,724,054</u>	<u>\$ 12,808,257</u>	<u>\$ 661,501</u>	<u>\$ 48,687,433</u>

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2006**

	<u>Office Services</u>	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Operating revenues							
Charges for services	\$ 167,255	\$ 10,358,982	\$ 6,835,490	\$ 13,184,089	\$ 1,834,100	\$ 1,403,815	\$ 33,783,731
Total operating revenues	<u>167,255</u>	<u>10,358,982</u>	<u>6,835,490</u>	<u>13,184,089</u>	<u>1,834,100</u>	<u>1,403,815</u>	<u>33,783,731</u>
Operating expenses							
Personal Services	100,955	2,103,457	346,276	148,768	-	-	2,699,456
Materials & Supplies	18,102	3,777,830	13,034	6,586	-	-	3,815,552
Maintenance	-	595,180	60	95	-	78,979	674,314
Depreciation & Amortization	-	3,445,757	-	-	2,129,887	-	5,575,644
Other Services and Charges	36,568	559,823	8,688,397	12,711,459	84,409	1,175,163	23,255,819
Total operating expenses	<u>155,625</u>	<u>10,482,047</u>	<u>9,047,767</u>	<u>12,866,908</u>	<u>2,214,296</u>	<u>1,254,142</u>	<u>36,020,785</u>
Operating income (loss)	<u>11,630</u>	<u>(123,065)</u>	<u>(2,212,277)</u>	<u>317,181</u>	<u>(380,196)</u>	<u>149,673</u>	<u>(2,237,054)</u>
Nonoperating revenue (expense)							
Interest Income	137	528,253	-	215,499	359,358	16,968	1,120,215
Other Revenues	656	129,557	373,388	-	29,030	-	532,631
Gain (loss) on disposal of capital assets	-	(180,904)	(447)	-	(2,732)	-	(184,083)
Total nonoperating revenue (expense)	<u>793</u>	<u>476,906</u>	<u>372,941</u>	<u>215,499</u>	<u>385,656</u>	<u>16,968</u>	<u>1,468,763</u>
Income (loss) before transfers	<u>12,423</u>	<u>353,841</u>	<u>(1,839,336)</u>	<u>532,680</u>	<u>5,460</u>	<u>166,641</u>	<u>(768,291)</u>
Transfers:							
Transfers in	-	5,391,870	5,103,560	1,115,080	71,819	-	11,682,329
Transfers out	-	-	-	(2,110)	-	-	(2,110)
Change in net assets	<u>12,423</u>	<u>5,745,711</u>	<u>3,264,224</u>	<u>1,645,650</u>	<u>77,279</u>	<u>166,641</u>	<u>10,911,928</u>
Total net assets - beginning	<u>39,530</u>	<u>17,220,298</u>	<u>2,211,435</u>	<u>5,078,404</u>	<u>12,730,978</u>	<u>494,860</u>	<u>37,775,505</u>
Total net assets - ending	<u>\$ 51,953</u>	<u>\$ 22,966,009</u>	<u>\$ 5,475,659</u>	<u>\$ 6,724,054</u>	<u>\$ 12,808,257</u>	<u>\$ 661,501</u>	<u>\$ 48,687,433</u>

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2006**

	<u>Office Services</u>	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Operating activities							
Receipts from interfund services provided	\$ 167,258	\$ 10,366,199	\$ 6,849,727	\$ 13,195,972	\$ 1,844,068	\$ 1,404,937	\$ 33,828,161
Cash paid to suppliers	(7,202)	(4,516,213)	(3,193,743)	323,449	255,201	(1,253,447)	(8,391,955)
Cash paid to employees	(99,788)	(2,081,829)	(343,529)	(143,631)	94,268	-	(2,574,509)
Cash paid for interfund services used	(36,568)	(246,144)	(25,681)	(11,448)	-	-	(319,841)
Payments of claims and insurance	-	-	(2,607,446)	(12,152,166)	-	-	(14,759,612)
Net cash provided by (used in) operating activities	<u>23,700</u>	<u>3,522,013</u>	<u>679,328</u>	<u>1,212,176</u>	<u>2,193,537</u>	<u>151,490</u>	<u>7,782,244</u>
Noncapital financing activities							
Transfers from other funds	-	1,493,761	1,083,560	1,885,080	47,619	-	4,510,020
Transfers to other funds	-	(4,891)	-	(2,110)	-	(5,100)	(12,101)
Tax, intergovernmental and other revenues	656	129,557	373,388	-	29,030	-	532,631
Net cash provided by (used in) noncapital financing activities	<u>656</u>	<u>1,618,427</u>	<u>1,456,948</u>	<u>1,882,970</u>	<u>76,649</u>	<u>(5,100)</u>	<u>5,030,550</u>
Capital and related financing activities							
Proceeds from sale of capital assets	1,122	-	-	-	-	-	1,122
Acquisition and construction of capital assets	-	(3,058,656)	-	-	(2,283,205)	-	(5,341,861)
Net cash provided by (used in) capital and related financing activities	<u>1,122</u>	<u>(3,058,656)</u>	<u>-</u>	<u>-</u>	<u>(2,283,205)</u>	<u>-</u>	<u>(5,340,739)</u>
Investing activities							
Sales/(Purchases) of investments	-	(1,906,515)	(2,217,331)	(2,337,755)	(346,503)	(133,043)	(6,941,147)
Investment earnings	137	528,253	-	215,499	359,358	16,968	1,120,215
Net cash provided by (used in) investing activities	<u>137</u>	<u>(1,378,262)</u>	<u>(2,217,331)</u>	<u>(2,122,256)</u>	<u>12,855</u>	<u>(116,075)</u>	<u>(5,820,932)</u>
Net increase in cash and cash equivalents	<u>25,615</u>	<u>703,522</u>	<u>(81,055)</u>	<u>972,890</u>	<u>(164)</u>	<u>30,315</u>	<u>1,651,123</u>
Cash and cash equivalents							
Beginning of year	<u>31,495</u>	<u>176</u>	<u>319,811</u>	<u>71,680</u>	<u>184</u>	<u>39,184</u>	<u>462,530</u>
End of year	<u>\$ 57,110</u>	<u>\$ 703,698</u>	<u>\$ 238,756</u>	<u>\$ 1,044,570</u>	<u>\$ 20</u>	<u>\$ 69,499</u>	<u>\$ 2,113,653</u>

Continued:

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2006

	Office Services	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Reconciliation of operating income (loss)							
to net cash provided by							
(used in) operating activities							
Operating income (loss)	\$ 11,630	\$ (123,065)	\$ (2,212,277)	\$ 317,181	\$ (380,196)	\$ 149,673	\$ (2,237,054)
Adjustments to reconcile operating income (loss)							
to net cash provided by (used in) operating							
activities:							
Depreciation	-	3,445,757	-	-	2,129,887	-	5,575,644
Change in assets and liabilities							
(Increase) decrease in receivables	3	7,217	14,237	11,883	9,968	1,122	44,430
(Increase) decrease in inventory	(2,929)	(23,305)	-	-	339,610	-	313,376
(Increase) decrease in prepayments	-	67	3,616	-	-	-	3,683
Increase (decrease) in accounts payable	13,829	193,714	(36,824)	877,975	94,268	695	1,143,657
Increase (decrease) in accrued expenses	1,167	21,628	2,747	5,137	-	-	30,679
Increase (decrease) in estimated liability for litigation and claims	-	-	2,907,829	-	-	-	2,907,829
Total adjustments	12,070	3,645,078	2,891,605	894,995	2,573,733	1,817	10,019,298
Net cash provided by (used in) operating activities	\$ 23,700	\$ 3,522,013	\$ 679,328	\$ 1,212,176	\$ 2,193,537	\$ 151,490	\$ 7,782,244

CITY OF KNOXVILLE, TENNESSEE
Statement of Net Assets
Knoxville Area Transit - Component Unit
June 30, 2006

Assets

Current assets:

Cash & temporary investments	\$ 5,206
Investments	825,229
Accounts receivable	3,646,744
Inventory	724,127
Prepaid items	186,468
Total current assets	5,387,774

Noncurrent assets:

Building & building improvements	5,025,175
Equipment	25,373,587
Less: accumulated depreciation	(17,200,417)
Total noncurrent assets	13,198,345
Total assets	18,586,119

Liabilities:

Current liabilities:

Accounts payable	195,920
Due to primary government	4,020,000
Deferred revenue	134,246
Total current liabilities	4,350,166
Total liabilities	4,350,166

Net assets:

Net Assets - Capital net of debt	13,942,539
Unrestricted	293,414
Total net assets	\$ 14,235,953

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

CITY OF KNOXVILLE, TENNESSEE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Knoxville Area Transit - Component Unit
For the Year Ended June 30, 2006

Operating revenues	
Charges for services	\$ 3,312,447
Total operating revenues	<u>3,312,447</u>
Operating expenses	
Personal Services	11,890,688
Materials & Supplies	2,241,199
Maintenance	1,503,072
Depreciation & Amortization	2,254,951
Other Services and Charges	7,047,304
Total operating expenses	<u>24,937,214</u>
Operating income (loss)	<u>(21,624,767)</u>
Nonoperating revenue (expense)	
Interest Income	32,922
Intergovernmental Revenue	14,667,128
Other Revenues	5,539,568
Gain (loss) on disposal of capital assets	2,750
Total nonoperating revenue (expense)	<u>20,242,368</u>
Change in net assets	<u>(1,382,399)</u>
Total net assets - beginning	<u>15,618,352</u>
Total net assets - ending	<u><u>\$ 14,235,953</u></u>

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows Knoxville Area Transit - Component Unit For the Year Ended June 30, 2006

Operating activities	
Cash received from customers and users	\$ 2,543,048
Cash paid to suppliers	(11,094,926)
Cash paid to employees	(11,890,688)
Net cash provided by (used in) operating activities	<u>(20,442,566)</u>
Noncapital financing activities	
Transfers from other funds	1,079,000
Tax, intergovernmental and other revenues	20,206,696
Net cash provided by (used in) noncapital financing activities	<u>21,285,696</u>
Capital and related financing activities	
Acquisition and construction of capital assets	(835,462)
Net cash provided by (used in) capital and related financing activities	<u>(835,462)</u>
Investing activities	
Sales/(Purchases) of investments	(35,814)
Investment earnings	32,922
Net cash provided by (used in) investing activities	<u>(2,892)</u>
Net increase in cash and cash equivalents	<u>4,776</u>
Cash and cash equivalents	
Beginning of year	<u>430</u>
End of year	<u>\$ 5,206</u>

Continued:

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

CITY OF KNOXVILLE, TENNESSEE
Statement of Cash Flows
Knoxville Area Transit - Component Unit
For the Year Ended June 30, 2006

Reconciliation of operating income (loss)

to net cash provided by

(used in) operating activities

Operating income (loss) \$ (21,624,767)

Adjustments to reconcile operating income (loss)

to net cash provided by (used in) operating
activities:

Depreciation 2,254,951

Change in assets and liabilities

(Increase) decrease in receivables (769,399)

(Increase) decrease in inventory 27,517

(Increase) decrease in prepayments 8,173

Increase (decrease) in accounts payable (339,041)

Total adjustments 1,182,201

Net cash provided by (used in) operating activities **\$ (20,442,566)**

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

STATISTICAL SECTION

This part of the City of Knoxville's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents Page

Financial Trends

These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

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Revenue Capacity

These schedules contain trend information to help the reader assess the city's most significant revenue source, the property tax.

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Debt Capacity

These schedules present information to help the reader assess the affordability of the city's current level of outstanding debt and the government's ability to issue additional debt in the future.

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Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

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Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF KNOXVILLE, TENNESSEE
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities					
Invested in capital assets, net of related debt	\$ 111,609	\$ 155,214	\$ 157,139	\$ 137,765	\$ 139,547
Restricted	24,178	16,999	26,801	31,119	32,847
Unrestricted	109,435	140,737	67,800	101,204	114,881
Total Governmental Activities Net Assets	\$ 245,222	\$ 312,950	\$ 251,740	\$ 270,088	\$ 287,275
Business-type Activities					
Invested in capital assets, net of related debt	\$ 22,412	\$ 52,821	\$ 21,070	\$ 18,712	\$ 32,217
Unrestricted	1,235	(26,531)	6,226	8,838	9,350
Total Business-type Activities Net Assets	\$ 23,647	\$ 26,290	\$ 27,296	\$ 27,550	\$ 41,567
Primary Government					
Invested in capital assets, net of related debt	\$ 134,021	\$ 208,035	\$ 178,209	\$ 156,477	\$ 171,764
Restricted	24,178	16,999	26,801	31,119	32,847
Unrestricted	110,670	114,206	74,026	110,042	124,231
Total Business-type Activities Net Assets	\$ 268,869	\$ 339,240	\$ 279,036	\$ 297,638	\$ 328,842

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

CITY OF KNOXVILLE, TENNESSEE
CHANGES IN NET ASSETS
LAST FIVE YEARS
(accrual basis of accounting)
(in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental Activities:					
General government	\$ 11,657	\$ 10,331	\$ 13,200	\$ 12,218	\$ 15,015
Public safety	62,146	67,423	66,325	65,384	69,949
Physical environment	29,135	28,920	27,910	49,678	70,289
Health & Sanitation	8,446	9,729	9,209	9,696	9,740
Parks & Recreation	7,075	4,217	6,542	10,484	10,760
Economic environment	6,937	7,872	6,924	12,428	8,070
Transportation	24,149	6,273	5,791	6,844	5,728
Interest on long-term debt	5,269	4,706	3,199	4,754	4,005
Other	10,574	13,721	13,412	1,830	1,683
Total governmental activities expenses	<u>165,388</u>	<u>153,192</u>	<u>152,512</u>	<u>173,316</u>	<u>195,239</u>
Business-type Activities:					
Metro parking	893	928	740	857	819
Public assembly facilities	3,296	3,778	3,696	3,974	3,718
Knoxville Convention Center	5,363	20,328	18,573	19,562	20,848
Total business-type activities	<u>9,552</u>	<u>25,034</u>	<u>23,009</u>	<u>24,393</u>	<u>25,385</u>
Total primary government	<u>\$ 174,940</u>	<u>\$ 178,226</u>	<u>\$ 175,521</u>	<u>\$ 197,709</u>	<u>\$ 220,624</u>
Program Revenues					
Governmental Activities:					
Charges for Services:					
General government	\$ 2,204	\$ 2,424	\$ 6,506	\$ 480	\$ 519
Public safety	1,059	912	1,191	6,995	7,473
Physical environment	565	594	772	815	856
Health & sanitation	657	916	682	26	30
Parks & recreation	160	289	217	408	634
Economic environment	1,318	1,636	1,946	-	-
Transportation	188	2,219	114	674	665
Other	2,867	3,216	5,734	1,170	-
Operating grants and contributions	9,857	8,770	9,033	14,899	13,662
Capital grants and contributions	350	1,574	890	4,064	9,693
Total governmental activities program revenues	<u>19,225</u>	<u>22,550</u>	<u>27,085</u>	<u>29,531</u>	<u>33,532</u>
Business-type Activities:					
Charges for Services:					
Metro parking	742	967	999	1,397	698
Public assembly facilities	1,555	1,923	1,810	1,725	1,994
Knoxville Convention Center	609	4,111	3,748	5,048	4,814
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	11,998	-	-	-
Total business-type activities program revenues	<u>2,906</u>	<u>18,999</u>	<u>6,557</u>	<u>8,170</u>	<u>7,506</u>
Total primary government program revenues	<u>\$ 22,131</u>	<u>\$ 41,549</u>	<u>\$ 33,642</u>	<u>\$ 37,701</u>	<u>\$ 41,038</u>
Net (expense)/revenue					
Governmental Activities	\$ 146,163	\$ 130,642	\$ 125,427	\$ 143,785	\$ 161,707
Business-type Activities	6,646	6,035	16,452	16,223	17,879
Total primary government net expense	<u>\$ 152,809</u>	<u>\$ 136,677</u>	<u>\$ 141,879</u>	<u>\$ 160,008</u>	<u>\$ 179,586</u>

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

CITY OF KNOXVILLE, TENNESSEE
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Property taxes, interest and penalties	\$ 100,157	\$ 93,991	\$ 94,957	\$ 99,274	\$ 104,290
Intergovernmental revenues	45,801	45,957	47,215	61,816	56,902
Other taxes	13,496	14,907	10,052	6,962	16,392
Other revenue	11,260	8,431	3,104	5,113	10,845
Transfers	(12,957)	(8,356)	(11,040)	(11,032)	(9,535)
Total governmental activities	<u>157,757</u>	<u>154,930</u>	<u>144,288</u>	<u>162,133</u>	<u>178,894</u>
Business-type Activities:					
Other taxes	-	-	4,975	3,978	7,085
Intergovernmental revenues	-	-	1,382	1,367	155
Grants & contributions	113	-	-	-	-
Other revenue	4	322	61	100	15,120
Transfers	8,135	8,356	11,040	11,032	9,535
Total business-type activities	<u>8,252</u>	<u>8,678</u>	<u>17,458</u>	<u>16,477</u>	<u>31,895</u>
Total primary government	<u>\$ 166,009</u>	<u>\$ 163,608</u>	<u>\$ 161,746</u>	<u>\$ 178,610</u>	<u>\$ 210,789</u>
Changes in Net Assets					
Governmental activities	\$ 11,594	\$ 24,288	\$ 18,861	\$ 18,348	\$ 17,187
Business-type activities	1,606	2,643	1,006	254	14,016
Prior period adjustment	-	43,440	(80,072)	-	-
Total primary government	<u>\$ 13,200</u>	<u>\$ 70,371</u>	<u>\$ (60,205)</u>	<u>\$ 18,602</u>	<u>\$ 31,203</u>

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

CITY OF KNOXVILLE, TENNESSEE
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST FIVE FISCAL YEARS
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 3,146	\$ 1,802	\$ 1,953	\$ 1,298	\$ 248
Unreserved	24,851	16,696	18,239	23,748	34,501
Total general fund	<u>\$ 27,997</u>	<u>\$ 18,498</u>	<u>\$ 20,192</u>	<u>\$ 25,046</u>	<u>\$ 34,749</u>
All other governmental funds					
Reserved	\$ 36,192	\$ 44,038	\$ 62,791	\$ 35,609	\$ 13,132
Unreserved, reported in:					
Special Revenue funds	5,671	5,645	7,664	(2,284)	8,583
Debt Service funds	0	0	0	28,722	30,571
Capital Projects funds	1,885	783	8,831	17,499	28,008
Permanent funds	0	0	0	0	0
Total all other governmental funds	<u>\$ 43,748</u>	<u>\$ 50,466</u>	<u>\$ 79,286</u>	<u>\$ 79,546</u>	<u>\$ 80,294</u>

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

CITY OF KNOXVILLE, TENNESSEE
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST FIVE FISCAL YEARS
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues					
Taxes, assessments, interest & penalties	\$ 131,697	133,667	135,130	153,817	160,146
Licenses, permits & inspection charges	1,551	1,838	2,110	2,312	2,342
Intergovernmental revenue	35,977	31,210	30,995	31,632	36,907
Charges for services	3,664	4,240	4,906	5,547	5,405
Fines & forfeitures	2,665	2,315	3,302	1,536	3,127
Other	38,571	9,187	5,276	8,714	12,727
Total revenues	<u>214,125</u>	<u>182,457</u>	<u>181,719</u>	<u>203,558</u>	<u>220,654</u>
Expenditures					
Current					
General government	13,405	12,742	12,039	11,715	12,974
Public safety	60,925	64,328	63,888	64,643	68,447
Physical environment	27,870	30,470	29,321	21,377	22,742
Solid waste	8,440	9,675	9,193	9,369	0
Parks & recreation	6,634	6,867	6,832	6,567	738
Economic development	8,750	10,426	8,658	26,423	41,325
Other	7,539	4,779	5,483	162	446
Capital Outlay	30,836	19,547	23,317	27,802	27,666
Debt Service					
Principal	11,837	12,158	19,304	10,973	10,646
Interest	5,398	4,796	2,973	4,592	4,004
Total expenditures	<u>181,634</u>	<u>175,788</u>	<u>181,008</u>	<u>183,623</u>	<u>188,988</u>
Excess of revenues over expenditures	32,491	6,669	711	19,935	31,666
Other Financing Sources (Uses)					
Proceeds from issuance of debt	1,521	1,929	42,967	256	-
Transfers in	32,085	39,995	29,637	40,566	29,474
Transfers out	(41,662)	(51,374)	(42,801)	(55,642)	(50,689)
Total other financing sources (uses)	<u>(8,056)</u>	<u>(9,450)</u>	<u>29,803</u>	<u>(14,820)</u>	<u>(21,215)</u>
Net changes in fund balances	<u>\$ 24,435</u>	<u>(2,781)</u>	<u>30,514</u>	<u>5,115</u>	<u>10,451</u>
Debt service as a percentage of noncapital expenditures					
	11.4%	10.9%	14.1%	10.0%	9.1%

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

CITY OF KNOXVILLE, TENNESSEE
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST NINE YEARS
 (amounts expressed in thousands)
 (Unaudited)

Fiscal Year	Real Property (1)					Assessed Taxable Value	Personal Property (1)		Public Utilities (2)		Totals		Direct Tax Rate	Assessed Value as a Percentage of Actual Value
	Estimated Actual Value:				Total's		Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value		
	Commercial	Industrial	Residential & Farm	Exempt Properties										
1998	\$2,590,070	204,601	3,067,188	N/A	5,861,859	1,878,801	728,637	218,591	230,449	126,747	6,820,945	2,224,139	2.87	33%
1999	2,538,362	181,061	3,385,457	N/A	6,104,880	1,934,291	808,457	242,537	233,799	128,589	7,147,136	2,305,417	2.58	32%
2000	2,623,463	175,338	3,449,968	N/A	6,248,769	1,982,170	860,991	258,297	253,897	139,643	7,363,657	2,380,110	2.85	32%
2001	2,708,735	172,468	3,503,801	N/A	6,385,004	2,028,589	869,832	260,949	247,421	136,081	7,502,257	2,425,819	2.85	32%
2002	3,216,225	189,705	4,085,050	N/A	7,490,980	2,383,807	987,686	296,306	327,312	180,022	8,805,978	2,860,135	3.04	32%
2003	3,294,907	189,562	4,185,521	N/A	7,669,990	2,438,015	1,015,340	304,602	317,501	174,626	9,002,831	2,917,243	2.70	32%
2004	3,373,811	186,034	4,225,783	N/A	7,785,628	2,474,149	979,508	293,852	273,208	150,265	9,038,344	2,918,266	2.70	32%
2005	3,425,002	187,470	4,317,168	N/A	7,929,640	2,525,477	1,008,959	302,688	287,068	157,887	9,225,667	2,986,052	3.05	32%
2006	3,819,714	202,532	5,041,704	176,170	9,240,120	2,869,324	1,052,507	315,752	293,723	161,548	10,586,350	3,346,624	2.81	32%

Note:

(1) Assessed by the Knox County Property Assessor's Office

(2) Assessed by the Division of State Assessed Properties, State Comptroller's Office

(3) Assessment Ratios:

a) Real property:

Commercial at 40%

Industrial at 40%

Residential and Farm at 25%

b) Personal property at 30%

c) Public utilities at 55%

N/A - Not Available

CITY OF KNOXVILLE, TENNESSEE
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
LAST TEN YEARS
(Unaudited)

Fiscal Year	City of Knoxville Tax Rate Distribution					Overlapping Knox County Tax Rate Distribution				Total Direct & Overlapping Rates
	General Operations	Debt Service	City County Building Lease	Street Paving	Total	General Operations	Debt Service	School Construction	Total	
1997	2.31	0.41	0.11	0.04	2.87	1.36	0.29	1.51	3.16	6.03
1998	2.25	0.47	0.11	0.04	2.87	1.35	0.29	1.52	3.16	6.03
1999	1.93	0.52	0.09	0.04	2.58	1.24	0.26	1.27	2.77	5.35
2000	2.20	0.52	0.09	0.04	2.85	1.56	0.32	1.44	3.32	6.17
2001	2.20	0.52	0.09	0.04	2.85	1.51	0.31	1.50	3.32	6.17
2002	2.09	0.82	0.09	0.04	3.04	1.58	0.31	1.43	3.32	6.36
2003	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	5.66
2004	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	5.66
2005	2.20	0.81	-	0.04	3.05	1.34	0.28	1.34	2.96	6.01
2006	2.06	0.75	-	-	2.81	1.24	0.22	1.23	2.69	5.50

**CITY OF KNOXVILLE, TENNESSEE
PRINCIPAL PROPERTY TAXPAYERS
June 30, 2006
(in thousands)
(Unaudited)**

Taxpayer	Type of Business	2006			1997		
		Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value
Bell South Telecom	Telephone utility	\$ 64,285	1	1.97%	\$ 67,846	1	3.05%
West Town Mall	Shopping mall	30,628	2	0.94%	23,764	2	1.07%
Knoxville Center	Shopping mall	27,118	3	0.83%	19,774	3	0.89%
Wal-Mart Stores	Department stores	22,648	4	0.70%	-	-	-
First American National Bank	Banking services	20,551	5	0.63%	-	-	-
Fort Sanders Regional	Hospital	14,779	6	0.45%	-	-	-
Goody's Family Clothing	Department stores	12,928	7	0.40%	11,970	5	0.54%
Target	Department stores	12,769	8	0.39%	-	-	-
Atlantic Research Corp.	Automotive parts	11,685	9	0.36%	-	-	-
Inland	Real Estate Holding Company	11,366	10	0.35%	-	-	-
Lillie Mae Cain Estate	Property management & leasing	-	-	-	13,279	4	0.60%
AT&T Communications	Telephone utility	-	-	-	10,863	6	0.49%
City of Knoxville LSD Riverview	Property management & leasing	-	-	-	10,776	7	0.49%
Carlyle Real Estate	Property management & leasing	-	-	-	10,101	8	0.45%
ETB Development	Property management & leasing	-	-	-	9,611	9	0.43%
MA Schubert	Property management & leasing	-	-	-	8,630	10	0.39%
		<u>\$ 228,757</u>		<u>7.02%</u>	<u>\$ 186,614</u>		<u>8.40%</u>

Data Source: City property tax office

**CITY OF KNOXVILLE, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

Fiscal Year Ended June 30,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
1997	\$ 55,464	\$ 52,479	94.62%	\$ 2,898	\$ 55,377	99.84%
1998	57,338	54,813	95.60%	2,417	57,230	99.81%
1999	66,173	63,045	95.27%	2,944	65,989	99.72%
2000	68,098	64,377	94.54%	3,488	67,865	99.66%
2001	73,953	69,892	94.51%	3,680	73,572	99.48%
2002	77,513	73,595	94.95%	3,434	77,029	99.38%
2003	79,041	74,363	94.08%	3,982	78,345	99.12%
2004	79,603	75,122	94.37%	3,540	78,662	98.82%
2005	91,075	85,989	94.42%	2,941	88,930	97.64%
2006	93,804	90,406	96.38%	-	90,406	96.38%

CITY OF KNOXVILLE, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST FIVE FISCAL YEARS
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities			Business Type Activities		Total Primary Government ⁽¹⁾	% of Personal Income ⁽²⁾	Per Capita ⁽²⁾
	General Obligation Bonds	Notes Payable	Debt Participation Agreement	General Obligation Bonds				
2002	\$ 91,696	\$ -	\$ 1,521	\$ 164,384	\$ 257,601	14.59%	\$ 1,456.39	
2003	79,595	1,929	1,464	162,855	245,843	13.37%	1,384.29	
2004	103,106	-	1,406	158,184	262,696	13.44%	1,474.84	
2005	92,595	-	1,346	154,890	248,831	12.15%	1,381.40	
2006	82,080	-	1,285	151,475	234,840	11.18%	1,303.22	

Note:

- (1) Total Outstanding Debt is not reduced by available debt service reserves.
- (2) Personal Income and Population Estimated as reliable data is not available.

The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

CITY OF KNOXVILLE, TENNESSEE
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST FIVE FISCAL YEARS
(amounts expressed in thousands, except for per capita amounts)
(Unaudited)

Fiscal Year	General Obligation Bonds	Less:		Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita ⁽²⁾
		Amounts Available in Debt Service Fund				
2002	\$ 91,696	\$ 24,178		\$ 67,518	2.36%	\$ 381.73
2003	79,595	16,999		62,596	2.15%	352.46
2004	103,106	26,801		76,305	2.61%	428.40
2005	92,595	28,722		63,873	2.14%	354.59
2006	82,080	30,572		51,508	1.54%	285.84

CITY OF KNOXVILLE, TENNESSEE
LEGAL DEBT MARGIN INFORMATION

Neither the City Charter nor the State of Tennessee has placed any restrictions on the amount of debt that may be issued by the City of Knoxville.

**CITY OF KNOXVILLE, TENNESSEE
PLEGGED-REVENUE COVERAGE
PRIMARY GOVERNMENT**

The primary government of the City does not have any operating revenues pledged towards the repayment of debt.

**CITY OF KNOXVILLE, TENNESSEE
PLEGGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
COMPONENT UNIT - KNOXVILLE UTILITIES BOARD
(Unaudited - in thousands)**

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
1997	\$ 398,261	\$ 345,148	\$ 53,113	\$ 21,231	2.50
1998	428,044	369,032	59,012	33,087	1.78
1999	431,185	374,103	57,082	44,290	1.29
2000	443,313	382,151	61,162	36,787	1.66
2001	501,830	439,372	62,458	16,951	3.68
2002	464,208	413,129	51,079	24,068	2.12
2003	500,073	429,096	70,977	26,568	2.67
2004	529,340	460,396	68,944	61,308	1.12
2005	532,535	471,762	60,773	112,034	0.54
2006	611,132	538,260	72,872	27,981	2.60

**CITY OF KNOXVILLE, TENNESSEE
PLEGGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
COMPONENT UNIT - METROPOLITAN KNOXVILLE AIRPORT AUTHORITY
(Unaudited - in thousands)**

<u>Fiscal Year</u>	<u>Gross Revenue (net of grant receipts)</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
1997	\$ 10,675	\$ 6,171	\$ 4,504	\$ 3,042	1.48
1998	11,609	7,014	4,595	2,900	1.58
1999	15,456	7,910	7,546	3,658	2.06
2000	18,151	9,275	8,876	3,844	2.31
2001	19,807	11,291	8,516	6,632	1.28
2002	18,769	11,485	7,284	4,582	1.59
2003	18,693	11,630	7,063	4,676	1.51
2004	19,614	11,843	7,771	4,649	1.67
2005	22,746	12,643	10,103	4,806	2.10
2006	25,743	13,615	12,128	7,345	1.65

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2006
(amounts expressed in thousands)
(Unaudited)

<u>Governmental Unit</u>	<u>Net Direct Outstanding Debt ⁽¹⁾</u>	<u>Percentage Applicable to Knoxville⁽²⁾</u>	<u>Amount Applicable to Knoxville</u>
Knoxville	\$ 67,518	100.00%	\$ 67,518
Knox County	510,382	42.98%	219,362
Total	<u>\$ 577,900</u>		<u>\$ 286,880</u>

Note:

(1) Net direct debt excludes proprietary fund general obligation bonds and is net of amounts available for debt service.

(2) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's assessed taxable value that is within the City's boundaries and dividing it by the county's total assessed taxable value.

**CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC & ECONOMIC STATISTICS
LAST SIX FISCAL YEARS
(Unaudited)**

Fiscal Year	Population ⁽¹⁾	Personal Income (in \$1,000) ⁽²⁾	Per Capita Personal Income ⁽²⁾	Median Age ⁽¹⁾	Education Level - Population 25 & Over ⁽¹⁾				School Enrollment ⁽³⁾	Unemployment Rate ⁽⁴⁾
					High School Graduate	Some College AS Degree	Bachelor's Degree	Master's & Above		
2000	175,645	\$16,568,988	\$ 26,834	37.3	28.3%	25.6%	15.0%	9.5%	56,703	3.1%
2001	176,781	17,138,808	27,429	-	-	-	-	-	56,458	3.3%
2002	176,876	17,654,927	27,931	-	-	-	-	-	52,391	3.6%
2003	177,595	18,384,062	28,703	38.2	-	-	-	-	56,935	3.8%
2004	178,118	19,544,768	30,209	-	-	-	-	-	55,720	3.9%
2005	180,130	20,474,000	31,238	-	-	-	-	-	53,130	4.1%
2006 ⁽⁵⁾										

Data sources

(1) U.S. Census Bureau

(2) Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce - Knoxville, TN Metropolitan Statistical Area

(3) Educator Supply and Demand Report prepared by the State of Tennessee - Knox County

(4) Tennessee Department of Labor and Workforce Development - Knox County

(5) 2006 Data not currently available

**CITY OF KNOXVILLE, TENNESSEE
 DEMOGRAPHIC STATISTICS
 PRINCIPAL EMPLOYERS
 Current Year and Nine Years Ago
 (Unaudited)**

Manufacturer's Name ⁽¹⁾	2006			1997		
	Employees	Rank	Percentage of Total City Employment ⁽²⁾	Employees	Rank	Percentage of Total City Employment ⁽²⁾
Knox County	2,999	1	1.46%	2,200	1	0.67%
City of Knoxville	1,676	2	0.81%	1,563	2	0.48%
Sea Ray Boats, Inc	1,186	3	0.58%	1,450	3	0.44%
DeRoyal Industries	905	4	0.44%	1250	4	0.38%
Atlantic Research Corp. (ARC Automotive)	650	5	0.32%	600	9	0.18%
Knoxville News-Sentinel Company	584	6	0.28%	620	7	0.19%
CTI Molecular Imaging, Inc.	575	7	0.28%	720	5	0.22%
Shaw Environmental and Infrastructure, Inc.	500	8	0.24%	-	-	-
Bush Brothers & Co.	480	9	0.23%	-	-	-
Panasonic (Matsushita Electronic Components)	475	10	0.23%	606	8	0.18%
The IJ Company	-	-	-	700	6	0.21%
BREED Technologies	-	-	-	530	10	0.16%

Note:

(1) Source: Knoxville Area Chamber Partnership

(2) Knox County MSA - Tennessee Department of Labor and Workforce Development

CITY OF KNOXVILLE, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST FIVE FISCAL YEARS

Department	Full-time Equivalent Employees as of June 30,				
	2002	2003	2004	2005	2006
Administration	23.0	23.0	21.5	19.5	24.5
Finance and Accountability					
Finance	54.0	54.0	48.0	54.5	55.5
Information Systems	30.0	30.0	28.0	29.0	29.0
Subtotal	84.0	84.0	76.0	83.5	84.5
Operations & Engineering					
Engineering	88.5	89.5	86.0	88.0	88.0
Fleet Services	67.0	67.0	58.0	58.0	57.0
Inspections	31.0	31.0	30.0	30.0	31.0
Subtotal	186.5	187.5	174.0	176.0	176.0
Community and Neighborhood Services					
Public Services	335.0	338.0	315.0	308.0	309.0
Development Services	5.0	5.0	5.0	3.0	3.0
Community Development	20.0	20.0	21.5	20.5	18.5
Recreation	63.5	62.5	58.5	60.5	60.5
Subtotal	423.5	425.5	400.0	392.0	391.0
Law	26.5	25.5	25.5	13.0	13.0
Police					
Sworn	446.0	456.0	421.0	414.0	414.0
Civilian	133.0	133.0	121.0	120.5	120.5
Emergency Management	4.0	4.0	4.0	3.0	3.0
Subtotal	583.0	593.0	546.0	537.5	537.5
Fire					
Sworn	358.0	358.0	328.0	328.0	328.0
Civilian	12.0	12.0	11.0	11.0	11.0
Subtotal	370.0	370.0	339.0	339.0	339.0
Board Administered/Other Departments					
Legislative	7.5	7.5	7.5	7.5	7.5
City Court	13.5	13.5	13.5	13.5	13.5
Civil Service	15.0	15.0	14.0	14.0	14.0
Public Assembly Facilities	47.0	37.0	36.0	36.0	36.0
Subtotal	83.0	73.0	71.0	71.0	71.0
Nondepartmental					
Knoxville Partnership	-	-	-	1.0	1.0
GRAND TOTAL	1,779.5	1,781.5	1,653.0	1,632.5	1,637.5

**CITY OF KNOXVILLE, TENNESSEE
OPERATING INDICATORS BY FUNCTION
LAST FIVE FISCAL YEARS
(Unaudited)**

Department	FY2002	FY2003	FY2004	FY2005	FY2006
Public Safety					
Police					
Arrests	14,181	13,435	14,101	14,706	16,656
Citations	36,809	87,387	96,509	84,428	64,705
Fire					
Fire Inspections	3,166	3,604	4,600	4,298	4,057
Alarms Attended	19,940	17,876	17,836	17,639	18,603
First Responder Calls	10,515	11,236	9,234	9,654	9,869
Engineering					
Miles of Streets Resurfaced	51	44	37	50	42
Parks & Recreation					
Recreation Center Participants	328,139	198,684	158,941	309,913	314,836
Service					
Pothole Repairs (by tons of asphalt)	764	1,435	723	528	961

Sources: Various city departments

**CITY OF KNOXVILLE, TENNESSEE
CAPITAL ASSET STATISTICS BY FUNCTION
LAST FIVE FISCAL YEARS
(Unaudited)**

<u>Department</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>
Public Safety					
Safety Building - Police	1	1	1	1	1
Fire Halls	18	18	18	18	18
Operations & Engineering					
Street Lights	28,170	28,545	28,545	28,983	29,436
Miles of Streets maintained	968	1,253	1,257	1,264	1,264
Parks & Recreation					
Recreation Centers	15	14	13	14	14
Parks	78	78	79	79	79
Park Acreage	1,741	1,741	1,856	1,856	1,856
Swimming Pools	4	4	4	5	5
Tennis Courts	61	61	61	61	61
Miles of Greenway	28	30	33	38	40
Stormwater					
Storm Sewers (miles)	367	367	371	371	372

Sources: Various city departments

Note: No capital asset indicators are available for the general government function.