



CITY OF KNOXVILLE  
BILL HASLAM, MAYOR



# COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2009

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**OF THE**  
**CITY OF KNOXVILLE, TENNESSEE**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2009**

**PREPARED BY:**

**CITY OF KNOXVILLE FINANCE DEPARTMENT**

**JAMES YORK,**  
**DIRECTOR OF FINANCE**

CITY OF KNOXVILLE, TENNESSEE  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 For the Fiscal Year Ended June 30, 2009

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***INTRODUCTORY SECTION***



December 23, 2009

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, 2009. 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 pleased to 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. Due to the changes required by 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 four sections: Introductory, Financial, Statistical and the Compliance section. 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 for Excellence in Financial Reporting. The *Financial Section* is comprised 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 the 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 elected at large. The mayor and council members are elected on a non-partisan basis 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 Trust 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 Trust Fund are included in the Fiduciary funds section along with two minor health related benefit agency funds.

**Local Economy**

The overall economic health of the metropolitan Knoxville area reflects the nationwide economic downturn, and is expected to recover when the economy rebounds. The City of Knoxville has fared better than the nation and the other major cities in Tennessee. 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. The City of Knoxville located in Knox County has one of the lowest sales tax rates in the state. Authorized by state law to levy up to 2.75%, the combined city/county rate is only 2.25%. Approximately 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 eight years.

<u>Year</u>	<u>Collections</u>	<u>% Growth</u>
FY 01/02	\$28,819	-3.79%
FY 02/03	\$29,031	0.74%
FY 03/04	\$30,529	5.16%
FY 04/05	\$31,785	4.11%
FY 05/06	\$34,514	8.59%
FY 06/07	\$36,659	6.21%
FY 07/08	\$37,274	1.68%
FY 08/09	\$34,186	-8.28%

The local sales tax is a situs based revenue. That is, the location of the point of sale 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 subsequent 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.

As shown above, the City experienced an 8.28% decrease in local sales tax. This is due to the overall economic decline of the nation's economy. However, Knoxville has a more diversified economy, and income fluctuations tend to be less volatile than in many other parts of the country.

The presence of the University of Tennessee along with Tennessee Valley Authority, Oak Ridge National Laboratories and other large governmental installations lend 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 7.8% (Knoxville MSA) in FY2009. This compares very favorably to the national unemployment rate of 10.2% as well as the other major metropolitan areas of the state (Chattanooga – 8.8%, Memphis – 10.2%, and Nashville – 8.9%). Knoxville MSA had a labor force of 351,380 in 2009. Job losses are due to difficulties with the national economy.

An extensive transportation network connects Knoxville to the U. S. marketplace. Forty percent of the nation's population is within 700 miles of Knoxville via I-40, I-75, and I-81 which meet in the metro area. The city is directly linked to the Great Lakes by the Interconnected Inland Water System and to the Gulf of Mexico by the Tennessee-Tombigbee Waterway. Barge shipping is facilitated by three local river terminals. Also serving the area are 125 truck lines, two railroads, and eight airlines.



Knoxville Area Transit (KAT) provides around 28 public bus routes, operating 80 vehicles and carrying around 3.2 million passengers a year in the city. In 2004, KAT garnered the prestigious American Public Transportation Association's Outstanding Achievement Award. A new downtown Knoxville Station Transit Center is under construction, and will be complete in August 2010. The total budget for the project is \$29,583,660 and the amount spent to date is \$15,624,674. It will have state-of-the-art customer amenities and serve as the major transportation hub for metropolitan Knoxville.

Knox County for many years has been known as one of the South's leading wholesale markets. Located within the County are 984 wholesale establishments, 1,730 retail establishments and 5,359 service establishments. County retail sales were reported at approximately \$9.1 billion in 2008. The average cost of living in the area is below the U.S. Average at 86% which contributes to the attractiveness of the area.

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. From 2007 to 2008, Knox County had a 7.2% increase in total expenditure with a breakdown of 5.19% increase in tourism payroll, a 5% growth in tourism employment, a 6.49% increase in state tax receipts and an 8.05% growth in local tax receipts. Knox County had the second highest percent increase in the state of Tennessee in these five categories when compared to the top counties. Davidson, Shelby, and Sevier counties recorded losses in each category when compared to the previous year. Knox and Hamilton counties showed gains in each of the five categories. 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. Among Knoxville's many annual events are 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. Between 8 and 10 million people visit the park annually, making it the most visited park in the country.

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.

The Knoxville Symphony, the Knoxville Opera Company, and the Tennessee Children's Dance Ensemble are among the many exceptional performing arts organizations in the City. Choral groups, dance

companies, and 11 performance theatres, including the renovated Tennessee and Bijou Theaters, also promote the arts. Live entertainment includes touring Broadway productions, ice shows, concerts, and circuses. The Knoxville Museum of Art and the Emporium Center for Arts and Culture feature changing exhibits throughout the year, while the area's libraries, historic sites, and museums, such as the Museum of Appalachia and the Beck Cultural Center, celebrate Knoxville's heritage.

Knoxville consistently is ranked among the best places to live in the country. According to Places Rated Almanac Millennium Edition, Knoxville was ranked the best place to live for cities under one million in population. Knoxville continually receives high honors for quality of life. As published in the 2008 Best Cities for Relocating Families, Knoxville is the fourth best medium sized metropolitan area in the nation. Rankings are based on cost of living, housing cost, crime rate, education, climate, arts/culture, and diversity. Salary.com placed Knoxville third among all markets in the U.S. when it comes to good wages and low cost of living. According to the 2008 American Chamber of Commerce Researchers Association (ACCRA) Cost of Living (COL) Index, which measures the relative price levels for consumer goods and services in metropolitan and nonmetropolitan areas whose chambers agree to participate, Knoxville was the eighth least expensive urban area in the country with a COL Index of 89.4. With the average of all participating cities equaling 100.0, this further solidifies Knoxville among the leading markets for low cost of living.

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, Pilot Corporation, and Sea Ray Boats.

The Knoxville Utilities Board (KUB) provides natural gas, water, and wastewater services and distributes electric power generated by the Tennessee Valley Authority throughout much of Knox County. Beyond KUB's service area, residents receive electricity from two local power companies, and water is supplied by six utility districts, five of which also provide wastewater treatment service.

The Metropolitan Knoxville Airport Authority (MKAA) 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 several passenger airlines that combine for 70 daily departures connecting to nineteen airports with non-stop service. The direct and indirect economic impact of the airport is estimated by the MKAA 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 an average enrollment of 26,400 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 five 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 grants and capital projects, included in the annual budget process lapse at year-end and must be re-appropriated 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 \$10.8 million in FY2009 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, 2009 is \$197.4 million. Of this amount, \$140.8 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 \$1.088 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 2009 is as follows:

General Obligation Debt	G.O. Debt (in thousands)		Ratio of Debt to Total Assessed Valuation		Ratio of Debt to Est. Actual Value		Debt per Capita	
	FY 08/09	FY 07/08	FY 08/09	FY 07/08	FY 08/09	FY 07/08	FY 08/09	FY 07/08
Net direct bonded debt	\$ 197,370	\$ 208,140	5.47 %	5.94 %	1.72 %	1.87 %	\$ 1,095	\$ 1,155
Overlapping debt of Knox County	157,611	154,284	4.37 %	4.40 %	1.37 %	1.39 %	875	856
Total	<u>\$ 354,981</u>	<u>\$ 362,424</u>	<u>9.84 %</u>	<u>10.34 %</u>	<u>3.09 %</u>	<u>3.26 %</u>	<u>\$ 1,970</u>	<u>\$ 2,011</u>

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

Debt Type	Fitch/ICBA		S & P		Moody's	
	FY 08/09	FY 07/08	FY 08/09	FY 07/08	FY 08/09	FY 07/08
City of Knoxville - General Obligation Bonds	AA+	AA+	AA+	AA	Aa2	Aa2
Component Units - Knoxville Utility Board Revenue Bonds						
Electric	N/A	N/A	AA+	AA	Aa3	Aa3
Gas	N/A	N/A	AA	AA	Aa3	Aa3
Water	N/A	N/A	AA+	AA+	Aa3	Aa3
Waste Water	N/A	N/A	AA+	AA	Aa3	Aa3
Metro Knoxville Airport	N/A	N/A	A3	N/A	A-	N/A

### 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 trust fund investments, was 2.31%. Average weighted maturities were 66 days. The average maturity during the preceding fiscal year was 54.7 days. Duration was very short.

The City Charter mandates that portfolio management and control of the City's Pension Trust 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. Net assets of \$12.5 million was reported for the Risk Management fund as of June 30, 2009, an increase of \$1.8 million from the previous fiscal year.

## **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 2009 audit.

## **MAJOR INITIATIVES**

I. Energy Efficiency – The City of Knoxville has become a leader in the energy and sustainability effort. In 2008, the City created its Energy & Sustainability Task Force charged with developing and implementing strategies to lower the city government's energy consumption, costs and emissions; this Task Force is continuing to meet and implement projects. As a result of the Task Force efforts, the City of Knoxville was selected as one of only a dozen 2009 Solar America Cities by the U.S. Department of Energy (DOE). This program has built relationships and created new opportunities for public outreach regarding solar energy. Also, the City's Community Development Division worked with several non-profit groups in Knoxville to complete seven affordable, Gold Certified LEED houses – the first in the United States. The City is also using green building practices in the current construction of a new Transit Center, a 108,000-square-foot LEED-certified facility that will greatly improve mass transportation in the city. Finally, in August 2009, the City was awarded over \$2 million in DOE Energy Block Grant funds to complete 7 energy initiatives over the next 3 years. Some of these funds will be used to aid in the effort to implement curbside recycling. All of these efforts are contributing to leveraging grant funding and improving intrinsic quality of life issues that will draw businesses and residents to select Knoxville over other cities in our region.

II. Redevelopment - Downtown Knoxville is the heart of our city and the administration is committed to taking the strong growth that the downtown area has experienced and expanding it outward from the core of the city into Downtown North, along Cumberland Avenue and across the Tennessee River on the South Waterfront. Since the Regal Theater opened in downtown Knoxville, the redevelopment efforts on the historic block of 500 Gay Street have seen the renovation of the S&W Grand and the opening of new restaurants and professional office spaces. New businesses and residents continued to move into the core of the city. The City continued work on the Cumberland Avenue Corridor and Downtown North revitalization projects. Those efforts are aimed at developing the infrastructure to encourage a strong mix of residential, retail and business interests in those areas.

III. Livability - The City of Knoxville continued to develop projects to make the city a better place to live, work and raise a family. In FY09, the city opened new sections, and started construction of what is now more than a 41-mile greenway system. The system includes one 16-mile section that connects East Knoxville to West Knoxville and runs along downtown, the Tennessee River, the University of Tennessee and World's Fair Park. The City began planning for a new dog park that will serve downtown residents and construction is already underway. Also completed were the new Knoxville Skate Park, a joint effort with Knox County, and a major improvement of Lonsdale Park among other improvements to its park and recreation system.

IV. Employee Compensation – The City is committed to bringing the total compensation of its employees in line with its peer organizations. In FY08 the city began a three-year, \$9.3 million effort to bring employee salaries up to levels of other, similar government organizations after a comprehensive survey showed that the city's compensation levels were lower than they should be.

V. Economic Development - Economic development has been the primary focus during the past year. Significant work has been devoted to the adoption of a South Knoxville Waterfront Master plan which is serving as a guide and incentive to future development in this area. Once the economy rebounds, residential development is anticipated along the South Knoxville Waterfront. Work has continued on the redevelopment of the downtown area with the reconstruction of the 100 and 200 blocks

of Gay St., additional diversified retail targeting the downtown visitor, and the I-275 Business Park. Additionally, the master plan process for Downtown North and the start of implementation of the corridor plan for Cumberland Ave. will support future economic development around downtown. Increased capital funding was devoted to an on-going maintenance of the City's infrastructure as well as the expansion of parks and facilities.

VI. Other – Other major projects include funding to address chronic problem properties, reducing the homeless population, 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 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, 2008. This was the twenty-third 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.

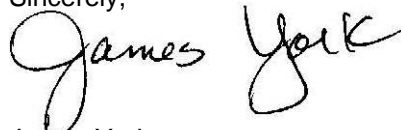
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Knoxville received GFOA's Distinguished Budget Presentation Award for the annual operating budget dated July 1, 2009. This marks the twenty-second 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 Bob Becker (Chair), Joe Hultquist, Barbara Pelot, Marilyn Roddy 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 has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvilleians.

Sincerely,

A handwritten signature in black ink that reads "James York". The signature is written in a cursive, flowing style.

James York  
Director of Finance

# 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, 2008

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.

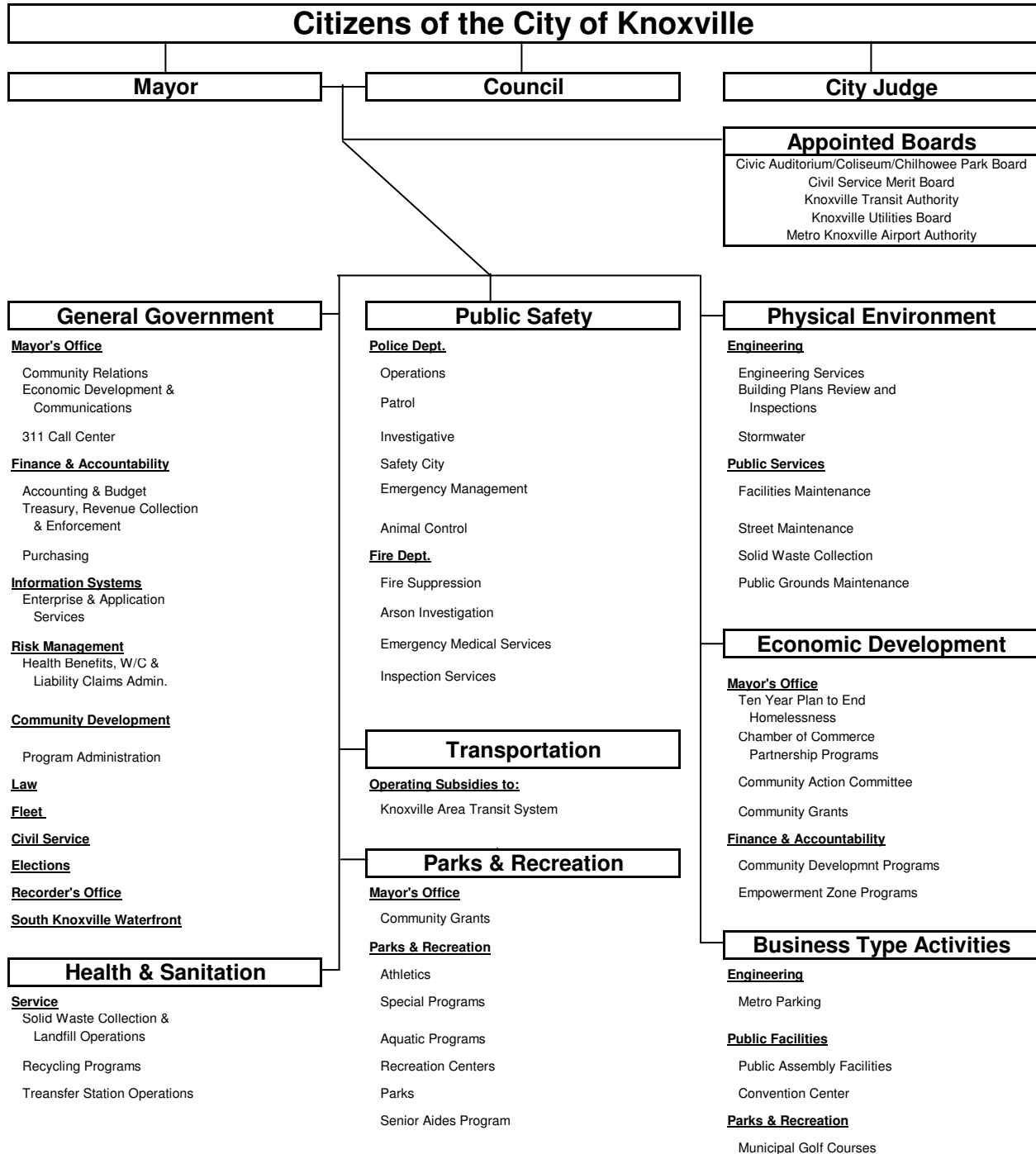


President

Executive Director

# City of Knoxville, Tennessee

## Organizational Structure by Function





## **OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE**

**MAYOR**  
Bill Haslam

### **CITY COUNCIL**

Joe Bailey  
Bob Booker  
Rob Frost

Bob Becker, Vice Mayor  
Steve Hall  
Joe Hultquist

Barbara B. Pelot  
Marilyn Roddy  
Chris Woodhull

**CITY JUDGE**  
John Rosson

### **PRINCIPAL DIRECTORS AND ADMINISTRATORS**

Airport – Bill Marrison, President  
City Recorder – Cindy Mitchell  
Civil Service – Vicki Hatfield, Executive Secretary  
Community Development – Madeline Rogero, Director  
Community Relations – Thomas E. Strickland, Jr., Sr. Director  
Deputy to the Mayor – Larry B. Martin, Sr. Director  
Finance & Accountability – Jim York, Director  
Fire – Robert Key, Chief  
Fleet Service – Mark Kollander, Director  
Information Systems – Janet Wright, Director  
Knoxville Area Transit – Cindy McGinnis, General Manager  
Knoxville Utilities Board – Mintha Roach, President  
Law – Debra Poplin, Sr. Director  
Operations & Efficiencies – Samuel P. Anderson, Sr. Director  
Police – Sterling P. Owen IV, Chief  
Policy & Communication – William Lyons, Sr. Director  
Public Assembly Facilities – Robert Polk, Director  
Public Works – Steve King, Director  
South Waterfront – Dave Hill, Sr. Director  
Special Events – 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  
BARRETT V. SIMONIS, CPA

HOME FEDERAL PLAZA - SUITE 200  
315 NORTH CEDAR BLUFF ROAD  
KNOXVILLE, TENNESSEE 37923

-----  
P.O. BOX 31409  
KNOXVILLE, TENNESSEE 37930-1409

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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, 2009, 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 or the Metropolitan Knoxville Airport Authority. 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 and Metropolitan Knoxville Airport Authority, 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the 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 23, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 schedules of funding progress of the pension plans on pages 85 and 86 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 88 to 122, the statistical section, as well as the accompanying schedule of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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, schedules and the schedule of federal and state awards 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 23, 2009

# 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, 2009.

## Financial Highlights

- The assets of the City of Knoxville primary government exceeded its liabilities at the close of the most recent fiscal year by \$483,022,628 (*net assets*). Of this amount, \$210,022,912 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets increased by \$34,405,476, an increase of 7.7% over fiscal 2008 total net assets as a result of effective budgetary controls and involvement of all employees in controlling expenses in light of declining revenues associated with the world-wide economic downturn.
- As of the close of the fiscal year, the city's governmental funds reported combined ending fund balances of \$173,296,390, an increase of \$6,048,477 in comparison with the prior year. Approximately 96% (\$166,681,795) is available for spending at the city's discretion.
- Fund Balance for the City's General Fund increased by \$2,783,230, an increase of 5.6%. This was the result of stronger than budgeted current period property tax revenues which helped reduce the overall shortfall of budgeted revenues accompanied by departmental expenditures remaining well within their budgetary constraints. Only \$1,303,085 is reserved for specific purposes, and the remaining 97.5% (\$51,036,139) 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 \$10,770,000 (5.2%) to \$197,370,000 during the current fiscal year as a result of normal debt service payment activity.

## Overview of the Financial Statements

There are four sections to the City's financial report – *Introductory, Financial, Statistical and the Compliance* sections. The Introductory Section contains the City's Letter of Transmittal, a facsimile of the Certificate of Achievement for Excellence in Financial Reporting, an organization chart, and a list of officials. The Financial Section is comprised 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. The Statistical Section discloses data designed to further enhance the readers understanding of the City's financial health. The Compliance Section contains the Single Audit Report and any findings and recommendations.

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. Component units are organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

### **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 occur, 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 shown using all revenues and expenses. Governmental 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 Governmental Funds." (Other Governmental Funds are also noted as Nonmajor Governmental Funds, Special Revenue Funds and Permanent Funds) Governmental funds are noted as follows:

**Major Governmental Funds**

- 1.General
- 2.Debt Service
- 3.Capital Projects

**Non-Major Governmental Funds/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.Knoxville Civic Revitalization

**Permanent Fund**

- 13.Krutch Park

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 (Schedule 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 and Public Assembly Facilities consisting of the Civic Auditorium/Coliseum and Chilhowee Park, public parking garages operating under the Metro Parking Fund and the Municipal Golf Courses. 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 operation which was eliminated during the 2008 fiscal year, 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 presented on a full accrual basis. Proprietary funds are noted as follows:

<b>Business-type Activities</b>	<b>Governmental Activities/Internal Service Funds</b>
1. Knoxville Convention Center	1. Office Services Fund (eliminated FY 2008)
2. Other Business-type activities:	2. Fleet Maintenance Fund
Nonmajor Enterprise Funds -	3. Risk Management Fund
a. Metro Parking Fund	4. Health Insurance Fund
b. Public Assembly Facilities Fund	5. Equipment Replacement Fund
c. Municipal Golf Courses	6. City Buildings Fund

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

The Statement of Revenues, Expenditures, and Changes in Fund Net Assets isolate operating revenues and 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 and 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 programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Combined Agency Funds (City Choice Plus Fund and the Employee Health Savings Fund) account for monies designated by employees to offset the cost of their personal health care. The City Employees' Pension Trust Fund accounts for assets set aside for employee retirements.

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 disclose 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, 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, 2009

A condensed version of the Statement of Net Assets follows:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets:						
Cash and investments	\$ 219,747	\$ 206,910	\$ 16,811	\$ 15,588	\$ 236,558	\$ 222,498
Other assets	162,844	60,144	3,641	3,007	166,485	63,151
Capital assets	264,808	252,911	168,456	173,451	433,264	426,362
Total assets	<u>\$ 647,399</u>	<u>\$ 519,965</u>	<u>\$ 188,908</u>	<u>\$ 192,046</u>	<u>\$ 836,307</u>	<u>\$ 712,011</u>
Other liabilities	\$ 153,272	\$ 47,923	\$ 6,226	\$ 5,156	\$ 159,498	\$ 53,079
Noncurrent liabilities	57,098	68,221	136,688	139,940	193,786	208,161
Total liabilities	<u>\$ 210,370</u>	<u>\$ 116,144</u>	<u>\$ 142,914</u>	<u>\$ 145,096</u>	<u>\$ 353,284</u>	<u>\$ 261,240</u>
Net assets:						
Invested in capital assets, net of debt	\$ 205,877	\$ 186,466	\$ 28,212	\$ 30,268	\$ 234,089	\$ 216,734
Restricted	38,911	37,487	-	-	38,911	37,487
Unrestricted	192,241	179,868	17,782	16,682	210,023	196,550
Total net assets	<u>\$ 437,029</u>	<u>\$ 403,821</u>	<u>\$ 45,994</u>	<u>\$ 46,950</u>	<u>\$ 483,023</u>	<u>\$ 450,771</u>

### Governmental Activities

Assets have increased by 24.5% and liabilities have increased by 81.1% when compared to 2008 levels. The increase in assets and liabilities was the result of recording of FY10 property taxes as receivables and deferred revenue in the General and Debt Service Funds. The net result of these changes is an increase of 8.22% in total net assets. Other than the revenue deferral, 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.

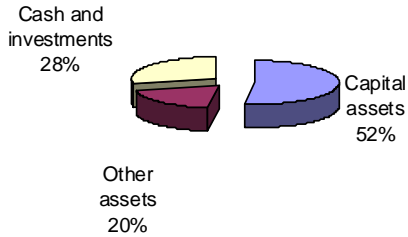
### Business-Type Activities

Assets have decreased by 1.63% and liabilities have decreased 1.5% from 2008 levels, resulting in a decrease of 2.04% in total net assets. Unlike the Governmental Activities, no one item or action was material enough to explain the relatively overall minor changes.

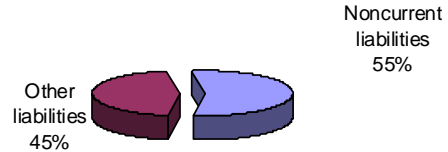
**Total Primary Government**

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 52% of \$836 million in total assets. Taxes and governmental receivables constitute 20%. Current liquidity, as shown by cash and investments, composes the remaining 28% in total assets.

**Primary Government Total Assets**



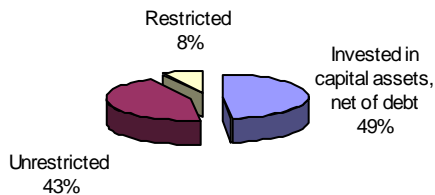
**Primary Government Total Liabilities**



Fifty-five percent of the total government liabilities are in long-term debt outstanding. Of long-term debt, approximately \$140.8 million, or 71% is related to debt issued to finance the convention center 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 43% of total primary government net assets.

**Primary Government Total Net Assets**



**STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009**

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	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 11,877	\$ 12,699	\$ 10,501	\$ 11,764	\$ 22,378	\$ 24,463
Operating grants & contributions	10,387	9,804	1,430	-	11,817	9,804
Capital grants & contributions	5,161	5,753	-	-	5,161	5,753
General revenues:						
Taxes	190,530	192,984	6,794	7,492	197,324	200,476
Interest	5,009	8,908	457	440	5,466	9,348
Other	1,553	1,762	219	202	1,772	1,964
Total revenues	\$ 224,517	\$ 231,910	\$ 19,401	\$ 19,898	\$ 243,918	\$ 251,808
Expenses:						
General government	\$ 8,885	\$ 9,630	\$ -	\$ -	\$ 8,885	\$ 9,630
Public safety	80,936	78,172	-	-	80,936	78,172
Physical Environment	44,421	42,048	-	-	44,421	42,048
Transportation	12,131	9,614	-	-	12,131	9,614
Economic development	10,686	8,733	-	-	10,686	8,733
Parks and recreation	11,893	11,634	-	-	11,893	11,634
Health & Sanitation	10,094	9,833	-	-	10,094	9,833
Interest on long-term debt	2,702	3,138	-	-	2,702	3,138
Other	-	-	27,764	27,770	27,764	27,770
Total expenses	\$ 181,748	\$ 172,802	\$ 27,764	\$ 27,770	\$ 209,512	\$ 200,572
Increase (decrease) in net assets before transfers	\$ 42,769	\$ 59,108	\$ (8,363)	\$ (7,872)	\$ 34,406	\$ 51,236
Transfers	(9,561)	(11,010)	9,561	11,010	-	-
Changes in net assets	33,208	48,098	1,198	3,138	34,406	51,236
Beginning net assets	403,821	355,723 <sup>(1)</sup>	44,796	43,812	448,617	399,535
Ending net assets	\$ 437,029	\$ 403,821	\$ 45,994	\$ 46,950	\$ 483,023	\$ 450,771

(1) See Note 12 regarding Prior Period Adjustment

**Governmental Activities**

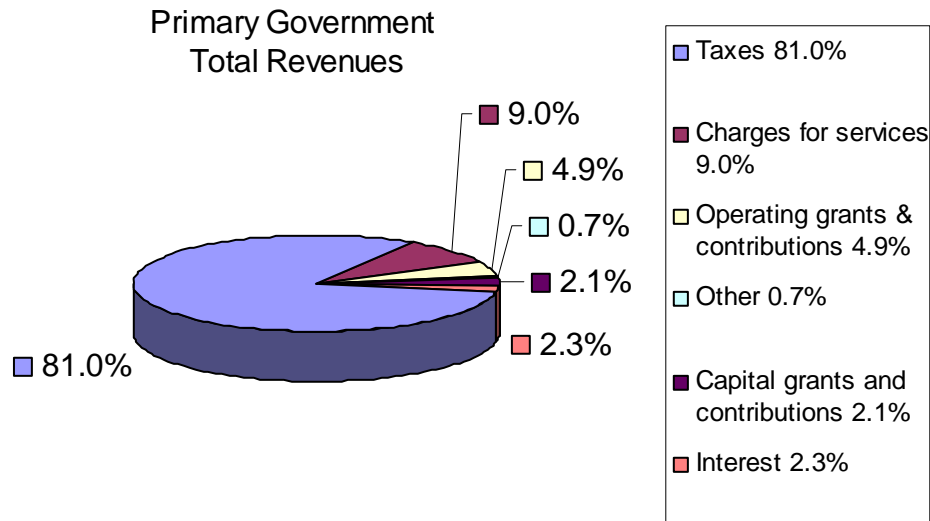
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2009, only the General Fund, City Court, State Street Aid, Animal Control and Miscellaneous Special Revenue Funds (Police Forfeiture Operations) generated material revenues in excess of current expenditures. Excess revenue generated by the City Court is transferred to the General Fund to finance general operations. Grant revenue proceeds of \$5.719 million were earmarked for the City's Community Development efforts. Public safety operations accounted for approximately 45% of the City's total governmental operations of \$181.7 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, public assembly facilities and the municipal golf courses. The City also operates the 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. Additional redevelopment efforts in the city's downtown area are expected to increase the cost effectiveness of the city's infrastructure investments.

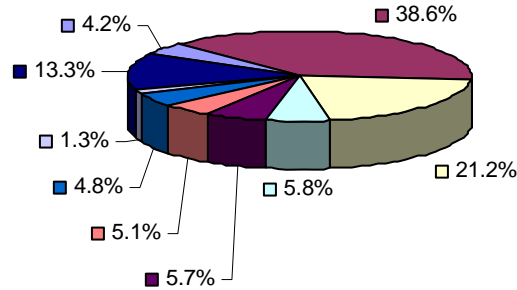
**Total Government**

Primary Government Revenues were \$243.9 million. The largest portion of these revenues (\$197.3 MM - 81%) was from taxes.



Total primary government expenses totaled \$209.5 million, 39% of which was directed toward public safety.

### Primary Government Total Expenses



- General government 4.2%
- Public safety 38.6%
- Physical Environment 21.2%
- Transportation 5.8%
- Parks and recreation 5.7%
- Economic development 5.1%
- Health & Sanitation 4.8%
- Interest on long-term debt 1.3%
- Other 13.3%

### Component Units

Certain organizations affiliated with the city are 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 Knoxville Area Transit. 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Program Revenues	\$752,318	\$685,950	\$ 37,609	\$ 41,126	\$ 52,928	\$ 23,188	\$842,855	\$750,264
Program Expenses	(732,915)	(657,245)	(33,634)	(33,708)	(45,845)	(30,475)	(812,394)	(721,428)
Total General Revenues	3,657	7,588	1,575	1,618	10,716	8,353	15,948	17,559
Change in Net Assets	\$ 23,060	\$ 36,293	\$ 5,550	\$ 9,036	\$ 17,799	\$ 1,066	\$ 46,409	\$ 46,395
Net Assets at Year End	\$751,885	\$728,825	\$115,464	\$109,914	\$ 31,618	\$ 13,819	\$898,967	\$852,558

## Financial Analysis of the Government's Funds

### Balance Sheet at June 30, 2009

The total Government Funds balance as of June 30, 2009 is \$173.3 million of which the general fund's balance is approximately \$52.4 million, debt service fund is \$38.1 million, capital projects comprise \$55.2 million and the remaining \$27.6 million is distributed between the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances grew by \$6 million over prior year. The general fund grew by \$2.8 million as a result of favorable financial operations. The debt service fund increased by \$1.5 million, capital projects increased by \$2.2 million as a result of advance funding for approved capital projects and the remaining negative \$.4 million was spread over various special revenue funds and the permanent fund. Significant causes of the various increases are explained in the following section.

### Statement of Revenues, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2009

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, 2009, 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	2009	2008	Percent of Total 2009	Increase (Decrease) from Prior Year	Percent of Increase (Decrease)
Taxes, assessments, interest & penalties	\$ 169,521	\$ 169,632	75.93%	\$ (111)	(0.07%)
Licenses, permits and inspection charges	1,974	2,281	0.88%	(307)	(13.46%)
Intergovernmental revenue	31,539	34,986	14.13%	(3,447)	(9.85%)
Charges for services	6,021	6,323	2.70%	(302)	(4.78%)
Fines and forfeitures	5,397	4,953	2.42%	444	8.96%
Other	8,800	10,711	3.94%	(1,911)	(17.84%)
Totals	<u>\$ 223,252</u>	<u>\$ 228,886</u>	<u>100.00%</u>	<u>\$ (5,634)</u>	<u>(2.46%)</u>

A comparison of revenues between FY08 and FY09 shows the total general government revenues decreased by approximately \$5.6 million or 2.46%.

Revenues from Taxes were relatively flat for various reasons. Gains in the collection of current taxes offset minor shortfalls in the collection of delinquent taxes. License and permit revenues declined due to the overall downturn in the economy which was not unexpected. By far, the largest impact on our revenues was caused by decreases in sales based and income taxes. While overall intergovernmental revenues were down \$3.45 Million, three revenues accounted for a disproportionate amount of the decline. State Shared Sales Taxes decreased by \$1.07 Million, income tax proceeds decreased by \$2.05 Million and Miscellaneous Community Development Funds proceeds decreased by \$0.7 Million. While we also had swings in revenues from charges for services and fines and forfeits, the most significant decrease in Other revenues was caused by reduced investment earnings (\$0.7 Million).

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, 2009, and the percentage of increases and decreases in relation to prior year amounts.

Condensed Financial Information  
Total Governmental Funds - Expenditures  
For Fiscal Years Ending 06/30/09 and 06/30/08  
(In \$1,000's)

Expenditures	FY 08/09	FY 07/08	Percent of Total FY 08/09	Increase (Decrease) from Prior Year	Percentage Change from Prior Year
Administration	\$ 2,482	\$ 2,561	1.22%	\$ (79)	(3.08%)
Finance and Accountability	7,269	9,899	3.57%	(2,630)	(26.57%)
Operations and Engineering	12,841	12,551	6.31%	290	2.31%
Community and Neighborhood Services	48,760	44,954	23.99%	3,806	8.47%
Law	2,562	2,400	1.26%	162	6.75%
Police	46,567	45,910	22.89%	657	1.43%
Fire	30,883	29,912	15.18%	971	3.25%
Legislative	1,072	907	0.53%	165	18.19%
Civil Service	925	1,146	0.45%	(221)	(19.28%)
Metropolitan Planning Commission	763	713	0.38%	50	7.01%
Knoxville Zoological Park	907	910	0.45%	(3)	(0.33%)
Community agency grants	1,166	1,514	0.57%	(348)	(22.99%)
Waterfront operations	494	357	0.24%	137	38.38%
Community Action Committee	517	469	0.25%	48	10.23%
Mass Transit	11,594	9,145	5.70%	2,449	26.78%
Capital and grant projects	24,440	22,684	12.02%	1,756	7.74%
Debt service:					
Principal retirement	7,408	8,540	3.64%	(1,132)	(13.26%)
Interest on bonds and notes	2,754	3,138	1.35%	(384)	(12.24%)
Total Expenditures	<u>\$ 203,404</u>	<u>\$ 197,710</u>	<u>100.00%</u>	<u>\$ 5,694</u>	<u>2.88%</u>

Overall general government expenditures for FY09 increased by approximately \$5.7 million or 2.9%. A significant change between the years occurred in Finance and Accountability as the result of a one time charge (\$3.315 Million) in FY08 for a supplemental contribution to the pension plans reducing our unfunded liability. Community and Neighborhood Services increases were almost entirely related to increased Community Development Grant activities. Police and Fire expenditures increased as a result of the departments reaching full strength. The increase in Mass Transit expenditures may be attributed to the City's grant match (\$2.8 Million) for the new state-of-the-art Transit Center. The remaining changes from prior year were general in nature without any particular or significant growth in any one area.

## Proprietary Funds Statements

### *Statement of Net Assets at June 30, 2009*

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, 2009*

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 \$16.0 million after transfers and capital contributions.

**Statement of Cash Flows for the Year Ended June 30, 2009**

The four main business type activities of the City are the Convention Center, Metro Parking, Public Assembly Facilities and the Municipal Golf Courses. As expected, overall operations experienced a net operating loss. The Convention Center continues to operate at a loss but the amount of the annual loss has continued to decline over the years. Both parking garages operate at a profit. The revenues from the combined properties are sufficient to cover total costs including debt service, with gains from certain garages offsetting the loss on the others. Public Assembly Facilities operated at a loss this year due to a general decline in public amusement attendance. The city's two golf courses continued to operate at a loss with subsidies coming from the General Fund. When the city took them back from private operators two years ago, the condition of the courses and their reputations had diminished. The city is working to rebuild the public's confidence in the courses and has achieved a certain degree of success as the revenues have increased 59% over the previous year. While expenses have increased 56%, a significant amount of that is due to the rejuvenation of the courses which will decrease over time. Expectations are that the combined operations will start showing favorable results in future periods.

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	
	2009	2008	2009	2008	2009	2008
I. Business-type Activities						
A. Knoxville Convention Center	\$ 13,621	\$ 13,408	\$ 20,452	\$ 21,246	\$ 8,327	\$ 8,981
B. Other (Non-major enterprise funds)						
1. Metro Parking	2,239	1,811	1,565	1,464	(1,000)	567
2. Public Assembly Facilities	2,285	3,769	4,356	4,174	2,111	1,362
3. Municipal Golf Courses	1,234	776	1,379	886	122	100
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	-	38	-	88	-	(6)
2. Fleet Maintenance	13,892	14,437	10,793	10,672	2,097	4,130
3. Risk Management	7,195	8,535	6,352	5,522	861	826
4. Health Insurance	14,467	13,203	12,381	14,423	1,010	1,023
5. Equipment Replacement	2,768	4,714	2,297	2,120	270	149
6. City Buildings	1,589	1,902	1,517	1,469	-	(1,696)
Totals	\$ 59,290	\$ 62,593	\$ 61,092	\$ 62,064	\$ 13,798	\$ 15,436



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

	Capital Contributions		Change in Net Assets		Net Assets at Year End	
	2009	2008	2009	2008	2009	2008
I. Business-type Activities						
A. Knoxville Convention Center	\$ -	\$ -	\$ 1,496	\$ 1,143	\$13,181	\$11,685 <sup>(1)</sup>
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	(326)	914	17,192	17,518 <sup>(1)</sup>
2. Public Assembly Facilities	-	-	40	957	15,432	15,392
3. Municipal Golf Courses	11	133	(12)	123	189	201
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	-	-	-	(56)	-	-
2. Fleet Maintenance	105	235	5,301	8,130	38,724	33,423
3. Risk Management	-	-	1,704	3,839	12,531	10,827
4. Health Insurance	-	-	3,096	(197)	10,728	7,632
5. Equipment Replacement	-	-	741	2,743	17,418	16,677
6. City Buildings	-	-	72	(1,263)	3,836	3,764
Totals	<u>\$ 116</u>	<u>\$ 368</u>	<u>\$ 12,112</u>	<u>\$ 16,333</u>	<u>\$129,231</u>	<u>\$117,119</u>

(1) See Note 12 regarding Prior Period Adjustment

## Fiduciary Funds Statements

The City Employees' Pension Trust Fund is reported with the Combined Agency Funds (City Choice Plus and the Employee Health Savings Fund) in the fiduciary funds statements. 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 08/09 Contribution Rates	FY 07/08 Contribution Rates
General Government Employees:		
Defined Contribution (G1)	8.72%	9.05%
Defined Benefit (G2)	7.22%	7.55%
Police and Fire Employees	16.34%	16.55%

The City's Pension Fund is almost fully funded at year-end (93%). The fund, like similar funds, has been affected by the declining interest rate environment and relatively unstable 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. The City Choice Plus Fund and the Employee Health Savings Fund account for employee contributions to IRS Section 125 health benefit plans.

## General Fund Budgetary Highlights

During the year there was a \$1.4 million increase in appropriations between the original and final General Fund's budget. The following chart provides a snapshot of the changes in the budget.

General Fund  
Budget Appropriation Changes  
For Fiscal Year Ending June 30, 2009

Department	Carry Forward of Prior Year	Other	Total Changes
Administration	\$ 47,444	\$ (34,936)	\$ 12,508
Finance and Accountability	209,310	(48,678)	160,632
Operations and Efficiency	82,885	100,568	183,453
Community and Neighborhood Services	183,453	(683,704)	(500,251)
Law	27,375	-	27,375
Police	168,331	(1,036,407)	(868,076)
Fire	83,375	(4,607)	78,768
Legislative	80,245	73,750	153,995
Civil Service	-	-	-
City Elections	-	-	-
Knoxville Partnership	-	-	-
Metropolitan Planning Commission	-	-	-
Knoxville Zoo	-	-	-
Community Agency Grants	-	36,000	36,000
Waterfront	-	(1,000)	(1,000)
Community Action Committee	-	-	-
Second Creek Greenway	-	-	-
Downtown Cinema	-	1,000	1,000
Tax Increment Payments	-	109,062	109,062
Reserve	-	-	-
Mass Transit	-	533,100	533,100
Transfers	-	1,484,352	1,484,352
<b>Total General Fund Expenditures</b>	<b>\$ 882,418</b>	<b>\$ 528,500</b>	<b>\$ 1,410,918</b>

The largest changes occurred in Transfers and Police. \$1 Million was moved from the Police Department's budget into Transfers which were used to increase the funding available for new vehicles and replacements. The increase in Mass Transit (\$0.53 Million) was due to projected budgetary over runs in Knoxville Area Transit system, a Component Unit of the City. The change in Community and Neighborhood Services was due to additional grant matches being necessary as a result of increased grant activity.

## Capital Asset and Debt Administration

As of June 30, 2009 the primary government of the City had invested \$433.3 million in capital assets as reflected by the following table. The total amount represents an overall increase primarily due to the completion of various projects and revitalization efforts throughout the city and in the downtown area. 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. For additional information on the capital assets of the City, please refer to Note 7 of the Notes to Financial Statements.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land and site improvements	\$ 45,104	\$ 39,234	\$ 6,866	\$ 6,866	\$ 51,970	\$ 46,100
Buildings and improvements	54,698	50,073	221,813	221,460	276,511	271,533
Equipment, furniture & fixtures	70,020	61,946	5,419	4,455	75,439	66,401
Infrastructure	272,686	261,483	-	-	272,686	261,483
Construction in progress	3,863	7,941	50	203	3,913	8,144
Less accumulated depreciation	(181,563)	(167,766)	(65,691)	(59,533)	(247,254)	(227,299)
Totals	<u>\$ 264,808</u>	<u>\$ 252,911</u>	<u>\$ 168,457</u>	<u>\$ 173,451</u>	<u>\$ 433,265</u>	<u>\$ 426,362</u>

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.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Beginning balance	\$ 420,677	\$ 394,521	\$ 232,984	\$ 231,935	\$ 653,661	\$ 626,456
Additions	57,040	73,658	1,728	2,114	58,768	75,772
Deletions	(31,346)	(47,502)	(564)	(1,065)	(31,910)	(48,567)
Balance before depreciation	446,371	420,677	234,148	232,984	680,519	653,661
Accumulated depreciation	(181,563)	(167,766)	(65,691)	(59,533)	(247,254)	(227,299)
Balance after depreciation	<u>\$ 264,808</u>	<u>\$ 252,911</u>	<u>\$ 168,457</u>	<u>\$ 173,451</u>	<u>\$ 433,265</u>	<u>\$ 426,362</u>

As of the year-end, the City's Total Primary Government had \$197.4 million in general obligation debt outstanding. In addition to this amount the City is obligated to pay \$1.16 million to Knox County, representing the City's portion in the joint construction of the City/County animal shelter and another \$102,500 for a note to purchase golf carts.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current - Due in 1 year						
General Obligation Bonds	\$ 5,325	\$ 7,340	\$ 3,580	\$ 3,430	\$ 8,905	\$ 10,770
Debt Participation Agreement	71	68	-	-	71	68
Note Payable	-	-	13	13	13	13
Total Current	<u>5,396</u>	<u>7,408</u>	<u>3,593</u>	<u>3,443</u>	<u>8,989</u>	<u>10,851</u>
Non Current - Due in more than 1 year						
General Obligation Bonds	51,235	56,560	137,230	140,810	188,465	197,370
Debt Participation Agreement	1,017	1,088	-	-	1,017	1,088
Note Payable	-	-	90	90	90	90
Total Non Current	<u>52,252</u>	<u>57,648</u>	<u>137,320</u>	<u>140,900</u>	<u>189,572</u>	<u>198,548</u>
Subtotal	57,648	65,056	140,913	144,343	198,561	209,399
Unamortized Premiums, Discounts and Gain on Refunding	1,284	1,389	(993)	(1,057)	291	332
Total Long Term Debt	<u>\$ 58,932</u>	<u>\$ 66,445</u>	<u>\$ 139,920</u>	<u>\$ 143,286</u>	<u>\$ 198,852</u>	<u>\$ 209,731</u>

The City currently maintains a Fitch/ICBA rating of AA+, which was the same as last year's rating. Standard and Poor's rating of the City's general obligation bonds increased from AA to AA+ while the City retained its 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.

## **Economic Factors**

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes \$137.6 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. In FY09 the taxable value of real property increased by 3.8% and the overall tax roll increased by 3.06%. 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 08/09 the assessed value of real property was \$3.2 billion. Historically, the city has collected an average of 95% of 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 but has slipped somewhat with the current recession but not to a worrisome level. Personal property growth has been higher than real property in recent months but has also declined with the economic downturn that is facing the country. We expect no real growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately \$34.2 million or 21% of total General Fund revenues. Despite the weakening economy, as with the rest of the country, Knoxville experienced a decline in sales tax receipts in FY 08/09 – a trend continued from the last fiscal year which started out strong, but midway through the year, sales tax receipts started to taper off though not as much as the general economy.

The second largest revenue category of the General Fund is intergovernmental revenue which accounts for \$20.6 million or 12.6% of total revenue. The decline in this category is a continuation of the overall decline we've experienced in recent years. 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 continued to decline along with the rest of the world economies, though the direct impact is not as bad as what other parts of the country are experiencing due to our physical location. In FY08, the tax known as the Hall Income Tax (an intangible tax on investments), generated \$7.3 million for the city, an increase of \$4 million from FY07. This year's revenue decreased to \$5.03 Million which is still above historical levels. Due to the nature of the tax, the City is unable to determine exactly what causes such swings.

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 which have fallen due to the general reduction in short term interest rates.

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 FY07, the City was able to slow these increases and keep the premiums the same due to a change in plans, and the implementation of programs that focus on wellness and disease prevention. In FY08, the City terminated its outside health care insurance plans and converted to a self insurance plan. FY09 claims versus revenues were such that we have been able to stabilize premiums through controlled plan expenses and deductible revisions. The plan is stable and has allowed us to control costs more effectively.

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 the last few years have resulted in increased 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 several 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. Many family oriented programs are offered in the area known as Market Square and adjoining Gay Street which bring people into the downtown area from the surrounding areas. What was once an almost deserted area is now a bustling area with many entertainment offerings.

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 in the hopes 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, 2009

	Primary Government			Combined	Total Reporting Unit
	Governmental Activities	Business Type Activities	Total Primary Government	Discretely Presented Component Units	
<b>Assets</b>					
Cash & cash equivalents	\$ 8,099,536	\$ 3,561,282	\$ 11,660,818	\$ 131,541,436	\$ 143,202,254
Investments	211,647,260	13,249,683	224,896,943	95,905,188	320,802,131
Receivables (net of allowance for uncollectibles):					
Accounts	8,190,194	2,252,346	10,442,540	84,762,132	95,204,672
Taxes	120,308,820	-	120,308,820	-	120,308,820
Notes and leases	21,558,187	746,078	22,304,265	148,977	22,453,242
TVA conservation program	-	-	-	5,322,141	5,322,141
Other	-	-	-	51,013	51,013
Internal balances	331,648	(331,648)	-	-	-
Due from component units	7,557,463	-	7,557,463	-	7,557,463
Inventories	1,353,507	107,277	1,460,784	7,394,596	8,855,380
Prepaid items	37,781	56,448	94,229	15,674,049	15,768,278
Equity interest in joint venture	3,506,750	810,217	4,316,967	-	4,316,967
Deferred charges	-	-	-	6,847,480	6,847,480
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	16,119,963	16,119,963
Unused bond proceeds	-	-	-	4,009,963	4,009,963
Receivables	-	-	-	500,000	500,000
Other	-	-	-	335,343	335,343
Other assets	-	-	-	4,174,431	4,174,431
Capital assets:					
Land & site improvements	45,104,316	6,866,363	51,970,679	150,260,557	202,231,236
Building & building improvements	54,698,282	221,812,835	276,511,117	145,136,739	421,647,856
Utility plant in service	-	-	-	1,598,307,524	1,598,307,524
Equipment, furniture & fixtures	70,020,407	5,418,715	75,439,122	36,056,205	111,495,327
Infrastructure	272,685,458	-	272,685,458	-	272,685,458
Construction in progress	3,862,591	49,805	3,912,396	116,119,223	120,031,619
Less accumulated depreciation	(181,562,627)	(65,691,154)	(247,253,781)	(705,509,032)	(952,762,813)
<b>Total assets</b>	<b>647,399,573</b>	<b>188,908,247</b>	<b>836,307,820</b>	<b>1,713,157,928</b>	<b>2,549,465,748</b>
<b>Liabilities</b>					
Accounts payable	8,207,348	1,208,823	9,416,171	53,164,132	62,580,303
Matured principal & interest on bonds	-	-	-	8,795,820	8,795,820
Accrued liabilities	3,957,422	67,286	4,024,708	15,396,325	19,421,033
Due to primary government	-	-	-	7,557,463	7,557,463
Due to other governmental agencies	1,704,528	-	1,704,528	-	1,704,528
Unearned revenue	121,071,681	174,876	121,246,557	-	121,246,557
Customer deposits, plus accrued interest	311,065	453,519	764,584	11,019,446	11,784,030
Liabilities payable with restricted assets:					
Long-term debt due within one year	17,623,071	3,679,906	21,302,977	20,425,897	41,728,874
Accrued interest	397,217	642,373	1,039,590	143,712	1,183,302
Noncurrent liabilities:					
Long-term debt due in more than one year	54,598,395	136,687,682	191,286,077	684,460,419	875,746,496
Other noncurrent liabilities	2,500,000	-	2,500,000	13,228,170	15,728,170
<b>Total liabilities</b>	<b>210,370,727</b>	<b>142,914,465</b>	<b>353,285,192</b>	<b>814,191,384</b>	<b>1,167,476,576</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	205,876,691	28,211,638	234,088,329	645,120,124	879,208,453
Restricted for:					
Debt service	38,134,462	-	38,134,462	6,738,700	44,873,162
Park Maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	152,860	-	152,860	-	152,860
Other	-	-	-	1,420,787	1,420,787
Unrestricted	192,240,768	17,782,144	210,022,912	245,686,933	455,709,845
<b>Total net assets</b>	<b>\$ 437,028,846</b>	<b>\$ 45,993,782</b>	<b>\$ 483,022,628</b>	<b>\$ 898,966,544</b>	<b>\$ 1,381,989,172</b>

CITY OF KNOXVILLE, TENNESSEE

Statement of Activities  
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General Government	\$ 8,884,557	\$ 539,410	\$ 842,354	\$ -
Public Safety	80,936,318	9,190,837	2,600,908	1,357,058
Physical Environment	44,421,046	717,077	84,570	1,673,313
Transportation	12,131,180	688,313	-	-
Economic Development	10,686,312	-	6,858,804	2,069,591
Parks & Recreation	11,892,786	693,925	-	-
Health & Sanitation	10,094,194	46,982	-	61,305
Interest on Long-Term Debt	2,701,697	-	-	-
Total governmental activities	<u>181,748,090</u>	<u>11,876,544</u>	<u>10,386,636</u>	<u>5,161,267</u>
Business-type activities:				
Metro Parking	1,565,288	2,188,059	-	-
Public Assembly Facilities	4,355,853	1,812,064	-	-
Knoxville Convention Center	20,452,205	5,395,773	1,430,282	-
Municipal Golf Courses	1,390,230	1,104,879	-	-
Total business-type activities	<u>27,763,576</u>	<u>10,500,775</u>	<u>1,430,282</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 209,511,666</u>	<u>\$ 22,377,319</u>	<u>\$ 11,816,918</u>	<u>\$ 5,161,267</u>
<b>Combined Discretely Presented Component Units</b>	<u>\$ 812,393,539</u>	<u>\$ 778,305,245</u>	<u>\$ 5,675,001</u>	<u>\$ 58,873,893</u>

General revenues:  
 Property taxes  
 Intergovernmental revenue, unrestricted  
 Admissions tax  
 Hotel/motel tax  
 Excise tax  
 Alcoholic beverage tax  
 Business tax  
 Cable television franchise tax  
 Other unrestricted revenue  
 Unrestricted investment earnings  
 Gain (loss) on disposal of capital assets  
 Transfers  
 Total general revenues and transfers

Change in net assets

Net assets - beginning (as restated)  
 Net assets - ending



Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
Governmental Activities	Business-type Activities	Total		
\$ (7,502,793)	\$ -	\$ (7,502,793)	\$ -	\$ (7,502,793)
(67,787,515)	-	(67,787,515)	-	(67,787,515)
(41,946,086)	-	(41,946,086)	-	(41,946,086)
(11,442,867)	-	(11,442,867)	-	(11,442,867)
(1,757,917)	-	(1,757,917)	-	(1,757,917)
(11,198,861)	-	(11,198,861)	-	(11,198,861)
(9,985,907)	-	(9,985,907)	-	(9,985,907)
(2,701,697)	-	(2,701,697)	-	(2,701,697)
<u>(154,323,643)</u>	<u>-</u>	<u>(154,323,643)</u>	<u>-</u>	<u>(154,323,643)</u>
-	622,771	622,771	-	622,771
-	(2,543,789)	(2,543,789)	-	(2,543,789)
-	(13,626,150)	(13,626,150)	-	(13,626,150)
-	(285,351)	(285,351)	-	(285,351)
<u>-</u>	<u>(15,832,519)</u>	<u>(15,832,519)</u>	<u>-</u>	<u>(15,832,519)</u>
<u>(154,323,643)</u>	<u>(15,832,519)</u>	<u>(170,156,162)</u>	<u>-</u>	<u>(170,156,162)</u>
-	-	-	30,460,600	30,460,600
113,845,808	-	113,845,808	-	113,845,808
58,775,996	1,758,522	60,534,518	10,743,810	71,278,328
-	2,070,378	2,070,378	-	2,070,378
-	2,964,488	2,964,488	-	2,964,488
543,971	-	543,971	-	543,971
10,470,725	-	10,470,725	-	10,470,725
5,234,036	-	5,234,036	-	5,234,036
1,659,123	-	1,659,123	-	1,659,123
2,398,702	219,417	2,618,119	354,839	2,972,958
5,009,194	456,780	5,465,974	4,907,072	10,373,046
(845,502)	-	(845,502)	(58,266)	(903,768)
(9,560,783)	9,560,783	-	-	-
<u>187,531,270</u>	<u>17,030,368</u>	<u>204,561,638</u>	<u>15,947,455</u>	<u>220,509,093</u>
33,207,627	1,197,849	34,405,476	46,408,055	80,813,531
403,821,219	44,795,933	448,617,152	852,558,489	1,301,175,641
<u>\$ 437,028,846</u>	<u>\$ 45,993,782</u>	<u>\$ 483,022,628</u>	<u>\$ 898,966,544</u>	<u>\$ 1,381,989,172</u>

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet  
Governmental Funds  
June 30, 2009

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash & cash equivalents	\$ 2,970,805	\$ -	\$ -	\$ 1,232,975	\$ 4,203,780
Investments	24,846,634	37,184,179	57,941,672	27,714,026	147,686,511
Accounts receivable	1,684,176	3,347	2,086,171	4,298,025	8,071,719
Taxes receivable	91,551,401	28,757,419	-	-	120,308,820
Notes receivable	-	1,875,400	-	19,682,787	21,558,187
Due from other funds	6,810,209	-	-	-	6,810,209
Due from component units	7,557,463	-	-	-	7,557,463
Inventories	422,749	-	-	319,006	741,755
Prepaid items	37,781	-	-	-	37,781
Total assets	<u>\$ 135,881,218</u>	<u>\$ 67,820,345</u>	<u>\$ 60,027,843</u>	<u>\$ 53,246,819</u>	<u>\$ 316,976,225</u>
<b>Liabilities and fund balances</b>					
Liabilities:					
Accounts payable	\$ 1,877,273	\$ -	\$ 3,605,167	\$ 1,554,482	\$ 7,036,922
Accrued liabilities	2,495,855	-	-	356,839	2,852,694
Customer deposits	-	-	-	311,065	311,065
Due to other funds	-	1,296,293	1,174,469	3,629,280	6,100,042
Due to other governmental agencies	1,698,204	-	-	6,324	1,704,528
Deferred revenue	77,470,662	28,389,590	-	19,814,332	125,674,584
Total liabilities	<u>83,541,994</u>	<u>29,685,883</u>	<u>4,779,636</u>	<u>25,672,322</u>	<u>143,679,835</u>
Fund balances:					
Reserved for:					
Encumbrances	842,555	-	-	2,340,179	3,182,734
Inventories	422,749	-	-	319,006	741,755
Prepaid items	37,781	-	-	-	37,781
Notes receivable	-	1,875,400	-	-	1,875,400
Permanent funds	-	-	-	624,065	624,065
Designated for:					
Permanent funds	-	-	-	152,860	152,860
Unreserved, reported in:					
General fund	51,036,139	-	-	-	51,036,139
Special revenue	-	-	-	24,138,387	24,138,387
Debt service	-	36,259,062	-	-	36,259,062
Capital projects	-	-	55,248,207	-	55,248,207
Total fund balances	<u>52,339,224</u>	<u>38,134,462</u>	<u>55,248,207</u>	<u>27,574,497</u>	<u>173,296,390</u>
Total liabilities and fund balances	<u>\$ 135,881,218</u>	<u>\$ 67,820,345</u>	<u>\$ 60,027,843</u>	<u>\$ 53,246,819</u>	<u>\$ 316,976,225</u>

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, 2009

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

Ending fund balance - governmental funds		\$ 173,296,390
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheets of the governmental funds.		242,389,607
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.		4,602,903
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.		83,236,566
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.		(397,217)
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	\$ (56,560,000)	
Debt Participation Agreement	(1,087,910)	
Discounts and Premiums (net)	(1,283,826)	
Compensated Absences	(7,167,667)	(66,099,403)
Net assets of governmental activities		<u>\$ 437,028,846</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, 2009

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes, assessments, interest & penalties	\$ 137,638,281	\$ 26,426,265	\$ -	\$ 5,456,263	\$ 169,520,809
Licenses, permits & inspection charges	312,654	-	-	1,661,263	1,973,917
Intergovernmental	20,572,185	-	2,069,591	8,896,762	31,538,538
Charges for services	1,103,310	-	-	4,917,226	6,020,536
Fines & forfeitures	1,555,129	-	-	3,843,469	5,398,598
Other	1,526,225	2,003,213	3,125,833	2,144,426	8,799,697
Total revenues	<u>162,707,784</u>	<u>28,429,478</u>	<u>5,195,424</u>	<u>26,919,409</u>	<u>223,252,095</u>
<b>Expenditures</b>					
Current:					
Administration	2,283,325	-	-	198,504	2,481,829
Finance & accountability	7,268,549	-	-	-	7,268,549
Operations & engineering	5,356,761	-	-	7,484,627	12,841,388
Community & neighborhood services	27,696,907	-	-	20,407,069	48,103,976
Law	1,570,666	-	-	991,554	2,562,220
Police	43,514,523	-	-	3,052,882	46,567,405
Fire	30,882,491	-	-	-	30,882,491
Legislative	999,136	-	-	73,050	1,072,186
Civil service	925,272	-	-	-	925,272
Knoxville Partnership	655,786	-	-	-	655,786
Metropolitan Planning Commission	763,430	-	-	-	763,430
Knoxville Zoological Park	907,100	-	-	-	907,100
Agency grants	1,166,200	-	-	-	1,166,200
Waterfront	493,842	-	-	-	493,842
Community Action Committee	517,370	-	-	-	517,370
Mass transit	8,793,720	-	2,735,090	65,000	11,593,810
Capital & grant projects	-	-	24,439,615	-	24,439,615
Debt service:					
Principal retirement	-	7,408,054	-	-	7,408,054
Interest payments on bonds & notes	-	2,753,515	-	-	2,753,515
Total expenditures	<u>133,795,078</u>	<u>10,161,569</u>	<u>27,174,705</u>	<u>32,272,686</u>	<u>203,404,038</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>28,912,706</u>	<u>18,267,909</u>	<u>(21,979,281)</u>	<u>(5,353,277)</u>	<u>19,848,057</u>
<b>Other financing sources (uses)</b>					
Transfers in	4,570,630	-	24,213,627	12,004,331	40,788,588
Transfers out	(30,700,106)	(16,766,410)	(69,906)	(7,051,746)	(54,588,168)
Total other financing sources (uses)	<u>(26,129,476)</u>	<u>(16,766,410)</u>	<u>24,143,721</u>	<u>4,952,585</u>	<u>(13,799,580)</u>
<b>Net change in fund balances</b>	<u>2,783,230</u>	<u>1,501,499</u>	<u>2,164,440</u>	<u>(400,692)</u>	<u>6,048,477</u>
<b>Fund balance - beginning</b>	<u>49,555,994</u>	<u>36,632,963</u>	<u>53,083,767</u>	<u>27,975,189</u>	<u>167,247,913</u>
<b>Fund balance - ending</b>	<u>\$ 52,339,224</u>	<u>\$ 38,134,462</u>	<u>\$ 55,248,207</u>	<u>\$ 27,574,497</u>	<u>\$ 173,296,390</u>

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, 2009

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

Net change in fund balances - total governmental funds	\$ 6,048,477
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 net capital outlay (\$20,817,010) exceed the depreciation expenses (\$12,245,167) and gain/loss on disposal (\$845,502).	7,726,341
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,330,975
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	7,135,414
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.	51,818
The internal service fund is used by management to charge the costs of fleet maintenance.	5,301,170
The internal service fund is used by management to charge the costs of risk management.	1,703,932
The internal service fund is used by management to charge the costs of employee health insurance.	3,095,981
The internal service fund is used by management to charge the costs of equipment replacement.	740,943
The internal service fund is used by management to charge the costs of City buildings.	<u>72,576</u>
Change in net assets of governmental activities	<u>\$ 33,207,627</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, 2009

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
<b>REVENUES</b>						
Property taxes -						
Current	\$ 68,597,860	\$ 68,597,860	\$ 70,581,028	\$ -	\$ 70,581,028	\$ 1,983,168
Prior years	3,274,990	3,274,990	3,088,461	-	3,088,461	(186,529)
Business taxes	4,856,340	4,856,340	5,233,492	-	5,233,492	377,152
Local shared sales tax	37,531,500	37,531,500	34,186,373	-	34,186,373	(3,345,127)
Alcoholic beverage taxes	10,706,590	10,706,590	10,470,725	-	10,470,725	(235,865)
Payments in lieu of taxes	12,353,240	12,353,240	12,419,079	-	12,419,079	65,839
Franchise fees	1,616,790	1,616,790	1,659,123	-	1,659,123	42,333
Intergovernmental -						
Federal	1,006,590	1,006,590	842,354	-	842,354	(164,236)
State -						
Sales tax	12,903,270	12,903,270	11,386,849	-	11,386,849	(1,516,421)
Income tax	3,215,900	3,215,900	5,028,617	-	5,028,617	1,812,717
Other	3,110,730	3,110,730	3,261,365	-	3,261,365	150,635
Local	53,000	53,000	53,000	-	53,000	-
Licenses & permits	320,840	320,840	312,654	-	312,654	(8,186)
Fines & forfeits	1,577,980	1,577,980	1,555,129	-	1,555,129	(22,851)
Charges for services	1,224,310	1,224,310	1,103,310	-	1,103,310	(121,000)
Other -						
Interest	1,384,400	1,384,400	1,007,078	-	1,007,078	(377,322)
Rents & concessions	296,720	296,720	358,345	-	358,345	61,625
Miscellaneous	71,370	71,370	160,802	-	160,802	89,432
Total revenues	164,102,420	164,102,420	162,707,784	-	162,707,784	(1,394,636)
<b>EXPENDITURES</b>						
Current:						
Administration	2,378,100	2,390,608	2,283,325	52,344	2,335,669	54,939
Finance & Accountability -						
Finance	3,591,100	3,593,310	3,509,209	757	3,509,966	83,344
Information systems	4,028,340	4,148,401	3,759,340	76,835	3,836,175	312,226
Community development	1,050,680	1,089,041	912,473	20,555	933,028	156,013
South Knoxville Waterfront	603,540	602,540	493,842	-	493,842	108,698
Operations & Efficiency -						
Parks & recreation	6,744,380	6,927,833	6,668,667	135,314	6,803,981	123,852
Mass transit	8,260,620	8,793,720	8,793,720	-	8,793,720	-
Public Works -						
Public services	20,005,860	19,488,402	19,310,877	170,032	19,480,909	7,493
Engineering	5,706,950	5,724,157	5,356,761	98,086	5,454,847	269,310
Law	1,667,220	1,694,595	1,570,666	29,463	1,600,129	94,466
Public Safety -						
Police	45,023,890	44,155,814	43,514,523	176,421	43,690,944	464,870
Fire	31,068,220	31,146,988	30,882,491	21,941	30,904,432	242,556
Board Administered & Other Departments -						
Legislative	906,490	1,060,485	999,136	60,245	1,059,381	1,104
Civil service	978,390	978,390	925,272	562	925,834	52,556

Continued:

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Budget and Actual - General Fund  
 For the Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Nondepartmental -						
City elections	\$ 30,000	\$ 30,000	\$ -	\$ -	\$ -	\$ 30,000
Knoxville Partnership	673,390	673,390	655,786	-	655,786	17,604
Metropolitan Planning Commission	763,430	763,430	763,430	-	763,430	-
Knoxville Zoological Gardens	907,100	907,100	907,100	-	907,100	-
Community agency grants	1,130,200	1,166,200	1,166,200	-	1,166,200	-
Second Creek Greenway	103,670	103,670	35,965	-	35,965	67,705
Community Action Committee	517,370	517,370	517,370	-	517,370	-
Downtown Cinema	96,660	97,660	96,663	-	96,663	997
Tax increment payments	563,200	672,262	672,262	-	672,262	-
Total expenditures	<u>136,798,800</u>	<u>136,725,366</u>	<u>133,795,078</u>	<u>842,555</u>	<u>134,637,633</u>	<u>2,087,733</u>
Excess (deficiency) of revenues over (under) expenditures	<u>27,303,620</u>	<u>27,377,054</u>	<u>28,912,706</u>	<u>(842,555)</u>	<u>28,070,151</u>	<u>693,097</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	4,392,360	4,592,360	4,570,630	-	4,570,630	(21,730)
Transfers out	(29,245,980)	(30,730,332)	(30,700,106)	-	(30,700,106)	30,226
Appropriations	-	1,210,918	-	-	-	(1,210,918)
Budgeted reserve	(2,450,000)	(2,450,000)	-	-	-	2,450,000
Total other financing sources (uses)	<u>(27,303,620)</u>	<u>(27,377,054)</u>	<u>(26,129,476)</u>	<u>-</u>	<u>(26,129,476)</u>	<u>1,247,578</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>2,783,230</u>	<u>(842,555)</u>	<u>1,940,675</u>	<u>\$ 1,940,675</u>
FUND BALANCE - BEGINNING			<u>49,555,994</u>	<u>-</u>	<u>49,555,994</u>	
FUND BALANCE - ENDING			<u>\$ 52,339,224</u>	<u>\$ (842,555)</u>	<u>\$ 51,496,669</u>	

CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets  
Proprietary Funds  
June 30, 2009

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
<b>Assets</b>				
Current assets				
Cash & temporary investments	\$ 2,368,829	\$ 1,192,453	\$ 3,561,282	\$ 3,895,756
Investments	5,474,403	7,775,280	13,249,683	63,960,749
Accounts receivable	2,219,334	33,012	2,252,346	118,475
Leases receivable	-	746,078	746,078	-
Inventories	84,787	22,490	107,277	611,752
Prepaid items	34,454	21,994	56,448	-
Total current assets	<u>10,181,807</u>	<u>9,791,307</u>	<u>19,973,114</u>	<u>68,586,732</u>
Noncurrent assets				
Land & site improvements	2,952,020	3,914,343	6,866,363	-
Building & building improvements	180,237,377	41,575,458	221,812,835	257,391
Equipment	3,035,240	2,383,475	5,418,715	65,050,092
Construction in progress	-	49,805	49,805	-
Less: accumulated depreciation	(41,667,024)	(24,024,130)	(65,691,154)	(42,888,663)
Total capital assets (net of accumulated depreciation)	<u>144,557,613</u>	<u>23,898,951</u>	<u>168,456,564</u>	<u>22,418,820</u>
Equity interest in joint venture	252,492	557,725	810,217	3,506,750
Total noncurrent assets	<u>144,810,105</u>	<u>24,456,676</u>	<u>169,266,781</u>	<u>25,925,570</u>
Total assets	<u>154,991,912</u>	<u>34,247,983</u>	<u>189,239,895</u>	<u>94,512,302</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	826,107	382,716	1,208,823	1,170,426
Accrued liabilities	642,373	67,286	709,659	1,104,728
Customer deposits	401,212	52,307	453,519	-
Due to other funds	-	331,648	331,648	378,519
Deferred revenue	124,212	50,664	174,876	-
Compensated absences	-	80,000	80,000	122,063
Long-term debt due within one year	3,515,847	84,059	3,599,906	6,000,000
Total current liabilities	<u>5,509,751</u>	<u>1,048,680</u>	<u>6,558,431</u>	<u>8,775,736</u>
Noncurrent liabilities				
Long-term debt due in more than one year	136,301,237	386,445	136,687,682	-
Estimated litigation liability	-	-	-	2,500,000
Total noncurrent liabilities	<u>136,301,237</u>	<u>386,445</u>	<u>136,687,682</u>	<u>2,500,000</u>
Total liabilities	<u>141,810,988</u>	<u>1,435,125</u>	<u>143,246,113</u>	<u>11,275,736</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	4,740,529	23,471,109	28,211,638	22,418,820
Unrestricted	8,440,395	9,341,749	17,782,144	60,817,746
Total net assets	<u>\$ 13,180,924</u>	<u>\$ 32,812,858</u>	<u>\$ 45,993,782</u>	<u>\$ 83,236,566</u>



CITY OF KNOXVILLE, TENNESSEE  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2009

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
<b>Operating revenues</b>				
Charges for services	\$ 5,395,773	\$ 5,105,002	\$ 10,500,775	\$ 38,567,997
Total operating revenues	<u>5,395,773</u>	<u>5,105,002</u>	<u>10,500,775</u>	<u>38,567,997</u>
<b>Operating expenses</b>				
Personal services	-	1,985,434	1,985,434	2,606,883
Materials & supplies	-	107,595	107,595	4,253,789
Maintenance	-	1,200,626	1,200,626	310,800
Depreciation & amortization	4,576,675	1,581,564	6,158,239	5,813,027
Other services and charges	9,681,156	2,425,301	12,106,457	20,285,189
Total operating expenses	<u>14,257,831</u>	<u>7,300,520</u>	<u>21,558,351</u>	<u>33,269,688</u>
<b>Operating income (loss)</b>	<u>(8,862,058)</u>	<u>(2,195,518)</u>	<u>(11,057,576)</u>	<u>5,298,309</u>
<b>Nonoperating revenue (expense)</b>				
Interest income	308,349	148,431	456,780	705,717
Intergovernmental revenue	7,848,859	374,811	8,223,670	256,566
Other revenues	67,639	140,767	208,406	379,701
Gain (loss) on disposal of capital assets	-	-	-	(69,794)
Interest expense	(6,194,374)	(10,851)	(6,205,225)	-
Total nonoperating revenue (expense)	<u>2,030,473</u>	<u>653,158</u>	<u>2,683,631</u>	<u>1,272,190</u>
<b>Income (loss) before transfers and capital contributions</b>	<u>(6,831,585)</u>	<u>(1,542,360)</u>	<u>(8,373,945)</u>	<u>6,570,499</u>
<b>Other financing sources (uses)</b>				
Transfers in	8,327,490	2,239,636	10,567,126	4,244,889
Transfers out	-	(1,006,343)	(1,006,343)	(6,092)
<b>Capital contributions</b>	<u>-</u>	<u>11,011</u>	<u>11,011</u>	<u>105,306</u>
<b>Change in net assets</b>	<u>1,495,905</u>	<u>(298,056)</u>	<u>1,197,849</u>	<u>10,914,602</u>
<b>Total net assets - beginning (as restated)</b>	<u>11,685,019</u>	<u>33,110,914</u>	<u>44,795,933</u>	<u>72,321,964</u>
<b>Total net assets - ending</b>	<u>\$ 13,180,924</u>	<u>\$ 32,812,858</u>	<u>\$ 45,993,782</u>	<u>\$ 83,236,566</u>

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended June 30, 2009

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
<b>Operating activities</b>				
Cash received from customers and users	\$ 5,500,216	\$ 5,041,483	\$ 10,541,699	\$ -
Receipts from interfund services provided	-	-	-	37,848,586
Cash paid to suppliers	(9,343,680)	(3,407,545)	(12,751,225)	(8,593,941)
Cash paid to employees	-	(1,980,055)	(1,980,055)	(2,596,008)
Cash paid for interfund services used	(67,930)	(238,447)	(306,377)	(507,683)
Payments of claims and insurance	-	-	-	(16,477,483)
<b>Net cash provided by (used in) operating activities</b>	<u>(3,911,394)</u>	<u>(584,564)</u>	<u>(4,495,958)</u>	<u>9,673,471</u>
<b>Noncapital financing activities</b>				
Transfers from other funds	8,327,490	1,762,935	10,090,425	4,618,359
Transfers to other funds	-	(1,006,343)	(1,006,343)	(706,092)
Tax and intergovernmental revenues	7,916,498	515,578	8,432,076	636,267
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>16,243,988</u>	<u>1,272,170</u>	<u>17,516,158</u>	<u>4,548,534</u>
<b>Capital and related financing activities</b>				
Principal paid on general obligation bond maturities	(3,365,847)	(51,787)	(3,417,634)	-
Interest paid	(6,194,374)	(10,851)	(6,205,225)	-
Acquisition and construction of capital assets	(149,472)	(1,014,318)	(1,163,790)	(10,054,148)
Debt proceeds	-	377,129	377,129	-
Capital contributions	-	11,011	11,011	105,306
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(9,709,693)</u>	<u>(688,816)</u>	<u>(10,398,509)</u>	<u>(9,948,842)</u>
<b>Investing activities</b>				
Sales/(purchases) of investments	(24,403)	475,527	451,124	(5,018,058)
Investment earnings	308,349	148,431	456,780	705,717
Net change in equity investment in joint venture	(539,188)	(1,315,467)	(1,854,655)	54,546
<b>Net cash provided by (used in) investing activities</b>	<u>(255,242)</u>	<u>(691,509)</u>	<u>(946,751)</u>	<u>(4,257,795)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>2,367,659</u>	<u>(692,719)</u>	<u>1,674,940</u>	<u>15,368</u>
<b>Cash and cash equivalents</b>				
Beginning of year	1,170	1,885,172	1,886,342	3,880,388
End of year	<u>\$ 2,368,829</u>	<u>\$ 1,192,453</u>	<u>\$ 3,561,282</u>	<u>\$ 3,895,756</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, 2009

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
<b>Reconciliation of operating income (loss)</b>				
to net cash provided by				
(used in) operating activities				
Operating income (loss)	\$ (8,862,058)	\$ (2,195,518)	\$ (11,057,576)	\$ 5,298,309
Adjustments to reconcile operating income (loss)				
to net cash provided by (used in) operating				
activities:				
Depreciation	4,576,675	1,581,564	6,158,239	5,813,027
Change in assets and liabilities				
(Increase) decrease in receivables	(300,973)	(1,765)	(302,738)	(23,009)
(Increase) decrease in prepayments	(34,454)	(21,994)	(56,448)	416
(Increase) decrease in inventories	(84,787)	(12,107)	(96,894)	216,189
Increase (decrease) in accounts payable	348,706	121,631	470,337	(1,642,336)
Increase (decrease) in accrued expenses	40,081	5,379	45,460	10,875
Increase (decrease) in deferred revenue	4,204	9,061	13,265	-
Increase (decrease) in customer deposits	401,212	(70,815)	330,397	-
Total adjustments	4,950,664	1,610,954	6,561,618	4,375,162
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (3,911,394)</b>	<b>\$ (584,564)</b>	<b>\$ (4,495,958)</b>	<b>\$ 9,673,471</b>

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Fiduciary Net Assets  
 Fiduciary Funds  
 June 30, 2009

	City Employees' Pension Trust Fund	Combined Agency Funds
<b>Assets</b>		
Cash	\$ 2,473	\$ 130,009
Cash equivalents	5,643,811	-
United States government securities	12,583,324	-
State & municipal government securities	2,132,369	124,303
International securities	127,694,114	-
Corporate bonds & debentures	58,364,248	-
Real estate investment trusts	42,800,877	-
Domestic equity securities	123,637,481	-
Pending sales proceeds	382,896	-
Other receivables	10,582	163,953
Accrued interest & dividends	1,536,375	-
Equipment, furniture & fixtures	41,772	-
Accumulated depreciation	(34,591)	-
Due from other funds	-	224,141
Total assets	<u>374,795,731</u>	<u>\$ 642,406</u>
<b>Liabilities</b>		
Accounts payable	357,415	\$ 64,115
Investment purchases pending	1,430,458	-
Due to other funds	-	224,141
Health care claims liability	-	354,150
Total liabilities	<u>1,787,873</u>	<u>\$ 642,406</u>
<b>Net assets</b>		
Held in Trust for:		
Pension benefits	<u>\$ 373,007,858</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 Funds  
 For the Year Ended June 30, 2009

	City Employees' Pension Trust Fund
<b>Additions</b>	
Employee contributions	\$ 3,408,254
Employer contributions	7,159,207
Total contributions	<u>10,567,461</u>
Investment earnings:	
Interest and dividends	9,429,010
Net appreciation/(depreciation) in the fair value of investments	(100,805,622)
Other income	578,582
Total investment earnings (loss)	<u>(90,798,030)</u>
Less investment expense	<u>(1,772,820)</u>
Net investment earnings (loss)	<u>(92,570,850)</u>
Total additions (net)	<u>(82,003,389)</u>
<b>Deductions</b>	
Benefits paid	35,672,082
Refunds	367,637
Administrative expenses	467,677
Total deductions	<u>36,507,396</u>
Change in net assets	(118,510,785)
Total net assets - beginning	<u>491,518,643</u>
Total net assets - ending	<u>\$ 373,007,858</u>

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets - Discretely Presented Component Units  
June 30, 2009

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
<b>Assets</b>				
Cash & cash equivalents	\$ 125,467,140	\$ 6,074,296	\$ -	\$ 131,541,436
Investments	65,495,542	29,604,914	804,732	95,905,188
Receivables (net of allowance for uncollectibles):				
Accounts	68,441,266	3,940,846	12,380,020	84,762,132
Notes and leases	148,977	-	-	148,977
TVA conservation program	5,322,141	-	-	5,322,141
Other	51,013	-	-	51,013
Inventories	6,417,748	-	976,848	7,394,596
Prepaid items	15,609,005	65,044	-	15,674,049
Deferred charges	5,827,507	1,019,973	-	6,847,480
Restricted assets:				
Temporarily restricted:				
Bond funds	15,534,519	585,444	-	16,119,963
Unused bond proceeds	4,009,963	-	-	4,009,963
Receivables	-	500,000	-	500,000
Other	307,459	27,884	-	335,343
Other assets	1,925,874	2,248,557	-	4,174,431
Capital assets:				
Land & site improvements	-	148,405,777	1,854,780	150,260,557
Building & building improvements	-	140,111,564	5,025,175	145,136,739
Utility plant in service	1,598,307,524	-	-	1,598,307,524
Equipment, furniture & fixtures	-	9,517,565	26,538,640	36,056,205
Construction in progress	78,804,715	23,116,654	14,197,854	116,119,223
Less accumulated depreciation	(536,465,314)	(150,764,473)	(18,279,245)	(705,509,032)
<b>Total assets</b>	<b>1,455,205,079</b>	<b>214,454,045</b>	<b>43,498,804</b>	<b>1,713,157,928</b>
<b>Liabilities</b>				
Accounts payable	46,526,778	2,323,806	4,313,548	53,164,132
Matured principal & interest on bonds	8,795,820	-	-	8,795,820
Accrued liabilities	14,369,769	1,016,947	9,609	15,396,325
Due to primary government	-	-	7,557,463	7,557,463
Customer deposits, plus accrued interest	11,019,446	-	-	11,019,446
Long-term debt due within one year	17,190,897	3,235,000	-	20,425,897
Accrued interest	-	143,712	-	143,712
Long-term debt due in more than one year	592,190,000	92,270,419	-	684,460,419
Other noncurrent liabilities	13,228,170	-	-	13,228,170
<b>Total liabilities</b>	<b>703,320,880</b>	<b>98,989,884</b>	<b>11,880,620</b>	<b>814,191,384</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	539,138,817	76,644,103	29,337,204	645,120,124
Restricted for:				
Debt service	6,738,700	-	-	6,738,700
Other	307,459	1,113,328	-	1,420,787
Unrestricted	205,699,223	37,706,730	2,280,980	245,686,933
<b>Total net assets</b>	<b>\$ 751,884,199</b>	<b>\$ 115,464,161</b>	<b>\$ 31,618,184</b>	<b>\$ 898,966,544</b>



CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements  
June 30, 2009

**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 a 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 a single separate column 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. 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. 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. Additional information may be obtained from Cindy McGinnis, General Manager, 1135 Magnolia Avenue, Knoxville, Tennessee 37917.

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  
[www.kub.org](http://www.kub.org)

Metropolitan Knoxville Airport Authority  
P. O. Box 15600  
Knoxville, Tennessee 37901  
[www.tys.org](http://www.tys.org)

***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 (PBA)  
Knoxville, Knox County, KUB Geographic Information Systems  
Knoxville-Knox County Animal Center*

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, 2009

**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 Center* - the City has management agreements with each of these entities (Note 15) 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. The legally separate component units, for which the primary government is financially accountable, are reported in the government-wide financial statements in a separate column as combined discretely presented component units.

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, proprietary funds and discretely presented component units. Although they are excluded from the government-wide financial statements, separate financial statements are also provided for the fiduciary funds. 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, 2009

**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 fund:

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

Additionally, the City reports the following fund types:

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.

Pension Trust Fund - The City Employees' Pension Trust Fund accounts for the assets and the investment activities of the City of Knoxville Pension System which accumulates resources for pension benefit payments to qualified employees.

Agency Funds - The City Choice Plus fund accounts for the flexible spending accounts of the participating employees of the City and any funds not expended by March 31<sup>st</sup> of the following year revert back to the City. In addition, the Employee Health Reimbursement fund accounts for health reimbursement accounts of the participating employees of the City.

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.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

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

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.

***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.

Property tax receivables were reported as of the lien date at June 30, 2009. Previously, property taxes were not recorded as a receivable on the lien date. There was no impact on beginning of year net assets as a result of this transaction as the receivable related to the lien date was offset by a deferred revenue liability of the same amount.

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 consist of land for development and supplies held for consumption.

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

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

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

**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.

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 \$6,194,374 and no interest was capitalized because there were no major construction projects associated with the Convention Center in the current year. Total interest expense incurred by the Metropolitan Knoxville Airport Authority was \$5,853,101 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.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

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

**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 life 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 2009, 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.

**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, Knoxville Civic Revitalization Fund, Krutch Park Fund and some of the Miscellaneous Community Development Funds. 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.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

Public hearings are conducted to allow constituents an opportunity to comment on the proposed operating 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.

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2009.

General Fund	\$	1,410,918
Special Revenue Funds		2,958,751
Capital Projects Funds		461,500

Encumbrance accounting is employed in governmental funds. 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. Outstanding 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. Encumbered appropriations are reappropriated in the ensuing year's budget.

A comparison of revenues and expenses - final 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)
	Budget	Actual	(Unfavorable)	Budget	Actual	(Unfavorable)
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 22,612,405	\$ 22,112,729	\$ (499,676)	\$ 22,612,405	\$ 20,452,205	\$ 2,160,200
Metro Parking	3,367,835	1,719,427	(1,648,408)	3,367,835	2,565,288	802,547
Public Assembly Facilities	5,199,424	4,402,274	(797,150)	5,199,424	4,362,196	837,228
City Golf Courses	1,621,654	1,378,317	(243,337)	1,621,654	1,390,230	231,424
Knoxville Area Transit (Component unit)	20,157,737	63,178,192	43,020,455	20,157,737	45,919,098	(25,761,361)
<i>Internal Service Funds</i>						
Fleet Maintenance	16,003,034	16,098,153	95,119	16,003,034	10,796,983	5,206,051
Risk Management	8,741,819	8,057,842	(683,977)	8,741,819	6,353,910	2,387,909
Employee Health Insurance	16,324,620	15,476,861	(847,759)	16,324,620	12,380,880	3,943,740
Equipment Replacement	3,533,600	3,038,110	(495,490)	3,533,600	2,297,167	1,236,433
City Buildings	1,714,303	1,589,210	(125,093)	1,714,303	1,516,634	197,669

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds except the City Employee's Pension Trust Fund (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 direct obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool, prime commercial paper, bankers' acceptance notes and certificates of deposit. 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 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%.

**Investment policies**

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limit investments to terms of no more than two years. As of June 30, 2009, the average weighted maturity of the City's portfolio was 217 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'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 custodian, 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 custodian'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 custodian's trust department or agent in the State's name.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**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, 2009, the City held securities in various Tennessee municipal bonds of \$54.1 million or approximately 24% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from Ba1 to Baa3 and are part of the permanent fund for Krutch Park.

As of June 30, 2009, the City had the following investments and maturities.

<b>Investments:</b>	<u>Fair Value</u>	<u>Less Than 6 Months</u>	<u>1 - 2 Years</u>	<u>2 - 5 Years</u>
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	\$ 4,681,970	\$ -	\$ 499,850	\$ 4,182,120
Federal Home Loan Mortgage Corp (FHLMC)	250,802	-	-	250,802
Federal Farm Credit Bureau (FFCB)	3,776,172	-	-	3,776,172
Other Governmental Bonds	55,104,499	55,104,499	-	-
Corporate Equities	99,913	-	-	-
Tennessee Local Government Investment Pool	161,107,890	161,107,890	-	-
	<u>\$ 225,021,246</u>	<u>\$ 216,212,389</u>	<u>\$ 499,850</u>	<u>\$ 8,209,094</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".



**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)**

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

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City Employees' Pension Trust Fund</u>
<b>Deposits:</b>				
Bank balances	\$ 123,294,704	\$ 6,193,255	\$ -	\$ 2,473
Carrying amounts:				
Deposits (outstanding checks) in financial institutions	\$ 84,536,218	\$ 6,659,740	\$ -	\$ 2,473
Certificates of deposit	21,734,519	-	-	-
Total deposits - carrying value	<u>\$ 106,270,737</u>	<u>\$ 6,659,740</u>	<u>\$ -</u>	<u>\$ 2,473</u>

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City Employees' Pension Trust Fund</u>	<u>Total Amount</u>	<u>Fair Value</u>
<b>Investments:</b>						
Cash equivalents	\$ -	\$ 28,585,104	\$ -	\$ 5,643,811	\$ 34,228,915	\$ 34,228,915
United States government securities	58,821,953	1,019,810	-	10,981,809	70,823,572	70,823,572
Domestic Equity securities	-	-	-	145,144,945	145,144,945	145,144,945
Corporate bonds	-	-	-	50,630,952	50,630,952	50,630,952
State and municipal government securities	-	-	-	2,132,369	2,132,369	2,132,369
International securities	-	-	-	127,694,114	127,694,114	127,694,114
Total classified investments	<u>58,821,953</u>	<u>29,604,914</u>	<u>-</u>	<u>342,228,000</u>	<u>430,654,867</u>	<u>430,654,867</u>
<i>Investments not categorized:</i>						
Investments held by broker-dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States government securities	-	-	-	1,601,515	1,601,515	1,601,515
Equity securities	-	-	-	21,057,599	21,057,599	21,057,599
Corporate bonds	-	-	-	7,733,296	7,733,296	7,733,296
Third parties holding cash collateral:						
Domestic equity securities	-	-	-	235,814	235,814	235,814
Investments in state treasurer's investment pool	<u>45,248,343</u>	<u>-</u>	<u>804,732</u>	<u>-</u>	<u>46,053,075</u>	<u>46,053,075</u>
<b>Total investments</b>	<u>\$ 104,070,296</u>	<u>\$ 29,604,914</u>	<u>\$ 804,732</u>	<u>\$ 372,856,224</u>	<u>\$ 507,336,166</u>	<u>\$ 507,336,166</u>
<b>Total deposits and investments</b>	<u>\$ 210,341,033</u>	<u>\$ 36,264,654</u>	<u>\$ 804,732</u>	<u>\$ 372,858,697</u>		

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)**

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	\$ 125,467,140	\$ 6,074,296	\$ -	\$ 5,646,284
Investments	65,495,542	29,604,914	804,732	367,212,413
Unused bond proceeds	4,009,963	-	-	-
Bond funds	15,534,519	585,444	-	-
Other temporarily restricted assets	307,459	-	-	-
	<u>210,814,623</u>	<u>36,264,654</u>	<u>804,732</u>	<u>372,858,697</u>
Less accrued interest	473,590	-	-	-
Total deposits and investments	<u>\$ 210,341,033</u>	<u>\$ 36,264,654</u>	<u>\$ 804,732</u>	<u>\$ 372,858,697</u>

The Pension Trust Fund also has a credit risk exposure for cash held in its securities lending short-term collateral investment pools (not included in the Pension Trust Fund financial statements) for \$31,257,276 held by broker dealers and \$248,615 held by third parties. The contract with the Pension Trust Fund's custodian requires it to indemnify the Pension Trust Fund 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, 2009.

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2009, 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	\$ 716,832	\$ -	\$ 965,678	\$ -	\$ 1,666	\$ -	\$ 1,684,176
Debt service fund	-	-	-	-	3,347	-	3,347
Capital projects fund	-	-	2,086,171	-	-	-	2,086,171
Other governmental funds	880,740	-	3,417,285	-	-	-	4,298,025
Knoxville Convention Center	-	-	-	-	2,219,334	-	2,219,334
Other enterprise funds	-	-	-	33,012	-	-	33,012
Internal service funds	-	-	-	118,475	-	-	118,475
Total primary government	<u>1,597,572</u>	<u>-</u>	<u>6,469,134</u>	<u>151,487</u>	<u>2,224,347</u>	<u>-</u>	<u>10,442,540</u>
Component units:							
Knoxville Utilities Board	-	-	-	69,586,106	-	(1,144,840)	68,441,266
Metropolitan Knoxville Airport Authority	-	538,736	3,093,799	308,311	-	-	3,940,846
Knoxville Area Transit	-	-	12,380,020	-	-	-	12,380,020
Total reporting unit	<u>1,597,572</u>	<u>538,736</u>	<u>21,942,953</u>	<u>70,045,904</u>	<u>2,224,347</u>	<u>(1,144,840)</u>	<u>95,204,672</u>
City Employees' Pension Trust Fund	-	1,536,375	-	-	10,582	-	1,546,957
Total reporting entity	<u>\$ 1,597,572</u>	<u>\$ 2,075,111</u>	<u>\$ 21,942,953</u>	<u>\$ 70,045,904</u>	<u>\$ 2,234,929</u>	<u>\$ (1,144,840)</u>	<u>\$ 96,751,629</u>

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**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, 2009, are as follows:

Total minimum lease payments receivable	\$	1,325,275
Less unearned income		<u>579,197</u>
Net investment in lease receivable	\$	<u><u>746,078</u></u>

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

*Metropolitan Knoxville Airport Authority*

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2036. As of June 30, 2009, minimum future base rentals to be received on noncancellable leases are as follows:

Years ended June 30:		
2010	\$	6,076,241
2011		5,927,290
2012		5,243,622
2013		4,973,543
2014		1,904,115
Thereafter		<u>13,900,869</u>
	\$	<u><u>38,025,680</u></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 \$936,000 are included in other assets in the accompanying statement of net assets as of June 30, 2009. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$1,357,008 for the year ended June 30, 2009.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
June 30, 2009

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the primary government for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers In</u>	<u>Deletions and Transfers Out</u>	<u>Ending Balance</u>
<b>Primary Government</b>				
<b>Governmental activities:</b>				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 39,234,318	\$ 7,322,795	\$ (1,452,797)	\$ 45,104,316
Construction in progress	<u>7,940,503</u>	<u>21,476,113</u>	<u>(25,554,025)</u>	<u>3,862,591</u>
Total nondepreciable capital assets	<u>47,174,821</u>	<u>28,798,908</u>	<u>(27,006,822)</u>	<u>48,966,907</u>
<i>Depreciable:</i>				
Buildings and building improvements	50,073,123	4,625,159	-	54,698,282
Equipment, furniture and fixtures	61,945,671	12,414,205	(4,339,469)	70,020,407
Infrastructure	<u>261,483,468</u>	<u>11,201,990</u>	<u>-</u>	<u>272,685,458</u>
Total depreciable capital assets	<u>373,502,262</u>	<u>28,241,354</u>	<u>(4,339,469)</u>	<u>397,404,147</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(22,422,690)	(1,613,011)	-	(24,035,701)
Equipment, furniture and fixtures	(43,529,682)	(6,283,481)	4,261,891	(45,551,272)
Infrastructure	<u>(101,813,952)</u>	<u>(10,161,702)</u>	<u>-</u>	<u>(111,975,654)</u>
Total accumulated depreciation	<u>(167,766,324)</u>	<u>(18,058,194)</u>	<u>4,261,891</u>	<u>(181,562,627)</u>
Total depreciable capital assets, net	205,735,938	10,183,160	(77,578)	215,841,520
Governmental activities capital assets, net	<u>\$ 252,910,759</u>	<u>\$ 38,982,068</u>	<u>\$ (27,084,400)</u>	<u>\$ 264,808,427</u>
<b>Business-type activities:</b>				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 6,866,363	\$ -	\$ -	\$ 6,866,363
Artwork	764,875	-	-	764,875
Construction in progress	<u>202,612</u>	<u>406,811</u>	<u>(559,618)</u>	<u>49,805</u>
Total nondepreciable capital assets	<u>7,833,850</u>	<u>406,811</u>	<u>(559,618)</u>	<u>7,681,043</u>
<i>Depreciable:</i>				
Buildings and building improvements	221,459,964	352,871	-	221,812,835
Equipment, furniture and fixtures	<u>3,690,114</u>	<u>967,789</u>	<u>(4,063)</u>	<u>4,653,840</u>
Total depreciable capital assets	<u>225,150,078</u>	<u>1,320,660</u>	<u>(4,063)</u>	<u>226,466,675</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(57,655,743)	(5,604,061)	(3,094)	(63,262,898)
Equipment, furniture and fixtures	<u>(1,877,172)</u>	<u>(554,178)</u>	<u>3,094</u>	<u>(2,428,256)</u>
Total accumulated depreciation	<u>(59,532,915)</u>	<u>(6,158,239)</u>	<u>-</u>	<u>(65,691,154)</u>
Total depreciable capital assets, net	165,617,163	(4,837,579)	(4,063)	160,775,521
Business-type activities capital assets, net	<u>\$ 173,451,013</u>	<u>\$ (4,430,768)</u>	<u>\$ (563,681)</u>	<u>\$ 168,456,564</u>

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 7 - CAPITAL ASSETS (Continued)

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

<u>Governmental activities</u>	
General Government	\$ 1,416,969
Public Safety	3,782,879
Physical Environment	9,809,618
Economic Development	265,062
Parks & Recreation	2,655,070
Health & Sanitation	128,596
	<u>\$ 18,058,194</u>
 <u>Business-type activities</u>	
Knoxville Convention Center	\$ 4,576,675
Metro Parking	812,898
Public Assembly Facilities	657,367
Municipal Golf Courses	111,299
	<u>\$ 6,158,239</u>

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 7 - CAPITAL ASSETS (Continued)**

Capital asset activity for component units for the year ended June 30, 2009 was as follows:

Component Units	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
<b>Knoxville Utilities Board:</b>				
<i>Nondepreciable: Construction in Progress</i>	\$ 73,563,976	\$ 106,054,100	\$ (100,813,361)	\$ 78,804,715
<i>Depreciable:</i>				
Pumping and treatment plant	176,096,004	4,989,757	(71,559)	181,014,202
Distribution & collection plant	1,222,753,109	89,214,060	(5,763,773)	1,306,203,396
General plant	104,390,722	8,618,155	(1,918,951)	111,089,926
Total depreciable assets	1,503,239,835	102,821,972	(7,754,283)	1,598,307,524
Accumulated depreciation	(497,681,252)	(49,265,272)	10,481,210	(536,465,314)
Total depreciable capital assets, net	1,005,558,583	53,556,700	2,726,927	1,061,842,210
<b>Total Knoxville Utilities Board</b>	<u>\$ 1,079,122,559</u>	<u>\$ 159,610,800</u>	<u>\$ (98,086,434)</u>	<u>\$ 1,140,646,925</u>
<b>Metropolitan Knoxville Airport Authority:</b>				
<i>Nondepreciable:</i>				
Land	\$ 22,650,972	\$ 61,136	\$ -	\$ 22,712,108
Construction in progress	26,526,147	12,472,926	(15,882,419)	23,116,654
Total nondepreciable capital assets	49,177,119	12,534,062	(15,882,419)	45,828,762
<i>Depreciable:</i>				
Land improvements	122,810,925	2,882,744	-	125,693,669
Buildings and building improvements	127,237,882	12,873,682	-	140,111,564
Equipment, furniture and fixtures	9,929,695	383,347	(795,477)	9,517,565
Total depreciable assets	259,978,502	16,139,773	(795,477)	275,322,798
<i>Accumulated depreciation:</i>				
Land improvements	(82,509,317)	(5,483,711)	-	(87,993,028)
Buildings and building improvements	(49,433,949)	(5,242,535)	-	(54,676,484)
Equipment, furniture and fixtures	(8,180,276)	(696,739)	782,054	(8,094,961)
Total accumulated depreciation	(140,123,542)	(11,422,985)	782,054	(150,764,473)
Total depreciable capital assets, net	119,854,960	4,716,788	(13,423)	124,558,325
<b>Total Metropolitan Knoxville Airport Authority</b>	<u>\$ 169,032,079</u>	<u>\$ 17,250,850</u>	<u>\$ (15,895,842)</u>	<u>\$ 170,387,087</u>
<b>Knoxville Area Transit:</b>				
<i>Nondepreciable:</i>				
Land	\$ 1,854,780	\$ -	\$ -	\$ 1,854,780
Construction in progress	1,691,373	16,703,100	(4,196,619)	14,197,854
Total nondepreciable capital assets	3,546,153	16,703,100	(4,196,619)	16,052,634
<i>Depreciable:</i>				
Buildings and building improvements	5,025,175	-	-	5,025,175
Equipment, vehicles, furniture and fixtures	23,064,899	6,258,292	(2,784,551)	26,538,640
Total depreciable assets	28,090,074	6,258,292	(2,784,551)	31,563,815
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(2,436,230)	(134,023)	(13,447)	(2,583,700)
Equipment, vehicles, furniture and fixtures	(16,482,389)	(1,930,942)	2,717,786	(15,695,545)
Total accumulated depreciation	(18,918,619)	(2,064,965)	2,704,339	(18,279,245)
Total depreciable capital assets, net	9,171,455	4,193,327	(80,212)	13,284,570
<b>Total Knoxville Area Transit</b>	<u>\$ 12,717,608</u>	<u>\$ 20,896,427</u>	<u>\$ (4,276,831)</u>	<u>\$ 29,337,204</u>
<b>Knoxville Employees' Pension Plan</b>				
<i>Depreciable: Equipment, furniture and fixtures</i>	\$ 35,883	\$ 5,889	\$ -	\$ 41,772
<i>Accumulated Depreciation</i>	(31,283)	(3,308)	-	(34,591)
<b>Total Knoxville Employees' Pension Plan</b>	<u>\$ 4,600</u>	<u>\$ 2,581</u>	<u>\$ -</u>	<u>\$ 7,181</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**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, 2009 is as follows:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balances</u>	<u>Due From Component Units</u>	<u>Due to Primary Government</u>
<b>Governmental activities</b>					
<i>General Fund</i>	\$ 6,810,209	\$ -	\$ 6,810,209	\$ 7,557,463	\$ -
<i>Special Revenue Fund:</i>					
State Street Aid	-	226	(226)	-	-
Community Development Block Grants	-	637,728	(637,728)	-	-
City Court	-	297,324	(297,324)	-	-
Miscellaneous Grants	-	900,471	(900,471)	-	-
Storm Water	-	134,251	(134,251)	-	-
Solid Waste	-	591,325	(591,325)	-	-
Miscellaneous Community Development Funds	-	1,067,955	(1,067,955)	-	-
<i>Debt Service Fund</i>	-	1,296,293	(1,296,293)	-	-
<i>Capital Projects Fund</i>	-	1,174,469	(1,174,469)	-	-
Total governmental activities	<u>6,810,209</u>	<u>6,100,042</u>	<u>710,167</u>	<u>7,557,463</u>	<u>-</u>
<b>Business-type activities</b>					
Pubic Assembly Facilities	-	107,241	(107,241)	-	-
City Golf Courses	-	224,407	(224,407)	-	-
<i>Internal Service Funds:</i>					
Health Insurance	-	336,095	(336,095)	-	-
Risk Management	-	42,424	(42,424)	-	-
Total business-type activities	<u>-</u>	<u>710,167</u>	<u>(710,167)</u>	<u>-</u>	<u>-</u>
<b>Component Units:</b>					
Knoxville Area Transit	-	-	-	-	7,557,463
	<u>\$ 6,810,209</u>	<u>\$ 6,810,209</u>	<u>\$ -</u>	<u>\$ 7,557,463</u>	<u>\$ 7,557,463</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 9 - LONG-TERM DEBT**

Bonds at June 30, 2009, are comprised of the following issues:

	General Obligation Bonds		
	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>			
General Improvement Bonds, Series 2004A maturing through 2024 at varying rates of interest ranging from 2.0% to 4.0%	\$ 27,425,000	\$ -	\$ 27,425,000
General Obligation Refunding Bonds, Series 2004B maturing through 2017 at varying rates of interest ranging from 4.0% to 5.5%	16,575,000	-	16,575,000
General Obligation Bonds Series IIIF through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	-	31,745,000	31,745,000
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%	-	49,095,000	49,095,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	12,560,000	-	12,560,000
<b>Total Primary Government</b>	<b>\$ 56,560,000</b>	<b>\$ 140,810,000</b>	<b>\$ 197,370,000</b>



CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units:	<u>Revenue Bonds</u>
<i>Knoxville Utilities Board:</i>	
Electric Revenue Bonds Series T to Y, maturing through 2032 at varying rates of interest ranging from 2.0% to 5.12%	\$ 146,805,000
Water Revenue Bonds Series O to T maturing through 2042 at varying rates of interest ranging from 2.0% to 5.5%	62,925,000
Gas Revenue Bonds Series I to N, maturing through 2042 at varying rates of interest ranging from 2.0% to 5.2%	88,575,000
Waste Water Revenue Bonds Series 2001, 2001A, 2004A, 2005 A&B, 2007, 2008 maturing through 2042 at varying rates of interest ranging from 3.0% to 6.0%	<div style="text-align: right;"> <u>306,295,000</u>            \$ <u><u>604,600,000</u></u> </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%	\$ 14,985,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. \$42,515,000 bears interest at a synthetic rate of 3.663%. The remaining principal bears interest at a variable rate (.33% at June 30, 2009).	<div style="text-align: right;"> <u>82,085,000</u>            \$ <u><u>97,070,000</u></u> </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, 2009, these requirements had been satisfied.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

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
2010	\$ 5,325,000	\$ 2,383,310	\$ 3,580,000	\$ 6,514,190
2011	4,560,000	2,135,560	3,735,000	6,359,560
2012	4,660,000	1,924,180	3,900,000	6,196,530
2013	4,770,000	1,707,190	4,075,000	6,024,530
2014	4,850,000	1,543,690	4,255,000	5,842,990
2015 - 2019	20,005,000	4,940,390	24,405,000	26,126,350
2020 - 2024	12,390,000	1,439,250	30,820,000	19,764,380
2025 - 2029	-	-	38,805,000	11,538,220
2030 - 2033	-	-	27,235,000	2,483,110
	<u>56,560,000</u>	<u>\$ 16,073,570</u>	<u>140,810,000</u>	<u>\$ 90,849,860</u>
Unamortized premium	1,283,826		-	
Unamortized discounts	-		(992,916)	
Total	<u>\$ 57,843,826</u>		<u>\$ 139,817,084</u>	

Component Units	Revenue Bonds and Local Govt Public Improvement Bonds	
	Principal	Interest
2010	\$ 15,645,000	\$ 29,683,193
2011	19,535,000	29,276,005
2012	21,315,000	28,437,583
2013	22,255,000	27,544,515
2014	22,215,000	26,623,808
2015 - 2019	123,380,000	118,371,304
2020 - 2024	152,385,000	90,272,267
2025 - 2029	140,825,000	57,960,646
2030 - 2034	74,215,000	34,709,084
2035 - 2039	64,100,000	19,273,125
2040 - 2042	45,800,000	4,393,125
	<u>701,670,000</u>	<u>\$ 466,544,655</u>
Unamortized deferred loss on refunding	(1,564,581)	
Total	<u>\$ 700,105,419</u>	

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 9 - LONG-TERM DEBT (Continued)**

*Interest Swap Agreements*

Primary government

On May 15, 2002, the City entered into a \$45,000,000 interest rate swap agreement with Wachovia First Union Bank. The intention of the agreement was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F bonds to a synthetic fixed rate. Principal payments on this agreement run through June 1, 2020. The principal outstanding on these notes, subject to the swap agreement, as of June 30, 2009, is \$31,745,000.

**Objective of the Interest Rate Swaps** - The objective of the swap agreement was to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt.

**Terms** - The interest rate swap agreements are based on the same amortization schedules as the outstanding principal of the associated debt. At no time will the notional amount on interest rate swap agreement exceed the outstanding principal of the Series III-F Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index™ (the "SIFMA"). The City pays Wachovia interest at a fixed rate of 3.955%. Wachovia First Union pays the City of Knoxville interest at a variable rate based upon 70% of the one month USD-LIBOR-BBA (United States Dollar – London Inter-Bank Offer Rate – British Bankers' Association). Payments reflect net and are made only to the recipient party: the City, in the event of the floating rate exceeding the 3.955% fixed rate; and the counterparty, if the floating rate is less than the fixed rate.

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2009, were as follows:

<u>Associated Debt Issue</u>	<u>Outstanding Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Estimated Fair Value</u>	<u>Swap Term Date</u>	<u>Counter- party Credit Rating</u>
<i>Business Type Activities</i> General Obligation Bonds Series III-F through Public Building Authority of Sevier County	\$31,745,000	5/15/2002	3.955%	70% of 1 Month LIBOR	(\$3,102,000)	6/1/2020	A+

**Fair Value** - As of June 30, 2009, the swap had a negative fair value of \$3,102,000. The negative fair value of the swaps may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

**Credit Risk** - As of June 30, 2009, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the derivative's fair value. During fiscal year 2009, Wells Fargo acquired Wachovia/First Union, thus assuming the swap agreement. This acquisition resulted in an improvement of the overall credit quality of the counterparty. As of June 30, 2009, the senior debt of Wells Fargo was rated A1 by Moody's Investor Services.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 9 - LONG-TERM DEBT (Continued)**

**Basis Risk** - The City is subject to basis risk as the variable interest payment the City receives from the counterparty is based upon LIBOR whereas the variable rate interest paid on the outstanding bonds is based upon BMA. This mismatch exposes the City to basis risk when the SIFMA increases to above 70% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the SIFMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. Normally the two indices track on a close basis. During the last half of the 2008 fiscal year disruptions in the municipal market created a deviation from the norm which resulted in the City paying more in interest on its bonds than it would otherwise do. The deviation was due to the fact that the Series IIF bonds are insured by AMBAC and the financial uncertainty surrounding AMBAC. The City is working to remove the credit enhancement from the bonds which should eliminate much of the basis risk.

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

**Swap payments and associated debt** - As of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments, after adjusting for the elimination of the abnormality due to the AMBAC rating, for their terms are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

For the year ending June 30,	Principal	Interest	Net Interest Rate Swap Payment	Total
2010	\$ 2,285,000	\$ 1,268,200	\$ 285,300	\$ 3,838,500
2011	2,390,000	1,176,900	264,800	3,831,700
2012	2,500,000	1,081,400	243,300	3,824,700
2013	2,610,000	981,600	220,800	3,812,400
2014	2,730,000	877,300	197,400	3,804,700
2015-2019	15,655,000	2,646,300	595,300	18,896,600
2020	3,575,000	142,800	32,100	3,749,900
	<u>\$ 31,745,000</u>	<u>\$ 8,174,500</u>	<u>\$ 1,839,000</u>	<u>\$ 41,758,500</u>

**Component units**

**Metropolitan Knoxville Airport Authority**

**Objective of the Interest Rate Swaps** - In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Authority entered into two separate interest rate swaps. The intention of the swaps was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 9 - LONG-TERM DEBT (Continued)**

The terms and fair values of the outstanding swaps as of June 30, 2009, are as follows:

Associated Bond Issues	Outstanding Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Estimated Fair Value	Swap Termination Date
Series II-D-1	\$ 14,985,000	6/28/2000	5.29%	SIFMA Municipal Swap Index	\$ (1,824,281)	6/1/2026
Series V-A-1	42,515,000	6/1/2001	4.36%	62.5% of 5 Year LIBOR	(4,010,905)	6/1/2021
	<u>\$ 57,500,000</u>				<u>\$ (5,835,186)</u>	

**Terms** - The notional amounts of the swaps match principal amounts of the associated debt. Except as discussed under rollover risk, the Authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled reductions of the associated bond principal.

**Fair Value** - The negative fair value of the swaps may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the rates on the Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

**Credit Risk** - As of June 30, 2009, the Authority was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, the Authority would be exposed to credit risk in the amount of the swaps' fair value. In order to mitigate the potential for credit risk, the Authority received a Financial Guarantee Insurance Policy for the swap agreements from AMBAC Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service at the time the interest rate swap agreements were entered into. As of June 30, 2009, AMBAC's credit rating had been downgraded and was rated "BBB" by Standard and Poor's and "Ba3" by Moody's Investors Service. The counterparty has posted all collateral requirements with a third-party custodian.

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

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 9 - LONG-TERM DEBT (Continued)**

**Swap payments and associated debt** - As of June 30, 2009, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Interest Rate Swaps, net	Total
	Principal	Interest		
2010	\$ 3,235,000	\$ 2,579,252	\$ 582,047	\$ 6,396,299
2011	3,400,000	2,488,742	532,016	6,420,757
2012	3,575,000	2,393,404	479,587	6,447,991
2013	3,755,000	2,292,456	425,011	6,472,468
2014	3,950,000	2,186,110	367,907	6,504,017
2015-2019	23,010,000	9,112,278	890,289	33,012,567
2020-2024	29,925,000	5,381,525	(559,307)	34,747,218
2025-2028	26,220,000	1,121,623	(79,183)	27,262,440
Total	<u>\$97,070,000</u>	<u>\$27,555,390</u>	<u>\$2,638,367</u>	<u>\$127,263,757</u>

**Rollover Risk** - The Authority is exposed to rollover risk on the swap associated with the Series V-A-1 bonds, as the termination date (June 1, 2021) does not extend to the maturity date (May 25, 2028) of associated bonds. Once the swap is terminated, the Authority will not realize the synthetic rate offered by the swaps on the underlying bond issues.

***Advance and Current Refundings***

**Component units**

*Knoxville Utilities Board*

KUB's Electric Division issued Series T 2001 bonds in part to retire certain existing debt and fund electric system 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 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 system capital improvements. During fiscal year 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt and to fund electric system capital improvements. 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 and fund electric system capital improvements. 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 electric system 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. During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. The outstanding principal balances on defeased bond issues were \$77.8 million at June 30, 2009.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 9 - LONG-TERM DEBT (Continued)**

KUB's Gas Division issued the 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. During fiscal year 2008, KUB issued Series N-2007 to fund gas system capital improvements. The outstanding principal balances on defeased bond issues were \$50.5 million at June 30, 2009.

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. During fiscal year 2008, KUB issued Series T 2007 bonds to fund water system capital improvements. The outstanding principal balances on defeased bond issues were \$19.8 million at June 30, 2009.

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, 2008, on these defeased bond issues were \$29.4 million. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued line of credit, and to fund Wastewater capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements.

*Metropolitan Knoxville Airport Authority*

During 2009 the Authority issued Series V-A-1 bonds. Proceeds totaling \$83,880,000 were used to refund the remaining balance of the Series III-A bonds, resulting in a loss of \$1,214,365 on the refunding, which has been deferred and is being amortized over the remaining lives of the respective refunded bonds. The remaining proceeds were used to pay bond issue costs of \$765,000, which are being amortized over the life of the bonds. In connection with the Series V-A-1 bonds, the Authority has entered into a Reimbursement Agreement with Branch Banking and Trust Company who has issued an irrevocable letter of credit in an amount not to exceed \$84,645,000.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 9 - LONG-TERM DEBT (Continued)

*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:

The City and Knox County have an interlocal agreement to support debt service of the General Obligation Public Improvement

	Principal	Interest
2010	\$ 70,630	\$ 55,730
2011	73,480	52,030
2012	76,520	47,990
2013	79,840	43,780
2014	83,360	39,590
2015-2019	478,390	130,430
2020-2021	225,690	17,080
	\$ 1,087,910	\$ 386,630

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.

In fiscal year 2008, the City purchased land for the municipal golf course. Three annual of payments of \$12,500 will be made July 31<sup>st</sup> of each year with a final installment of \$65,000 on July 31, 2012. The note is non-interest bearing and imputed interest at the effective rate of 4% is not considered material to the overall financial statements.

2010	\$	12,500
2011		12,500
2012		12,500
2013		65,000
	\$	102,500



CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 9 - LONG-TERM DEBT (Continued)

Capital Leases

Primary Government

In fiscal year 2009, the City entered into a lease agreement as lessee for financing the acquisition of grounds equipment for the municipal golf course. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The assets acquired through the capital lease have a net book value of \$316,282.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2009 were as follows:

2010	\$	83,517
2011		83,517
2012		83,517
2013		83,517
2014		<u>20,879</u>
Total minimum future lease payments		354,947
Less: amount representing interest		<u>(29,605)</u>
Present value of minimum lease payments	\$	<u><u>325,342</u></u>

Component units

In fiscal year 2006, KUB entered into a lease agreement as lessee for financing the acquisition of a network printer. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The assets acquired through the capital lease have a net book value of \$12,865.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2009 were as follows:

2010	\$	<u>20,381</u>
Total minimum future lease payments		20,381
Less: amount representing interest		<u>(484)</u>
Present value of minimum lease payments	\$	<u><u>19,897</u></u>

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 9 - LONG-TERM DEBT (Continued)**

*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.

***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, 2009:

	Balance June 30, 2008	Additions and Transfers	Reductions and Transfers	Balance June 30, 2009	Due Within One Year
<b>Primary Government</b>					
Governmental Activities:					
General obligation bonds	\$ 63,900,000	\$ -	\$ 7,340,000	\$ 56,560,000	\$ 5,325,000
Debt participation agreement	1,155,963	-	68,053	1,087,910	70,630
	<u>65,055,963</u>	<u>-</u>	<u>7,408,053</u>	<u>57,647,910</u>	<u>5,395,630</u>
Add deferred amounts for issuance premiums	1,389,206	-	105,380	1,283,826	105,378
	<u>66,445,169</u>	<u>-</u>	<u>7,513,433</u>	<u>58,931,736</u>	<u>5,501,008</u>
Compensated absences payable	6,915,040	6,533,532	6,158,842	7,289,730	6,122,063
Total governmental activities long-term liabilities	<u>\$ 73,360,209</u>	<u>\$ 6,533,532</u>	<u>\$ 13,672,275</u>	<u>\$ 66,221,466</u>	<u>\$ 11,623,071</u>
Business-type Activities:					
General obligation bonds	\$ 144,240,000	\$ -	\$ 3,430,000	\$ 140,810,000	\$ 3,580,000
Less deferred amounts for issuance discounts	(1,057,069)	-	(64,153)	(992,916)	(64,153)
	<u>143,182,931</u>	<u>-</u>	<u>3,365,847</u>	<u>139,817,084</u>	<u>3,515,847</u>
Note payable	102,500	-	-	102,500	12,500
Capital lease	-	377,129	51,787	325,342	71,559
Compensated absences payable	113,575	88,905	79,818	122,662	80,000
Total business-type activities long-term liabilities	<u>\$ 143,399,006</u>	<u>\$ 466,034</u>	<u>\$ 3,497,452</u>	<u>\$ 140,367,588</u>	<u>\$ 3,679,906</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 9 - LONG-TERM DEBT (Continued)**

Component Units	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
<b>Knoxville Utilities Board</b>					
Revenue bonds	\$ 531,540,000	\$ 85,000,000	\$ 11,940,000	\$ 604,600,000	\$ 12,410,000
Capital lease obligations	38,926	-	19,029	19,897	19,897
TVA conservation program	4,128,615	2,526,205	1,440,307	5,214,513	1,500,000
Accrued compensated absences	8,948,172	12,991,954	13,062,223	8,877,903	2,600,000
Customer advances for construction	1,206,544	406,921	300,588	1,312,877	160,000
Supplemental environmental project	1,000,000	-	500,000	500,000	200,000
Other	1,322,740	1,366,874	605,737	2,083,877	301,000
<b>Total Knoxville Utilities Board</b>	<b>548,184,997</b>	<b>102,291,954</b>	<b>27,867,884</b>	<b>622,609,067</b>	<b>17,190,897</b>
<b>Metropolitan Knoxville Airport Authority:</b>					
Revenue/general obligation bonds	99,380,000	84,645,000	86,955,000	97,070,000	3,235,000
Less deferred amounts for loss on refunding	(501,018)	(1,214,365)	(150,802)	(1,564,581)	-
<b>Total Metropolitan Knoxville Airport Authority</b>	<b>98,878,982</b>	<b>83,430,635</b>	<b>86,804,198</b>	<b>95,505,419</b>	<b>3,235,000</b>
<b>Total component units</b>	<b>\$ 647,063,979</b>	<b>\$ 185,722,589</b>	<b>\$ 114,672,082</b>	<b>\$ 718,114,486</b>	<b>\$ 20,425,897</b>

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 \$122,063 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.

All bonds and loans are backed by the full faith and credit of the City. The City has pledged certain revenues, including its property tax, parking and convention center revenues, as collateral to repay its TN Series A-4-A and Series III-F long-term debt. These debt issues, which mature through 2032, were used primarily to fund convention center construction and parking facilities of the City. For the year ended June 30, 2009, principal and interest payments on these debt issues were approximately 15 percent of the pledged revenue. Principal and interest remaining to be paid on these debt issues is approximately \$306 million, based on market interest rates effective on June 30, 2009.

**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, 2009

**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. The entire amount of the bonds was outstanding at June 30, 2009.

**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, 2009 were \$1,224,800.

**Component units**

The Knoxville Utilities Board has non-cancelable operating lease commitments for office equipment that expire in various years through June 30, 2013. Future minimum lease payments under leases having initial or remaining noncancellable terms in excess of one year as follows:

	Operating Leases
2010	\$ <u>40,139</u>
2011	37,640
2012	22,932
2013	<u>1,800</u>
	<u>\$ 102,511</u>

**NOTE 11 - FUND BALANCES PERMANENTLY RESTRICTED AND DESIGNATED FOR FUTURE USE**

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the Primary Government's program. The Krutch Park Trust fund is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used for maintenance and groundskeeping of the downtown City park. Therefore, the portion of the permanent fund representing the earnings from the permanent portion of the fund is designated for this purpose. The designated balance as of June 30, 2009 is \$152,860.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 12 - PRIOR PERIOD ADJUSTMENT**

**Primary government**

As described in Note 1, the City is a participant in a joint venture with Knox County in the operation of the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA). As mentioned in Note 14, PBA holds title to certain properties used for City and County operations. In addition, PBA holds financial resources that have been obtained from the City and the County pursuant to PBA's operations related to property management and other similar functions performed on behalf of the joint venture participants.

At June 30, 2008, the equity interest in the net assets of the joint venture was reported in excess due to recording the total amount of cash held by PBA in the statement of net assets in addition to the investments in the net assets for the parking garages managed by PBA. Accordingly, the fund balances of the Knoxville Convention Center and Metro Parking enterprise funds as of the beginning of this fiscal year have been restated, as follows:

	Knoxville Convention Center	Metro Parking
	<u>                    </u>	<u>                    </u>
Fund balance, as previously reported	\$ 12,378,447	\$ 18,978,915
Adjustment for equity interest in net financial assets	(693,428)	(1,460,766)
Fund balance, as restated	<u>\$ 11,685,019</u>	<u>\$ 17,518,149</u>

**NOTE 13 - 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.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 13 - RISK MANAGEMENT (Continued)**

***Health Insurance Fund***

On January 1, 2008 the city elected to self insure its health insurance coverage. Utilizing a third party administrator, the city has found that it is better able to control its expenses through exercising greater control over certain health costs. In addition, the City has utilized some of the funding to promote wellness programs aimed at improving the overall health of those covered by the health plan. End of year reserves of \$1 million were more than adequate to cover any costs incurred but not reported as of year end.

	2009	2008
Claims liability, beginning of year	\$ 1,000,000	\$ 0
Provision for incurred claims	9,863,576	5,111,408
Payments made on claims	(9,863,576)	(4,111,408)
Claims liability, end of year	\$ 1,000,000	\$ 1,000,000

***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.

An analysis of claims activity for the years ended June 30, 2009 and 2008 is as follows:

	2009	2008
Claims liability, beginning of year	\$ 8,500,000	\$ 10,000,000
Provision for incurred claims	5,203,972	6,186,436
Payments made on claims	(5,203,972)	(7,686,436)
Claims liability, end of year	\$ 8,500,000	\$ 8,500,000

Additionally, the City's attorney believes that there is a possible liability to the City of approximately \$1,400,000 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, 2009, 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. The current portion of the claims liability is estimated to be \$6 million.

**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.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 13 - RISK MANAGEMENT (Continued)**

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.

At June 30, 2009, the amount of these liabilities was \$2,072,942. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2009 and 2008 is as follows:

	2009	2008
Claims liability, beginning of year	\$ 1,933,550	\$ 2,173,264
Provision for incurred claims	21,607,112	12,945,583
Payments made on claims	(21,467,720)	(13,185,297)
Claims liability, end of year	\$ 2,072,942	\$ 1,933,550

*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 14 - 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. The City retains an equity interest in the joint venture which is recorded in the Knoxville Convention Center, Metro Parking and City Buildings as cash and investment in joint venture. Complete separate financial statements for the Public Building Authority may be obtained at Room M22, 400 Main Street, Knoxville, TN 37902.

*Knoxville, Knox County, KUB Geographic Information Systems*

The City is a participant in a joint venture with Knox County and its discretely presented component unit, Knoxville Utilities Board, in the operation of the Geographic Information Systems. The Geographic Information Systems was established to create and maintain a digitized mapping system of Knox County. Each of the participants appoints one of the three board members who oversee the operations. In accordance with the terms of the joint venture agreement, payments are shared between the City, Knox County and the Knoxville Utilities Board. The City does not retain an equity interest in the joint venture. Complete separate financial statements for the Geographic Information Systems may be obtained at 606 Main Street, Suite 150, Main Place, Knoxville, TN 37902.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 14 - JOINT VENTURES (Continued)**

*Knoxville-Knox County Animal Center*

The City is a participant in a joint venture with Knox County in the operation of the Animal Center, which was established to administer the service delivery system for the care of animals. The Animal Center Board consists of eleven members appointed by the Mayor of the City, the Knox County Mayor, the Knox County Commission, and the Knoxville Academy of Veterinary Medicine. The Center's operations are primarily funded by the City and Knox County. The City does not retain an equity interest in the joint venture. Complete separate financial statements for the Animal Center may be obtained at 3201 Division Street, Knoxville, TN 37919.

**NOTE 15 - 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 \$900,000 by August 1 each year through 2011.

**City Golf Courses** - In October, 2006 the city entered into an agreement with Billy Casper Golf, LLC to operate and manage the Whittle Springs Golf Course. In December, 2007 this agreement was revised to include the Knoxville Municipal Golf Course with an expiration date of December, 2012 but allowing for two - 5 year extensions. Under the terms of the amended agreement, Billy Casper Golf receives a base fee of \$9,500 per month and incentive fees when net annual income exceeds \$50,000. To date, the City has only been liable for the base monthly fees under the agreement.

**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 fiscal year 2009 is \$2,236,510.

**IJAMS Nature Park** - The City has entered into various agreements with the IJAMS Nature Park over the years whereby IJAMS will provide management and operation of a nature park. The current three year agreement commenced September 1, 2007 and calls for an annual management fee of \$109,250 to be paid to IJAMS.

**Knoxville Convention Center** - The City has an agreement beginning 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 fiscal year 2008, 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 fiscal year 2009, said maximum to be annually adjusted by the CPI.



CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 16 - 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, 2009 in accordance with provisions of the Single Audit Act of 1984.

**Construction Contracts** - The following represents capital projects funds spent to date and current contractual obligations as of June 30, 2009:

	<u>Spent to Date</u>	<u>Contractual Commitment Remaining at June 30, 2009</u>
ADA Access Improvements	\$ 51,798	\$ 2,232
Bridge Maintenance Program	2,640,405	470,544
Building Improvements	0	60,000
Drainage Improvements	6,493,903	2,638,106
Greenways	5,121,194	28,365
Information Systems Upgrades	1,746,154	1,397,328
Miscellaneous Building Improvements	177,680	405,618
Parks Improvements	583,121	158,478
Paving Program	22,483,994	1,823,061
Roof and HVAC Maintenance	542,763	2,854
Sidewalk Improvements	4,557,498	484,620
South Knoxville Waterfront	8,808,659	2,046,182
Traffic/Right of Way Improvements	5,907,032	5,601,878
Other Projects	3,285,820	299,491
	<u>\$ 62,400,021</u>	<u>\$ 15,418,757</u>

*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 over-recovered costs was \$4,293,726 at June 30, 2009.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)**

**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.

TVA implemented a fuel cost adjustment in October 2006 that is applied on a quarterly basis to wholesale power rates. KUB flowed changes to wholesale power rates, from TVA's fuel cost adjustment mechanism, directly through to its retail electric rates via the purchased power adjustment for each quarterly adjustment in fiscal year 2009.

In, October 2008, TVA increased its wholesale power rates by three percent. KUB flowed the wholesale rate increase directly through to its retail electric rates via the purchased power adjustment effective on October 2009 customer bills.

**Natural Gas Supply Contract Commitments** - For the year ended June 30, 2009, the Gas Division of the Knoxville Utilities Board locked the price on 74% of its total gas purchases via gas supply contracts. As of June 30, 2009, the Gas Division had hedged the price on approximately 8% of its anticipated gas purchases for fiscal year 2010.

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:

	2010	2011	2012	2013	2014
Demand:					
Transportation	\$ 16,487,680	\$ 17,303,103	\$ 17,303,103	\$ 17,303,103	\$ 17,303,103
Storage	3,960,920	3,960,920	3,960,920	4,239,785	4,332,740
Demand total	<u>\$ 20,448,600</u>	<u>\$ 21,264,023</u>	<u>\$ 21,264,023</u>	<u>\$ 21,542,888</u>	<u>\$ 21,635,843</u>
Commodity:					
Baseload	<u>\$ 5,059,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for BP Energy, Conoco, and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the Equitable contract is based upon firm supply obligations at locked prices and the applicable four month New York Mercantile Exchange ("NYMEX") strip prices at June 30, 2009

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)**

**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 it will spend over \$500 million in capital investments by 2016. 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. Through the end of fiscal year 2009, the Wastewater Division had issued \$260 million of bonds to help fund wastewater system capital improvements. To help fund expenditures, the KUB Board of Commissioners also approved two 50 percent rate increases which went into effect April 2005 and January 2007. The Board also approved an 8 percent rate increase to be effective September 2008. KUB also anticipates several small rate increases over the next decade to help fund Partners Acting for a Cleaner Environment ("PACE10").

**NOTE 17 - BUSINESS AND CREDIT CONCENTRATIONS**

The Metropolitan Knoxville Airport Authority is dependent to a large extent on three major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for \$1,840,170 in aviation area revenue during 2009. In addition, a significant portion of terminal area revenue is directly and indirectly generated from this airline's passengers, which accounted for approximately 54% of total passengers during 2009. As of June 30, 2009, 34% of trade accounts receivable are due from these major airlines.

**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, 2009**

**NOTE 18 - TRANSFERS (Continued)**

A detailed reconciliation of operating transfers at June 30, 2009 is as follows:

	Transfers From:														
	Governmental Activities										Business Type Activities				
	General Fund	Debt Service	Capital Projects	State Street Aid	Abandoned Vehicles	City Court	Animal Control	Misc. Spec. Rev. Grants	Misc. Community Development	Metro Parking	Public Assembly Facilities	Fleet Maintenance	Risk Management	Total	
<b>Primary Government:</b>															
Governmental Activities:															
General Fund	\$ 8,714,650	12,086,100	-	1,025,000	120,000	4,370,630	-	200,000	-	-	-	-	-	\$ 4,570,630	
Capital Projects Fund	-	-	-	-	-	-	-	1,261,400	2,000	1,000,000	4,477	-	-	24,213,627	
City Inspections	135,380	-	-	-	-	-	-	-	-	-	-	-	-	135,380	
Miscellaneous Community Development Fund	75,050	-	-	-	-	-	-	-	-	-	-	-	-	75,050	
Miscellaneous Special Revenue	844,911	-	-	-	-	-	-	-	-	-	-	-	-	844,911	
Miscellaneous Grants	63,340	-	-	-	-	-	-	5,000	-	-	-	-	-	68,340	
Storm Water	2,075,060	-	-	-	-	-	-	-	-	-	-	-	-	2,075,060	
Solid Waste	8,805,590	-	-	-	-	-	-	-	-	-	-	-	-	8,805,590	
Business-Type Activities:															
Convention Center	3,647,180	4,680,310	-	-	-	-	-	-	-	-	-	-	-	8,327,490	
Public Assembly Facilities	2,085,640	-	32,000	-	-	-	-	-	-	-	-	-	-	2,117,640	
City Golf Courses	121,996	-	-	-	-	-	-	-	-	-	-	-	-	121,996	
Internal Service Funds:															
Fleet Maintenance	2,080,900	-	21,000	-	-	-	-	-	-	-	-	-	-	2,101,900	
Risk Management	863,120	-	-	-	-	-	-	-	-	-	-	-	-	863,120	
Health Insurance	1,010,180	-	-	-	-	-	-	-	-	-	-	-	-	1,010,180	
Equipment Replacement	177,109	-	16,906	-	1,049	-	29,759	36,908	-	1,866	4,401	1,691	-	269,689	
	<u>\$ 30,700,106</u>	<u>\$ 16,766,410</u>	<u>\$ 69,906</u>	<u>\$ 1,025,000</u>	<u>\$ 121,049</u>	<u>\$ 4,370,630</u>	<u>\$ 29,759</u>	<u>\$ 1,503,308</u>	<u>\$ 2,000</u>	<u>\$ 1,000,000</u>	<u>\$ 6,343</u>	<u>\$ 4,401</u>	<u>\$ 1,691</u>	<u>\$ 55,600,603</u>	

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 19 - RETIREMENT AND DISABILITY PLANS

Defined Benefit Pension Plans

*City of Knoxville Pension System*

The City also maintains a single-employer defined benefit pension plan (City of Knoxville Pension System), 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.

**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. 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 \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. 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.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

*City of Knoxville Pension System (Continued)*

**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 of Knoxville Pension System. Because of the abolition of the City School System, the Board of Education Division of the City of Knoxville Pension System 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, 2009.

At July 1, 2009, the Plan had 2,174 retirees and beneficiaries currently receiving benefits and 41 employees currently participating in the Delayed Retirement Option Program (DROP) and 92 deferred vested participants. Of the approximately 1,514 active employees in the Plan, 1,079 were fully vested at July 1, 2009. Benefit provisions are established in the City's Charter and can be amended by voter referendum. The City of Knoxville Pension System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Knoxville Pension Board, 917B East Fifth Avenue, Knoxville, Tennessee 37917. The assets of the Plan are also included in the reporting entity as a fiduciary pension trust fund.

*Annual Pension Costs*

Employer contributions represent a percentage of the monthly earnings of Plan members based on an actuarial valuation within three years of the base year. The recommended contributions are determined using the entry age normal funding method. Unfunded actuarial accrued liabilities are being amortized as level dollar annual payments over an amortization period not to exceed thirty years. Projected covered payroll for the years beginning on July 1, 2009 and 2008 (without Board of Education amounts) amounted to approximately \$60,585,868 and \$58,226,253 respectively.

Employer contributions, excluding Board of Education contributions, and percentages of employer-covered payroll for the years ended June 30, 2009 and 2008 were as follows:

	2009		2008	
	Amount	Rate - %	Amount	Rate - %
Uniformed Police and Fire	\$ 4,829,577	16.33%	\$ 7,701,120	26.76%
General Government Contribution	2,075,497	6.76%	2,240,195	7.82%
Division G Matching Contribution	254,133	0.83%	355,718	0.87%
Total	\$ 7,159,207		\$ 10,297,033	

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

*Funded Status*

The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of July 1, 2009, the most recent actuarial valuation date, the plan was 93.1% funded. The actuarial accrued liability for benefits was \$561.6 million, and the actuarial value of assets was \$523.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$38.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$60.6 million, and the ratio of the UAAL to the covered payroll was 63.6%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

For the year ended June 30, 2009, the annual pension cost for the System exceeded the required contributions for the uniformed police and fire and was equal to the required contribution for the general government contribution. Significant actuarial assumptions used in the valuation as of July 1, 2009 include: (a) rate of return on investment of present and future assets of 8%; (b) the assumed salary scale is based on a review of the experience study of the plan, the assumed salary increases are greater at younger ages and lower at older ages; 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 ten-year period.

Fiscal Year Ending	Annual Pension Percentage of APC		Net Pension Obligation
	Cost (APC)	Contributed	
June 30, 2009	\$ 6,935,152	145%	\$ (2,968,521)
June 30, 2008	6,693,672	145%	(2,998,600)
June 30, 2007	5,382,627	100%	0

The two significant actuarial assumptions used by the System are the investment return assumption of 8% and the increase in salary scale assumption which is based on an experience study shown below:

	<u>Plans A, B and G</u>	<u>Plans C and F</u>
Age 20	12.00%	12.00%
Age 35	5.20%	6.20%
Age 50	4.10%	4.30%
Age 60	3.50%	3.50%

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)**

**Defined Benefit Pension 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, 2008, the Plan had 689 retirees and beneficiaries currently receiving benefits and 56 terminated employees entitled to benefits but not yet receiving them. Of the approximately 978 current employees in the Plan, 722 were fully vested at December 31, 2008. 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.



CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

*Knoxville Utilities Board Pension Plan (Continued)*

*Funding Policy and Annual Pension Costs*

The Plan has adopted the use of the individual entry age normal method effective with the December 2007 valuation. As of December 31, 2008, the most recent actuarial valuation date, the plan was 94.4% funded. The actuarial accrued liability for benefits was \$194.4 million, and the actuarial value of assets was \$183.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11 million. The covered payroll (annual payroll of active employees covered by the plan) was \$49.6 million, and the ratio of the UAAL to the covered payroll was 22.0%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

For the plan year ended December 31, 2008 the actuarial-accrued liability for the Plan was less than the actuarial value of assets; however, a contribution of \$194,031 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, 2010. The annual required contribution was determined as part of the January 1, 2008 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.

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 3.21% to 6.26%, and (d) cost of living adjustment of 4% in 2001 and 3% annually for years 2002 through 2006. Use of the RP2000 Mortality Table for 2006 and 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.

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, 2008	\$ 194,031	100%
December 31, 2007	564,538	100%
December 31, 2006	936,268	100%

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)**

**Defined Contribution Plans**

*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, 2009, 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.

*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 \$707,197 in 2009. There were no employee contributions in 2009.

*Knoxville Area Transit*

Knoxville Area Transit ("KAT") provides retirement benefits for all of its full-time employees through a defined contribution plan (Knoxville Transit Retirement Plan) which was established and amended under the authority of the Board of Directors and is administered by ERISA Services, Inc. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon attaining a minimum age of twenty-one years and completing one year of eligible service.

KAT's contributions for each employee (and investment income allocated to the employees' account) are vested after five years of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Directors. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled \$446,416 in 2009. Employee contributions totaled \$367,374 in 2009.

**Deferred Compensation Plans**

**Primary government**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Because the assets are not held in a trustee capacity by the City, they are not included in the City's financial statements. No contributions are made to this plan by the City.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)**

**Deferred Compensation Plans (Continued)**

**Component unit**

*Metropolitan Knoxville Airport Authority*

The 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 deferral of a portion of 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 \$98,743 in 2009.

**NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

The Governmental Accounting Standards Board (GASB) has established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which is presently limited to post-employment health care. GASB 45 requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. GASB 45 was effective for the fiscal year beginning July 1, 2007.

**Primary government**

***Plan Description***

Retirees of the City may elect to participate in the City of Knoxville Employees Health Insurance Plan, a single-employer defined benefit healthcare plan, until the retiree reaches the age of 65 at which time they become Medicare eligible. The Plan is administered by the Health Insurance Fund and provides medical benefits. Post-employment benefits of the City's employees may be authorized by the City's charter and code. The Plan does not issue a stand-alone financial report.

***Funding Policies***

The contribution requirements of the Plan members and City are established and may be amended by the Health Insurance Fund. The required contribution is based on projected pay-as-you-go financing requirements whereby contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. The City contributes 40% of the premium payments and the retirees contribute 60%. For the fiscal year ended June 30, 2009, the City and the retirees contributed \$605,730 and \$977,055, respectively.

***Annual OPEB Cost and Net OPEB Obligation***

The City's annual OPEB cost (expense) is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The Plan contains both active employees and retirees. Although the City contribution is 40% of premium payments for the combined participants, the share of claims related to retirees represent a higher percentage of the total claims. Accordingly, contributions reflected in the OPEB calculations have been adjusted to reflect that a portion of contributions for active employees are subsidizing the retiree claims.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Primary government (Continued)**

For the City for June 30, 2009 the City's annual OPEB cost of \$1,582,785 was equal to the required contribution. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 1,582,785	100.00%	\$ -
June 30, 2008	1,641,422	100.00%	-
June 30, 2007	N/A	N/A	N/A

***Funded Status and Funding Progress***

As of June 30, 2009, the Plan was 0% funded. Since the current contribution amounts exceeded the ARC, the City will not record any additional liability for OPEB and has chosen not to establish a trust for these benefits. The City will evaluate the funding status each year and will obtain actuarial evaluations of the potential liability on a bi-annual basis.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$0	\$ 15,445,521	\$ 15,445,521	0%	\$ 58,946,845	26%
July 1, 2008	0	15,524,797	15,524,797	0%	58,215,528	27%
July 1, 2007	0	17,704,000	17,704,000	0%	55,396,816	32%

***Actuarial Valuations, Methods and Assumptions***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the ARC of the City and Plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and Plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the July 1, 2009 valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% rate of return (net of administrative expenses). Annual medical costs are assumed to increase 11% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a six year period. The estimated actuarial accrued liability (AAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 was 30 years.

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Component units**

*Knoxville Utilities Board*

KUB currently provides post-employment health care benefits to 660 former employees and 681 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2009, 511 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although GASB 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007 the KUB Board authorized the establishment of an OPEB Trust. The applicable documentation was submitted to the State Funding Board, and in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008.

The general administration and responsibility for the proper operation of the Trust is governed by a board of trustees, appointed by President & CEO. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board.

An actuarial study was completed in 2008 to determine KUB's actuarial accrued liability for post-employment health care benefits. The present value of the unfunded actuarial accrued OPEB liability is \$108 million. This valuation is based on fully funding the liability through the OPEB trust for a period of thirty years, with an assumed annual rate of return of 8 percent. The total ARC (annual required contribution) for FY 2009 was \$16.2 million. The initial contribution to the OPEB trust occurred after the January 1, 2008 valuation.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$0	\$ 108,329,141	\$ 108,329,141	0%	\$ 31,234,509	347%
January 1, 2007	0	147,211,690	147,211,690	0%	31,420,890	469%
January 1, 2006	0	138,806,038	138,806,038	0%	32,131,503	432%

CITY OF KNOXVILLE, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2009

**NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Component units (Continued)**

*Knoxville Utilities Board (Continued)*

Actual contributions for FY 2009 totaled \$14.4 million, including \$8.4 million in deposits to the Trust for future claims and \$6 million in actual claim payments. As a result, KUB's unfunded liability as of June 30, 2009 was \$3.4 million.

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 14,400,000	80.90%	\$ 3,400,000
June 30, 2008	14,406,186	89.85%	1,627,850

*Metropolitan Knoxville Airport Authority and Knoxville Area Transit*

The Authority and KAT do not offer any other post retirement benefits to their retirees.

**NOTE 21 - 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	\$ 11,894,472
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	\$ 12,043,900
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	\$ 1,655,790
Subsidies paid by the City to Knoxville Area Transit	\$ 11,082,383

**NOTE 22 - SUBSEQUENT EVENT**

On December 16, 2009, the City refunded the outstanding principal of \$31,745,000 on TN Loans series IIIIF variable-rate debt originally used to finance activities of the Knoxville Convention Center. These bonds were issued by the Public Building Authority of Sevier County (PBA-SC) and are also secured with a promissory note from the City. The \$31,745,000 refunding issue, TN Loans series VI L-1, also with the PBA-SC, is also secured by a promissory note from the City, at a variable rate based upon Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA), reset weekly with interest paid monthly.

CITY OF KNOXVILLE

Required Supplementary Information  
June 30, 2009

Schedule of Funding Progress - City of Knoxville Pension System

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, 2009 \$	523,121,786 \$	561,660,015 \$	38,538,229	93.1% \$	60,585,868	63.6%
July 1, 2008	524,596,859	544,826,299	20,229,440	96.3%	58,226,253	34.7%
July 1, 2007	509,837,414	528,228,802	18,391,388	96.5%	56,599,723	32.5%

\* Note: Beginning July 1, 2007, the Actuarial Accrued Liability and Unfunded Accrued Liability values are calculated and reported using the Entry Age Normal funding method. Prior to July 1, 2007, the aggregate actuarial cost method was used.

The annual covered payroll does not include the Board of Education payroll amounts for teachers with frozen benefits.

CITY OF KNOXVILLE

Required Supplementary Information  
June 30, 2009

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, 2008	\$ 183,447,296	\$ 194,366,597	\$ 10,919,301	94.4%	\$ 49,602,223	22.0%
January 1, 2007	236,826,472	194,079,348	(42,747,124)	122.0%	46,314,258	-92.3%
January 1, 2006	229,076,421	192,542,020	(36,534,401)	119.0%	43,054,244	-84.9%
January 1, 2005	232,628,277	200,317,475	(32,310,802)	116.1%	43,064,519	-75.0%



# ***Nonmajor Governmental Funds***

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

## ***Special Revenue Funds***

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<b>State Street Aid Fund</b>	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.
<b>Community Development Block Grants Fund</b>	To account for Community Development Block Grant Funds.
<b>Abandoned Vehicles Fund</b>	To account for revenues from impoundment and sale of abandoned and wrecked vehicles.
<b>City Inspections Fund</b>	To account for the City's building, electrical and plumbing inspection activities.
<b>City Court Fund</b>	To account for the activities of the City's local jurisdiction court.
<b>Miscellaneous Grants Fund</b>	To account for various police, safety and humane grants and funds.
<b>Animal Control Fund</b>	To account for the City's animal licensing and control activities.
<b>Miscellaneous Special Revenue Fund</b>	To account for funds arising from transportation and public affairs activities.
<b>Miscellaneous Community Development Funds</b>	To account for grant funds restricted for housing and humanity.
<b>Storm Water Fund</b>	To account for activities related to the City's water drainage system.
<b>Solid Waste Fund</b>	To account for the City's recycling and solid waste disposal activities.
<b>Knoxville Civic Revitalization Fund</b>	To account for the receipt and disbursement of Urban Development Action Grant funds.

## ***Permanent Fund***

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<b>Krutch Park Trust Fund</b>	To account for funds bequeathed to the City for the purpose of constructing and maintaining a downtown city park.
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CITY OF KNOXVILLE, TENNESSEE

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2009

	Special Revenue Funds						
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
<b>Assets</b>							
Cash & cash equivalents	\$ -	\$ 23,158	\$ 2,354	\$ 44,956	\$ 1,350	\$ 499,998	\$ 100
Investments	1,274,554	-	1,994,428	492,066	1,480,388	-	394,963
Accounts receivable	831,965	843,082	-	2,724	29,652	1,087,495	-
Notes receivable	-	11,201,385	-	-	-	-	-
Inventories	-	167,655	-	-	-	-	-
Total assets	<u>\$ 2,106,519</u>	<u>\$ 12,235,280</u>	<u>\$ 1,996,782</u>	<u>\$ 539,746</u>	<u>\$ 1,511,390</u>	<u>\$ 1,587,493</u>	<u>\$ 395,063</u>
<b>Liabilities and fund balances</b>							
Liabilities:							
Accounts payable	\$ 290,393	\$ 171,924	\$ 27,552	\$ 2,442	\$ 56,135	\$ 121,816	\$ -
Accrued liabilities	-	33,430	13,228	101,736	54,749	22,708	-
Customer deposits	-	23,158	-	-	-	-	-
Due to other funds	226	637,728	-	-	297,324	900,471	-
Due to other governmental agencies	-	-	-	-	4,824	-	-
Deferred revenue	-	11,201,385	-	-	-	50,000	-
Total liabilities	<u>290,619</u>	<u>12,067,625</u>	<u>40,780</u>	<u>104,178</u>	<u>413,032</u>	<u>1,094,995</u>	<u>-</u>
Fund balances:							
Reserved for:							
Encumbrances	-	-	21	88	324	-	-
Inventories	-	167,655	-	-	-	-	-
Permanent funds	-	-	-	-	-	-	-
Designated for:							
Permanent funds	-	-	-	-	-	-	-
Unreserved, undesignated	1,815,900	-	1,955,981	435,480	1,098,034	492,498	395,063
Total fund balances	<u>1,815,900</u>	<u>167,655</u>	<u>1,956,002</u>	<u>435,568</u>	<u>1,098,358</u>	<u>492,498</u>	<u>395,063</u>
Total liabilities and fund balances	<u>\$ 2,106,519</u>	<u>\$ 12,235,280</u>	<u>\$ 1,996,782</u>	<u>\$ 539,746</u>	<u>\$ 1,511,390</u>	<u>\$ 1,587,493</u>	<u>\$ 395,063</u>

Special Revenue Funds (continued)					Permanent Fund		
Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ 176,382	\$ 240,598	\$ 50	\$ 100	\$ -	\$ 989,046	\$ 243,929	\$ 1,232,975
11,073,536	1,383,539	794,239	5,769,370	2,523,947	27,181,030	532,996	27,714,026
14,149	1,472,559	10	16,389	-	4,298,025	-	4,298,025
-	8,481,402	-	-	-	19,682,787	-	19,682,787
-	151,351	-	-	-	319,006	-	319,006
<u>\$ 11,264,067</u>	<u>\$ 11,729,449</u>	<u>\$ 794,299</u>	<u>\$ 5,785,859</u>	<u>\$ 2,523,947</u>	<u>\$ 52,469,894</u>	<u>\$ 776,925</u>	<u>\$ 53,246,819</u>
\$ 62,445	\$ 425,349	\$ 9,166	\$ 387,260	\$ -	\$ 1,554,482	\$ -	\$ 1,554,482
21,567	13,429	73,145	22,847	-	356,839	-	356,839
282,666	5,241	-	-	-	311,065	-	311,065
-	1,067,955	134,251	591,325	-	3,629,280	-	3,629,280
1,500	-	-	-	-	6,324	-	6,324
-	8,562,947	-	-	-	19,814,332	-	19,814,332
<u>368,178</u>	<u>10,074,921</u>	<u>216,562</u>	<u>1,001,432</u>	<u>-</u>	<u>25,672,322</u>	<u>-</u>	<u>25,672,322</u>
105,454	632,372	48,516	1,553,404	-	2,340,179	-	2,340,179
-	151,351	-	-	-	319,006	-	319,006
-	-	-	-	-	-	624,065	624,065
-	-	-	-	-	-	152,860	152,860
10,790,435	870,805	529,221	3,231,023	2,523,947	24,138,387	-	24,138,387
<u>10,895,889</u>	<u>1,654,528</u>	<u>577,737</u>	<u>4,784,427</u>	<u>2,523,947</u>	<u>26,797,572</u>	<u>776,925</u>	<u>27,574,497</u>
<u>\$ 11,264,067</u>	<u>\$ 11,729,449</u>	<u>\$ 794,299</u>	<u>\$ 5,785,859</u>	<u>\$ 2,523,947</u>	<u>\$ 52,469,894</u>	<u>\$ 776,925</u>	<u>\$ 53,246,819</u>

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2009

	Special Revenue Funds					
	State	Community	Abandoned	City	City	Miscellaneous
	Street	Development				
Aid	Block Grants					
<b>Revenues</b>						
Taxes, assessments, interest & penalties	\$ 4,584,425	\$ -	\$ -	\$ -	\$ 871,838	\$ -
Licenses, permits & inspection charges	-	-	-	1,661,263	-	-
Intergovernmental	-	1,528,808	-	-	-	2,452,899
Charges for services	-	-	396,035	-	2,871,536	-
Fines & forfeitures	-	-	-	-	1,597,480	-
Other	22,239	158,537	371,299	14,812	21,309	78,521
Total revenues	<u>4,606,664</u>	<u>1,687,345</u>	<u>767,334</u>	<u>1,676,075</u>	<u>5,362,163</u>	<u>2,531,420</u>
<b>Expenditures</b>						
Current:						
Administration	-	-	-	-	-	60,681
Operations & engineering	3,714,527	-	769,708	-	-	109,075
Community & neighborhood services	-	2,190,256	-	2,199,294	-	503,198
Law	-	-	-	-	991,554	-
Police	-	-	-	-	-	1,891,387
Legislative	-	-	-	-	-	-
Mass transit	-	-	-	-	-	-
Total expenditures	<u>3,714,527</u>	<u>2,190,256</u>	<u>769,708</u>	<u>2,199,294</u>	<u>991,554</u>	<u>2,564,341</u>
<b>Excess (deficiency) of revenues</b>						
<b>over (under) expenditures</b>	<u>892,137</u>	<u>(502,911)</u>	<u>(2,374)</u>	<u>(523,219)</u>	<u>4,370,609</u>	<u>(32,921)</u>
<b>Other financing sources (uses)</b>						
Transfers in	-	-	-	135,380	-	68,340
Transfers out	(1,025,000)	-	(121,049)	-	(4,370,630)	-
Total other financing sources (uses)	<u>(1,025,000)</u>	<u>-</u>	<u>(121,049)</u>	<u>135,380</u>	<u>(4,370,630)</u>	<u>68,340</u>
<b>Net change in fund balances</b>	<u>(132,863)</u>	<u>(502,911)</u>	<u>(123,423)</u>	<u>(387,839)</u>	<u>(21)</u>	<u>35,419</u>
<b>Fund balance - beginning</b>	<u>1,948,763</u>	<u>670,566</u>	<u>2,079,425</u>	<u>823,407</u>	<u>1,098,379</u>	<u>457,079</u>
<b>Fund balance - ending</b>	<u>\$ 1,815,900</u>	<u>\$ 167,655</u>	<u>\$ 1,956,002</u>	<u>\$ 435,568</u>	<u>\$ 1,098,358</u>	<u>\$ 492,498</u>

Special Revenue Funds (continued)							Permanent Fund	
Animal Control	Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,456,263	\$ -	\$ 5,456,263
-	-	-	-	-	-	1,661,263	-	1,661,263
-	724,785	4,190,270	-	-	-	8,896,762	-	8,896,762
46,982	740,473	-	137,245	674,418	50,537	4,917,226	-	4,917,226
-	2,245,989	-	-	-	-	3,843,469	-	3,843,469
6,153	381,810	772,731	12,376	342,430	40,034	2,222,251	(77,825)	2,144,426
53,135	4,093,057	4,963,001	149,621	1,016,848	90,571	26,997,234	(77,825)	26,919,409
-	137,823	-	-	-	-	198,504	-	198,504
-	667,983	-	2,223,334	-	-	7,484,627	-	7,484,627
9,960	434,309	5,251,970	-	9,818,082	-	20,407,069	-	20,407,069
-	-	-	-	-	-	991,554	-	991,554
-	1,161,495	-	-	-	-	3,052,882	-	3,052,882
-	-	73,050	-	-	-	73,050	-	73,050
-	65,000	-	-	-	-	65,000	-	65,000
9,960	2,466,610	5,325,020	2,223,334	9,818,082	-	32,272,686	-	32,272,686
43,175	1,626,447	(362,019)	(2,073,713)	(8,801,234)	90,571	(5,275,452)	(77,825)	(5,353,277)
-	844,911	75,050	2,075,060	8,805,590	-	12,004,331	-	12,004,331
(29,759)	(1,503,308)	(2,000)	-	-	-	(7,051,746)	-	(7,051,746)
(29,759)	(658,397)	73,050	2,075,060	8,805,590	-	4,952,585	-	4,952,585
13,416	968,050	(288,969)	1,347	4,356	90,571	(322,867)	(77,825)	(400,692)
381,647	9,927,839	1,943,497	576,390	4,780,071	2,433,376	27,120,439	854,750	27,975,189
\$ 395,063	\$ 10,895,889	\$ 1,654,528	\$ 577,737	\$ 4,784,427	\$ 2,523,947	\$ 26,797,572	\$ 776,925	\$ 27,574,497

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, 2009

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes, assessments, interest & penalties	\$ 4,870,000	\$ 4,870,000	\$ 4,584,425	\$ (285,575)
Other	40,000	40,000	22,239	(17,761)
Total revenues	<u>4,910,000</u>	<u>4,910,000</u>	<u>4,606,664</u>	<u>(303,336)</u>
<b>Expenditures</b>				
Current:				
Operations & engineering	3,885,000	3,885,000	3,714,527	170,473
Total expenditures	<u>3,885,000</u>	<u>3,885,000</u>	<u>3,714,527</u>	<u>170,473</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,025,000</u>	<u>1,025,000</u>	<u>892,137</u>	<u>(132,863)</u>
<b>Other financing sources (uses)</b>				
Transfers out	(1,025,000)	(1,025,000)	(1,025,000)	-
Total other financing sources (uses)	<u>(1,025,000)</u>	<u>(1,025,000)</u>	<u>(1,025,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(132,863)	<u>\$ (132,863)</u>
Fund balance - beginning			<u>1,948,763</u>	
Fund balance - ending			<u>\$ 1,815,900</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, 2009

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 1,858,360	\$ 2,031,740	\$ 1,528,808	\$ (502,932)
Other	145,000	145,000	158,537	13,537
Total revenues	<u>2,003,360</u>	<u>2,176,740</u>	<u>1,687,345</u>	<u>(489,395)</u>
<b>Expenditures</b>				
Current:				
Community & neighborhood services	<u>2,003,360</u>	<u>2,176,740</u>	<u>2,190,256</u>	<u>(13,516)</u>
Total expenditures	<u>2,003,360</u>	<u>2,176,740</u>	<u>2,190,256</u>	<u>(13,516)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(502,911)</u>	<u>(502,911)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(502,911)</u>	<u>\$ (502,911)</u>
Fund balance - beginning			<u>670,566</u>	
Fund balance - ending			<u>\$ 167,655</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, 2009

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Charges for services	\$ 475,000	\$ 475,000	\$ 396,035	\$ (78,965)
Other	435,000	435,000	371,299	(63,701)
Total revenues	<u>910,000</u>	<u>910,000</u>	<u>767,334</u>	<u>(142,666)</u>
<b>Expenditures</b>				
Current:				
Operations & engineering	790,000	788,951	769,708	19,243
Total expenditures	<u>790,000</u>	<u>788,951</u>	<u>769,708</u>	<u>19,243</u>
Excess (deficiency) of revenues over (under) expenditures	<u>120,000</u>	<u>121,049</u>	<u>(2,374)</u>	<u>(123,423)</u>
<b>Other financing sources (uses)</b>				
Transfers out	(120,000)	(121,049)	(121,049)	-
Total other financing sources (uses)	<u>(120,000)</u>	<u>(121,049)</u>	<u>(121,049)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(123,423)	<u>\$ (123,423)</u>
Fund balance - beginning			<u>2,079,425</u>	
Fund balance - ending			<u>\$ 1,956,002</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, 2009

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Licenses, permits & inspection charges	\$ 2,052,220	\$ 2,052,220	\$ 1,661,263	\$ (390,957)
Other	64,000	64,000	14,812	(49,188)
Total revenues	<u>2,116,220</u>	<u>2,116,220</u>	<u>1,676,075</u>	<u>(440,145)</u>
<b>Expenditures</b>				
Current:				
Community & neighborhood services	<u>2,251,600</u>	<u>2,251,600</u>	<u>2,199,294</u>	<u>52,306</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(135,380)</u>	<u>(135,380)</u>	<u>(523,219)</u>	<u>(387,839)</u>
<b>Other financing sources (uses)</b>				
Transfers in	<u>135,380</u>	<u>135,380</u>	<u>135,380</u>	<u>-</u>
Total other financing sources (uses)	<u>135,380</u>	<u>135,380</u>	<u>135,380</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(387,839)</u>	<u>\$ (387,839)</u>
Fund balance - beginning			<u>823,407</u>	
Fund balance - ending			<u>\$ 435,568</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, 2009

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Taxes, assessments, interest & penalties	\$ 855,000	\$ 855,000	\$ 871,838	\$ 16,838
Charges for services	2,821,000	2,861,650	2,871,536	9,886
Fines & forfeitures	1,566,000	1,566,000	1,597,480	31,480
Other	77,910	79,861	21,309	(58,552)
Total revenues	<u>5,319,910</u>	<u>5,362,511</u>	<u>5,362,163</u>	<u>(348)</u>
<b>Expenditures</b>				
Current:				
Law	927,550	970,151	991,554	(21,403)
Total expenditures	<u>927,550</u>	<u>970,151</u>	<u>991,554</u>	<u>(21,403)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,392,360</u>	<u>4,392,360</u>	<u>4,370,609</u>	<u>(21,751)</u>
<b>Other financing sources (uses)</b>				
Transfers out	(4,392,360)	(4,392,360)	(4,370,630)	21,730
Total other financing sources (uses)	<u>(4,392,360)</u>	<u>(4,392,360)</u>	<u>(4,370,630)</u>	<u>21,730</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(21)	<u>\$ (21)</u>
Fund balance - beginning			<u>1,098,379</u>	
Fund balance - ending			<u>\$ 1,098,358</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, 2009

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 724,785	\$ 624,785
Charges for services	595,000	598,000	740,473	142,473
Fines & forfeitures	1,374,300	1,374,300	2,245,989	871,689
Other	4,281,770	5,066,180	381,810	(4,684,370)
Total revenues	<u>6,351,070</u>	<u>7,138,480</u>	<u>4,093,057</u>	<u>(3,045,423)</u>
<b>Expenditures</b>				
Current:				
Administration	75,000	147,750	137,823	9,927
Operations & engineering	790,440	681,378	667,983	13,395
Community & neighborhood services	474,000	540,988	434,309	106,679
Police	5,075,170	5,044,975	1,161,495	3,883,480
Mass transit	65,000	65,000	65,000	-
Total expenditures	<u>6,479,610</u>	<u>6,480,091</u>	<u>2,466,610</u>	<u>4,013,481</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(128,540)</u>	<u>658,389</u>	<u>1,626,447</u>	<u>968,058</u>
<b>Other financing sources (uses)</b>				
Transfers in	980,440	844,923	844,911	(12)
Transfers out	<u>(851,900)</u>	<u>(1,503,312)</u>	<u>(1,503,308)</u>	<u>4</u>
Total other financing sources (uses)	<u>128,540</u>	<u>(658,389)</u>	<u>(658,397)</u>	<u>(8)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	968,050	<u>\$ 968,050</u>
Fund balance - beginning			<u>9,927,839</u>	
Fund balance - ending			<u>\$ 10,895,889</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, 2009

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 7,554,600	\$ 7,988,232	\$ 4,190,270	\$ (3,797,962)
Other	425,000	437,671	772,731	335,060
Total revenues	<u>7,979,600</u>	<u>8,425,903</u>	<u>4,963,001</u>	<u>(3,462,902)</u>
<b>Expenditures</b>				
Current:				
Community & neighborhood services	7,979,600	8,420,953	5,251,970	3,168,983
Legislative	90,000	78,000	73,050	4,950
Total expenditures	<u>8,069,600</u>	<u>8,498,953</u>	<u>5,325,020</u>	<u>3,173,933</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(90,000)</u>	<u>(73,050)</u>	<u>(362,019)</u>	<u>(288,969)</u>
<b>Other financing sources (uses)</b>				
Transfers in	90,000	75,050	75,050	-
Transfers out	-	(2,000)	(2,000)	-
Total other financing sources (uses)	<u>90,000</u>	<u>73,050</u>	<u>73,050</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(288,969)</u>	<u>\$ (288,969)</u>
<b>Fund balance - beginning</b>			<u>1,943,497</u>	
<b>Fund balance - ending</b>			<u>\$ 1,654,528</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, 2009

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Charges for services	\$ 155,000	\$ 155,000	\$ 137,245	\$ (17,755)
Other	18,000	222,140	12,376	(209,764)
Total revenues	<u>173,000</u>	<u>377,140</u>	<u>149,621</u>	<u>(227,519)</u>
<b>Expenditures</b>				
Current:				
Operations & engineering	2,373,060	2,421,200	2,223,334	197,866
Total expenditures	<u>2,373,060</u>	<u>2,421,200</u>	<u>2,223,334</u>	<u>197,866</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(2,200,060)</u>	<u>(2,044,060)</u>	<u>(2,073,713)</u>	<u>(29,653)</u>
<b>Other financing sources (uses)</b>				
Transfers in	2,200,060	2,075,060	2,075,060	-
Transfers out	-	(31,000)	-	31,000
Total other financing sources (uses)	<u>2,200,060</u>	<u>2,044,060</u>	<u>2,075,060</u>	<u>31,000</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	1,347	<u>\$ 1,347</u>
<b>Fund balance - beginning</b>			<u>576,390</u>	
<b>Fund balance - ending</b>			<u>\$ 577,737</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, 2009

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Charges for services	\$ 643,050	\$ 643,050	\$ 674,418	\$ 31,368
Other	275,320	2,363,704	342,430	(2,021,274)
Total revenues	<u>918,370</u>	<u>3,006,754</u>	<u>1,016,848</u>	<u>(1,989,906)</u>
<b>Expenditures</b>				
Current:				
Community & neighborhood services	<u>10,303,960</u>	<u>11,812,344</u>	<u>9,818,082</u>	<u>1,994,262</u>
Total expenditures	<u>10,303,960</u>	<u>11,812,344</u>	<u>9,818,082</u>	<u>1,994,262</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,385,590)</u>	<u>(8,805,590)</u>	<u>(8,801,234)</u>	<u>4,356</u>
<b>Other financing sources (uses)</b>				
Transfers in	<u>9,385,590</u>	<u>8,805,590</u>	<u>8,805,590</u>	<u>-</u>
Total other financing sources (uses)	<u>9,385,590</u>	<u>8,805,590</u>	<u>8,805,590</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	4,356	<u>\$ 4,356</u>
<b>Fund balance - beginning</b>			<u>4,780,071</u>	
<b>Fund balance - ending</b>			<u>\$ 4,784,427</u>	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet  
Debt Service Funds  
June 30, 2009

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**Assets**

Investments	\$ 37,184,179
Accounts receivable	3,347
Taxes receivable	28,757,419
Notes receivable	1,875,400
Total assets	<u>\$ 67,820,345</u>

**Liabilities and fund balances**

Liabilities:

Due to other funds	1,296,293
Deferred revenue	28,389,590
Total liabilities	<u>29,685,883</u>

Fund balances:

Reserved for:

Notes receivable	1,875,400
Unreserved	36,259,062
Total fund balances	<u>38,134,462</u>

Total liabilities and fund balances	<u>\$ 67,820,345</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, 2009

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes, assessments, interest & penalties	\$ 25,654,900	\$ 25,654,900	\$ 26,426,265	\$ 771,365
Other	1,324,560	1,324,560	2,003,213	678,653
Total revenues	<u>26,979,460</u>	<u>26,979,460</u>	<u>28,429,478</u>	<u>1,450,018</u>
<b>Expenditures</b>				
Current:				
Debt service:				
Principal retirement	8,118,060	7,408,060	7,408,054	6
Interest payments on bonds & notes	3,374,990	2,754,990	2,753,515	1,475
Other services & charges	50,000	50,000	-	50,000
Total expenditures	<u>11,543,050</u>	<u>10,213,050</u>	<u>10,161,569</u>	<u>51,481</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>15,436,410</u>	<u>16,766,410</u>	<u>18,267,909</u>	<u>1,501,499</u>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(15,436,410)</u>	<u>(16,766,410)</u>	<u>(16,766,410)</u>	<u>-</u>
Total other financing sources (uses)	<u>(15,436,410)</u>	<u>(16,766,410)</u>	<u>(16,766,410)</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	1,501,499	<u>\$ 1,501,499</u>
<b>Fund balance - beginning</b>			<u>36,632,963</u>	
<b>Fund balance - ending</b>			<u>\$ 38,134,462</u>	



CITY OF KNOXVILLE, TENNESSEE

Balance Sheet  
Capital Projects Fund  
June 30, 2009

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**Assets**

Investments	\$	57,941,672
Accounts receivable		2,086,171
Total assets	\$	<u>60,027,843</u>

**Liabilities and fund balances**

Liabilities:

Accounts payable	\$	3,605,167
Due to other funds		1,174,469
Total liabilities		<u>4,779,636</u>

Fund balances:

Unreserved		<u>55,248,207</u>
Total fund balances		<u>55,248,207</u>

Total liabilities and fund balances	\$	<u>60,027,843</u>
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CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -  
From Inception  
Capital Projects Fund  
For the Year Ended June 30, 2009

	Actual		Total to Date	Project Authorization	Actual Over (Under) Final Budget
	Prior Years	Current Year			
<b>Revenues</b>					
Intergovernmental	\$ 7,603,511	\$ 2,069,591	\$ 9,673,102	\$ 13,226,526	\$ (3,553,424)
Other	4,168,299	3,125,833	7,294,132	9,568,041	(2,273,909)
Total revenues	<u>11,771,810</u>	<u>5,195,424</u>	<u>16,967,234</u>	<u>22,794,567</u>	<u>(5,827,333)</u>
<b>Expenditures</b>					
Current:					
Mass transit	-	2,735,090	2,735,090	2,735,090	-
Capital & grant projects	34,747,099	24,439,615	59,186,714	115,389,651	(56,202,937)
Total expenditures	<u>34,747,099</u>	<u>27,174,705</u>	<u>61,921,804</u>	<u>118,124,741</u>	<u>(56,202,937)</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(22,975,289)</u>	<u>(21,979,281)</u>	<u>(44,954,570)</u>	<u>(95,330,174)</u>	<u>50,375,604</u>
<b>Other financing sources (uses)</b>					
Issuance of debt	577,000	-	577,000	14,816,943	(14,239,943)
Transfers in	22,398,289	24,213,627	46,611,916	80,583,137	(33,971,221)
Transfers out	-	(69,906)	(69,906)	(69,906)	-
Total other financing sources (uses)	<u>22,975,289</u>	<u>24,143,721</u>	<u>47,119,010</u>	<u>95,330,174</u>	<u>(48,211,164)</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>2,164,440</u>	<u>\$ 2,164,440</u>	<u>\$ -</u>	<u>\$ 2,164,440</u>
<b>Fund balance - beginning</b>		<u>53,083,767</u>			
<b>Fund balance - ending</b>		<u>\$ 55,248,207</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.

<b>Metro Parking Fund</b>	To account for the operations of the City's municipal parking facilities.
<b>Public Assembly Facilities Fund</b>	To account for the operation of the City's municipal auditorium.
<b>Municipal Golf Courses</b>	To account for the operation of the City's municipal golf courses.

CITY OF KNOXVILLE, TENNESSEE  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
June 30, 2009

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
<b>Assets</b>				
Current assets				
Cash & temporary investments	\$ 982,199	\$ 3,663	\$ 206,591	\$ 1,192,453
Investments	1,904,970	5,870,310	-	7,775,280
Accounts receivable	-	23,605	9,407	33,012
Leases receivable	-	746,078	-	746,078
Inventories	-	-	22,490	22,490
Prepaid items	-	-	21,994	21,994
Total current assets	<u>2,887,169</u>	<u>6,643,656</u>	<u>260,482</u>	<u>9,791,307</u>
Noncurrent assets				
Land & site improvements	2,079,796	1,711,454	123,093	3,914,343
Building & building improvements	21,594,627	19,969,820	11,011	41,575,458
Equipment	4,450	1,633,411	745,614	2,383,475
Construction in progress	-	49,805	-	49,805
Less: accumulated depreciation	(9,786,298)	(14,098,073)	(139,759)	(24,024,130)
Total capital assets (net of accumulated depreciation)	<u>13,892,575</u>	<u>9,266,417</u>	<u>739,959</u>	<u>23,898,951</u>
Equity interest in joint venture	557,725	-	-	557,725
Total noncurrent assets	<u>14,450,300</u>	<u>9,266,417</u>	<u>739,959</u>	<u>24,456,676</u>
Total assets	<u>17,337,469</u>	<u>15,910,073</u>	<u>1,000,441</u>	<u>34,247,983</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	100,402	132,170	150,144	382,716
Accrued liabilities	-	67,286	-	67,286
Customer deposits	3,536	48,771	-	52,307
Due to other funds	-	107,241	224,407	331,648
Deferred revenue	41,603	-	9,061	50,664
Compensated absences	-	80,000	-	80,000
Long-term debt due within one year	-	-	84,059	84,059
Total current liabilities	<u>145,541</u>	<u>435,468</u>	<u>467,671</u>	<u>1,048,680</u>
Noncurrent liabilities				
Long-term debt due in more than one year	-	42,662	343,783	386,445
Total noncurrent liabilities	<u>-</u>	<u>42,662</u>	<u>343,783</u>	<u>386,445</u>
Total liabilities	<u>145,541</u>	<u>478,130</u>	<u>811,454</u>	<u>1,435,125</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	13,892,575	9,266,417	312,117	23,471,109
Unrestricted	3,299,353	6,165,526	(123,130)	9,341,749
Total net assets	<u>\$ 17,191,928</u>	<u>\$ 15,431,943</u>	<u>\$ 188,987</u>	<u>\$ 32,812,858</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, 2009

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
<b>Operating revenues</b>				
Charges for services	\$ 2,188,059	\$ 1,812,064	\$ 1,104,879	\$ 5,105,002
Total operating revenues	<u>2,188,059</u>	<u>1,812,064</u>	<u>1,104,879</u>	<u>5,105,002</u>
<b>Operating expenses</b>				
Personal services	-	1,985,434	-	1,985,434
Materials & supplies	-	107,595	-	107,595
Maintenance	-	1,122,833	77,793	1,200,626
Depreciation & amortization	812,898	657,367	111,299	1,581,564
Other services and charges	752,390	482,624	1,190,287	2,425,301
Total operating expenses	<u>1,565,288</u>	<u>4,355,853</u>	<u>1,379,379</u>	<u>7,300,520</u>
<b>Operating income (loss)</b>	<u>622,771</u>	<u>(2,543,789)</u>	<u>(274,500)</u>	<u>(2,195,518)</u>
<b>Nonoperating revenue (expense)</b>				
Interest income	50,672	97,759	-	148,431
Intergovernmental revenue	-	374,811	-	374,811
Other revenues	336	-	140,431	140,767
Interest expense	-	-	(10,851)	(10,851)
Total nonoperating revenue (expense)	<u>51,008</u>	<u>472,570</u>	<u>129,580</u>	<u>653,158</u>
<b>Income (loss) before transfers and capital contributions</b>	673,779	(2,071,219)	(144,920)	(1,542,360)
<b>Transfers:</b>				
Transfers in	-	2,117,640	121,996	2,239,636
Transfers out	(1,000,000)	(6,343)	-	(1,006,343)
<b>Capital contributions</b>	<u>-</u>	<u>-</u>	<u>11,011</u>	<u>11,011</u>
<b>Change in net assets</b>	(326,221)	40,078	(11,913)	(298,056)
<b>Total net assets - beginning (as restated)</b>	<u>17,518,149</u>	<u>15,391,865</u>	<u>200,900</u>	<u>33,110,914</u>
<b>Total net assets - ending</b>	<u>\$ 17,191,928</u>	<u>\$ 15,431,943</u>	<u>\$ 188,987</u>	<u>\$ 32,812,858</u>

CITY OF KNOXVILLE, TENNESSEE  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2009

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
<b>Operating activities</b>				
Cash received from customers and users	\$ 2,188,059	\$ 1,745,033	\$ 1,108,391	\$ 5,041,483
Cash paid to suppliers	(745,588)	(1,400,537)	(1,261,420)	(3,407,545)
Cash paid to employees	-	(1,980,055)	-	(1,980,055)
Cash paid for interfund services used	(6,300)	(232,147)	-	(238,447)
<b>Net cash provided by (used in) operating activities</b>	<u>1,436,171</u>	<u>(1,867,706)</u>	<u>(153,029)</u>	<u>(584,564)</u>
<b>Noncapital financing activities</b>				
Transfers from other funds	-	1,661,532	101,403	1,762,935
Transfers to other funds	(1,000,000)	(6,343)	-	(1,006,343)
Tax and intergovernmental revenues	336	374,811	140,431	515,578
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>(999,664)</u>	<u>2,030,000</u>	<u>241,834</u>	<u>1,272,170</u>
<b>Capital and related financing activities</b>				
Principal paid on general obligation bond maturities	-	-	(51,787)	(51,787)
Interest paid	-	-	(10,851)	(10,851)
Acquisition and construction of capital assets	-	(563,341)	(450,977)	(1,014,318)
Debt proceeds	-	-	377,129	377,129
Capital contributions	-	-	11,011	11,011
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>-</u>	<u>(563,341)</u>	<u>(125,475)</u>	<u>(688,816)</u>
<b>Investing activities</b>				
Sales/(purchases) of investments	168,576	306,951	-	475,527
Investment earnings	50,672	97,759	-	148,431
Net change in equity investment in joint venture	(1,315,467)	-	-	(1,315,467)
<b>Net cash provided by (used in) investing activities</b>	<u>(1,096,219)</u>	<u>404,710</u>	<u>-</u>	<u>(691,509)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(659,712)</u>	<u>3,663</u>	<u>(36,670)</u>	<u>(692,719)</u>
<b>Cash and cash equivalents</b>				
Beginning of year	<u>1,641,911</u>	<u>-</u>	<u>243,261</u>	<u>1,885,172</u>
End of year	<u>\$ 982,199</u>	<u>\$ 3,663</u>	<u>\$ 206,591</u>	<u>\$ 1,192,453</u>

Continued:

CITY OF KNOXVILLE, TENNESSEE  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2009

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 622,771	\$ (2,543,789)	\$ (274,500)	\$ (2,195,518)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	812,898	657,367	111,299	1,581,564
Change in assets and liabilities				
(Increase) decrease in receivables	-	3,784	(5,549)	(1,765)
(Increase) decrease in prepayments	-	-	(21,994)	(21,994)
(Increase) decrease in inventories	-	-	(12,107)	(12,107)
Increase (decrease) in accounts payable	502	80,368	40,761	121,631
Increase (decrease) in accrued expenses	-	5,379	-	5,379
Increase (decrease) in deferred revenue	-	-	9,061	9,061
Increase (decrease) in customer deposits	-	(70,815)	-	(70,815)
Total adjustments	813,400	676,083	121,471	1,610,954
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,436,171</b>	<b>\$ (1,867,706)</b>	<b>\$ (153,029)</b>	<b>\$ (584,564)</b>

## ***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.

### **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 departments' 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, 2009

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
<b>Assets</b>						
Current assets						
Cash & temporary investments	\$ 3,895,756	\$ -	\$ -	\$ -	\$ -	\$ 3,895,756
Investments	18,348,404	21,240,103	12,442,204	11,594,436	335,602	63,960,749
Accounts receivable	-	19,611	89,161	9,703	-	118,475
Inventories	611,752	-	-	-	-	611,752
Total current assets	<u>22,855,912</u>	<u>21,259,714</u>	<u>12,531,365</u>	<u>11,604,139</u>	<u>335,602</u>	<u>68,586,732</u>
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	45,949,046	13,400	-	19,087,646	-	65,050,092
Less: accumulated depreciation	(29,782,138)	(13,400)	-	(13,093,125)	-	(42,888,663)
Total capital assets (net of accumulated depreciation)	<u>16,424,299</u>	<u>-</u>	<u>-</u>	<u>5,994,521</u>	<u>-</u>	<u>22,418,820</u>
Equity interest in joint venture	-	-	-	-	3,506,750	3,506,750
Total noncurrent assets	<u>16,424,299</u>	<u>-</u>	<u>-</u>	<u>5,994,521</u>	<u>3,506,750</u>	<u>25,925,570</u>
Total assets	<u>39,280,211</u>	<u>21,259,714</u>	<u>12,531,365</u>	<u>17,598,660</u>	<u>3,842,352</u>	<u>94,512,302</u>
<b>Liabilities</b>						
Current liabilities						
Accounts payable	376,362	152,566	454,713	180,524	6,261	1,170,426
Accrued liabilities	83,552	16,669	1,004,507	-	-	1,104,728
Due to other funds	-	42,424	336,095	-	-	378,519
Compensated absences	96,476	17,227	8,360	-	-	122,063
Long-term debt due within one year	-	6,000,000	-	-	-	6,000,000
Total current liabilities	<u>556,390</u>	<u>6,228,886</u>	<u>1,803,675</u>	<u>180,524</u>	<u>6,261</u>	<u>8,775,736</u>
Noncurrent liabilities						
Estimated litigation liability	-	2,500,000	-	-	-	2,500,000
Total noncurrent liabilities	<u>-</u>	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>
Total liabilities	<u>556,390</u>	<u>8,728,886</u>	<u>1,803,675</u>	<u>180,524</u>	<u>6,261</u>	<u>11,275,736</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt	16,424,299	-	-	5,994,521	-	22,418,820
Unrestricted	22,299,522	12,530,828	10,727,690	11,423,615	3,836,091	60,817,746
Total net assets	<u>\$ 38,723,821</u>	<u>\$ 12,530,828</u>	<u>\$ 10,727,690</u>	<u>\$ 17,418,136</u>	<u>\$ 3,836,091</u>	<u>\$ 83,236,566</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, 2009

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
<b>Operating revenues</b>						
Charges for services	\$ 13,304,913	\$ 6,846,090	\$ 14,277,196	\$ 2,555,744	\$ 1,584,054	\$ 38,567,997
Total operating revenues	13,304,913	6,846,090	14,277,196	2,555,744	1,584,054	38,567,997
<b>Operating expenses</b>						
Personal services	2,101,067	353,439	152,377	-	-	2,606,883
Materials & supplies	4,232,266	10,933	10,590	-	-	4,253,789
Maintenance	205,448	-	-	-	105,352	310,800
Depreciation & amortization	3,531,350	-	-	2,281,677	-	5,813,027
Other services and charges	668,147	5,987,847	12,217,913	-	1,411,282	20,285,189
Total operating expenses	10,738,278	6,352,219	12,380,880	2,281,677	1,516,634	33,269,688
<b>Operating income (loss)</b>	2,566,635	493,871	1,896,316	274,067	67,420	5,298,309
<b>Nonoperating revenue (expense)</b>						
Interest income	320,934	-	173,871	205,756	5,156	705,717
Intergovernmental revenue	256,566	-	-	-	-	256,566
Other revenues	8,534	348,632	15,614	6,921	-	379,701
Gain (loss) on disposal of capital assets	(54,304)	-	-	(15,490)	-	(69,794)
Total nonoperating revenue (expense)	531,730	348,632	189,485	197,187	5,156	1,272,190
<b>Income (loss) before transfers and capital contributions</b>	3,098,365	842,503	2,085,801	471,254	72,576	6,570,499
<b>Transfers:</b>						
Transfers in	2,101,900	863,120	1,010,180	269,689	-	4,244,889
Transfers out	(4,401)	(1,691)	-	-	-	(6,092)
<b>Capital contributions</b>	105,306	-	-	-	-	105,306
<b>Change in net assets</b>	5,301,170	1,703,932	3,095,981	740,943	72,576	10,914,602
<b>Total net assets - beginning</b>	33,422,651	10,826,896	7,631,709	16,677,193	3,763,515	72,321,964
<b>Total net assets - ending</b>	\$ 38,723,821	\$ 12,530,828	\$ 10,727,690	\$ 17,418,136	\$ 3,836,091	\$ 83,236,566

CITY OF KNOXVILLE, TENNESSEE  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2009

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
<b>Operating activities</b>						
Receipts from interfund services provided	\$ 13,305,298	\$ 6,831,896	\$ 14,272,574	\$ 1,854,764	\$ 1,584,054	\$ 37,848,586
Cash paid to suppliers	(4,140,504)	(2,246,374)	(689,214)	-	(1,517,849)	(8,593,941)
Cash paid to employees	(2,097,746)	(345,714)	(152,548)	-	-	(2,596,008)
Cash paid for interfund services used	(481,812)	(21,748)	(4,123)	-	-	(507,683)
Payments of claims and insurance	-	(3,823,317)	(12,654,166)	-	-	(16,477,483)
<b>Net cash provided by (used in) operating activities</b>	<b>6,585,236</b>	<b>394,743</b>	<b>772,523</b>	<b>1,854,764</b>	<b>66,205</b>	<b>9,673,471</b>
<b>Noncapital financing activities</b>						
Transfers from other funds	2,101,900	905,544	1,341,226	269,689	-	4,618,359
Transfers to other funds	(4,401)	(1,691)	-	-	(700,000)	(706,092)
Tax and intergovernmental revenues	265,100	348,632	15,614	6,921	-	636,267
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>2,362,599</b>	<b>1,252,485</b>	<b>1,356,840</b>	<b>276,610</b>	<b>(700,000)</b>	<b>4,548,534</b>
<b>Capital and related financing activities</b>						
Acquisition and construction of capital assets	(9,203,678)	-	-	(850,470)	-	(10,054,148)
Capital contributions	105,306	-	-	-	-	105,306
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(9,098,372)</b>	<b>-</b>	<b>-</b>	<b>(850,470)</b>	<b>-</b>	<b>(9,948,842)</b>
<b>Investing activities</b>						
Sales/(purchases) of investments	(111,378)	(1,675,869)	(2,303,234)	(1,501,670)	574,093	(5,018,058)
Investment earnings	320,934	-	173,871	205,756	5,156	705,717
Net change in equity investment in joint venture	-	-	-	-	54,546	54,546
<b>Net cash provided by (used in) investing activities</b>	<b>209,556</b>	<b>(1,675,869)</b>	<b>(2,129,363)</b>	<b>(1,295,914)</b>	<b>633,795</b>	<b>(4,257,795)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>59,019</b>	<b>(28,641)</b>	<b>-</b>	<b>(15,010)</b>	<b>-</b>	<b>15,368</b>
<b>Cash and cash equivalents</b>						
<b>Beginning of year</b>	<b>3,836,737</b>	<b>28,641</b>	<b>-</b>	<b>15,010</b>	<b>-</b>	<b>3,880,388</b>
<b>End of year</b>	<b>\$ 3,895,756</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,895,756</b>

Continued:

CITY OF KNOXVILLE, TENNESSEE  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2009

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
<b>Reconciliation of operating income (loss)</b>						
<b>to net cash provided by</b>						
<b>(used in) operating activities</b>						
Operating income (loss)	\$ 2,566,635	\$ 493,871	\$ 1,896,316	\$ 274,067	\$ 67,420	\$ 5,298,309
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating						
activities:						
Depreciation	3,531,350	-	-	2,281,677	-	5,813,027
Change in assets and liabilities						
(Increase) decrease in receivables	385	(14,194)	(4,622)	(4,578)	-	(23,009)
(Increase) decrease in prepayments	-	416	-	-	-	416
(Increase) decrease in inventories	216,189	-	-	-	-	216,189
Increase (decrease) in accounts payable	267,356	(93,075)	(1,119,000)	(696,402)	(1,215)	(1,642,336)
Increase (decrease) in accrued expenses	3,321	7,725	(171)	-	-	10,875
Total adjustments	<u>4,018,601</u>	<u>(99,128)</u>	<u>(1,123,793)</u>	<u>1,580,697</u>	<u>(1,215)</u>	<u>4,375,162</u>
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 6,585,236</u>	<u>\$ 394,743</u>	<u>\$ 772,523</u>	<u>\$ 1,854,764</u>	<u>\$ 66,205</u>	<u>\$ 9,673,471</u>

## ***Fiduciary Funds***

**Fiduciary Funds are used to report assets held in a trustee or agency capacity for others.**

### ***Agency Funds***

---

<b>City Choice Plus Fund</b>	To account for funds deducted from employee's pay pursuant to IRS Section 125 regulations to be applied to eligible health related expenses incurred by the employees.
<b>Employee Health Savings Fund</b>	To account for city contributions to a wellness incentive type fund that may be utilized by the employees for eligible health related expenses.

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2009

	City Choice Plus	Employee Health Savings Fund	Totals
<b>Assets</b>			
Cash	\$ -	\$ 130,009	\$ 130,009
State & municipal government securities	124,303	-	124,303
Other receivables	163,953	-	163,953
Due from other funds	-	224,141	224,141
Total assets	<u>\$ 288,256</u>	<u>\$ 354,150</u>	<u>\$ 642,406</u>
<b>Liabilities</b>			
Accounts payable	\$ 64,115	\$ -	\$ 64,115
Due to other funds	224,141	-	224,141
Health care claims liability	-	354,150	354,150
Total liabilities	<u>\$ 288,256</u>	<u>\$ 354,150</u>	<u>\$ 642,406</u>

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Changes in Fiduciary Assets and Liabilities  
 Agency Funds  
 For the Year Ended June 30, 2009

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2009</u>
<b><u>City Choice Fund</u></b>				
<b>Assets</b>				
Cash	\$ -	\$ 545,842	\$ 545,842	\$ -
State & municipal government securities	45,733	78,570	-	124,303
Other receivables	48,406	545,054	429,507	163,953
Total assets	<u>\$ 94,139</u>	<u>\$ 1,169,466</u>	<u>\$ 975,349</u>	<u>\$ 288,256</u>
<b>Liabilities</b>				
Accounts payable	\$ 59,481	\$ 550,476	\$ 545,842	\$ 64,115
Due to other funds	34,658	224,141	34,658	224,141
Total liabilities	<u>\$ 94,139</u>	<u>\$ 774,617</u>	<u>\$ 580,500</u>	<u>\$ 288,256</u>
<b><u>Employee Health Savings Fund</u></b>				
<b>Assets</b>				
Cash	\$ 197,941	\$ 354,150	\$ 422,082	\$ 130,009
Due from other funds	34,658	354,150	164,667	224,141
Total assets	<u>\$ 232,599</u>	<u>\$ 708,300</u>	<u>\$ 586,749</u>	<u>\$ 354,150</u>
<b>Liabilities</b>				
Health care claims liability	\$ 232,599	\$ 354,150	\$ 232,599	\$ 354,150
Total liabilities	<u>\$ 232,599</u>	<u>\$ 354,150</u>	<u>\$ 232,599</u>	<u>\$ 354,150</u>
<b><u>Total All Agency Funds</u></b>				
<b>Assets</b>				
Cash	\$ 197,941	\$ 899,992	\$ 967,924	\$ 130,009
State & municipal government securities	45,733	78,570	-	124,303
Other receivables	48,406	545,054	429,507	163,953
Due from other funds	34,658	354,150	164,667	224,141
Total assets	<u>\$ 326,738</u>	<u>\$ 1,877,766</u>	<u>\$ 1,562,098</u>	<u>\$ 642,406</u>
<b>Liabilities</b>				
Accounts payable	\$ 59,481	\$ 550,476	\$ 545,842	\$ 64,115
Due to other funds	34,658	224,141	34,658	224,141
Health care claims liability	232,599	354,150	232,599	354,150
Total liabilities	<u>\$ 326,738</u>	<u>\$ 1,128,767</u>	<u>\$ 813,099</u>	<u>\$ 642,406</u>

***COMPONENT UNIT***



CITY OF KNOXVILLE, TENNESSEE  
Statement of Net Assets  
Knoxville Area Transit - Component Unit  
June 30, 2009

**Assets**

Current assets:

Investments	\$ 804,732
Accounts receivable	12,380,020
Inventories	976,848
Total current assets	14,161,600

Noncurrent assets:

Land & site improvements	1,854,780
Building & building improvements	5,025,175
Equipment	26,538,640
Construction in progress	14,197,854
Less: accumulated depreciation	(18,279,245)
Total noncurrent assets	29,337,204
Total assets	43,498,804

**Liabilities:**

Current liabilities:

Accounts payable	4,313,548
Accrued liabilities	9,609
Due to primary government	7,557,463
Total current liabilities	11,880,620
Total liabilities	11,880,620

**Net assets:**

Invested in capital assets, net of related debt	29,337,204
Unrestricted	2,280,980
Total net assets	\$ 31,618,184

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, 2009**

<b>Operating revenues</b>	
Charges for services	\$ 4,126,298
Total operating revenues	4,126,298
<b>Operating expenses</b>	
Personal services	13,857,775
Materials & supplies	2,424,216
Maintenance	8,739,693
Depreciation & amortization	2,064,964
Other services and charges	18,757,887
Total operating expenses	45,844,535
<b>Operating income (loss)</b>	<b>(41,718,237)</b>
<b>Nonoperating revenue (expense)</b>	
Interest income	14,883
Intergovernmental revenue	58,695,392
Other revenues	881,619
Gain (loss) on disposal of capital assets	(74,563)
Total nonoperating revenue (expense)	59,517,331
<b>Change in net assets</b>	<b>17,799,094</b>
<b>Total net assets - beginning</b>	<b>13,819,090</b>
<b>Total net assets - ending</b>	<b>\$ 31,618,184</b>

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, 2009

<b>Operating activities</b>	
Cash received from customers and users	\$ 4,126,298
Cash paid to suppliers	(26,174,839)
Cash paid to employees	(13,910,635)
<b>Net cash used in operating activities</b>	<u>(35,959,176)</u>
<b>Noncapital financing activities</b>	
Transfers from other funds	397,647
Tax and intergovernmental revenues	53,664,578
<b>Net cash provided by noncapital financing activities</b>	<u>54,062,225</u>
<b>Capital and related financing activities</b>	
Acquisition and construction of capital assets	(18,759,123)
<b>Net cash used in capital and related financing activities</b>	<u>(18,759,123)</u>
<b>Investing activities</b>	
Sales/(purchases) of investments	641,191
Investment earnings	14,883
<b>Net cash used in investing activities</b>	<u>656,074</u>
<b>Net decrease in cash and cash equivalents</b>	<u>-</u>
<b>Cash and cash equivalents</b>	
Beginning of year	<u>-</u>
End of year	<u>\$ -</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, 2009

---

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (41,718,237)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,064,964
Change in assets and liabilities	
(Increase) decrease in inventories	(38,041)
Increase (decrease) in accounts payable	3,784,998
Increase (decrease) in accrued expenses	(52,860)
Total adjustments	<u>5,759,061</u>
 Net cash used in operating activities	 <u><u>\$ (35,959,176)</u></u>

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.

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### 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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*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 EIGHT YEARS**  
**(accrual basis of accounting)**  
**(unaudited - amounts expressed in thousands)**

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>Governmental Activities</b>								
Invested in capital assets, net of related debt	\$ 111,609	\$ 155,214	\$ 157,139	\$ 137,765	\$ 139,547	\$ 162,108	\$ 186,466	\$ 205,877
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487	38,911
Unrestricted	109,435	140,737	67,800	101,204	114,881	157,067	179,868	192,241
<b>Total Governmental Activities Net Assets</b>	<b>\$ 245,222</b>	<b>\$ 312,950</b>	<b>\$ 251,740</b>	<b>\$ 270,088</b>	<b>\$ 287,275</b>	<b>\$ 354,954</b>	<b>\$ 403,821</b>	<b>\$ 437,029</b>
<b>Business-type Activities</b>								
Invested in capital assets, net of related debt	\$ 22,412	\$ 52,821	\$ 21,070	\$ 18,712	\$ 32,217	\$ 31,546	\$ 30,268	\$ 28,212
Unrestricted	1,235	(26,531)	6,226	8,838	9,350	12,266	16,682	17,782
<b>Total Business-type Activities Net Assets</b>	<b>\$ 23,647</b>	<b>\$ 26,290</b>	<b>\$ 27,296</b>	<b>\$ 27,550</b>	<b>\$ 41,567</b>	<b>\$ 43,812</b>	<b>\$ 46,950</b>	<b>\$ 45,994</b>
<b>Primary Government</b>								
Invested in capital assets, net of related debt	\$ 134,021	\$ 208,035	\$ 178,209	\$ 156,477	\$ 171,764	\$ 193,654	\$ 216,734	\$ 234,089
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487	38,911
Unrestricted	110,670	114,206	74,026	110,042	124,231	169,333	196,550	210,023
<b>Total Primary Government Net Assets</b>	<b>\$ 268,869</b>	<b>\$ 339,240</b>	<b>\$ 279,036</b>	<b>\$ 297,638</b>	<b>\$ 328,842</b>	<b>\$ 398,766</b>	<b>\$ 450,771</b>	<b>\$ 483,023</b>

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 EIGHT YEARS**  
**(accrual basis of accounting)**  
**(unaudited - amounts expressed in thousands)**

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>Expenses</b>								
<b>Governmental Activities:</b>								
General government	\$ 11,657	\$ 10,331	\$ 13,200	\$ 12,218	\$ 15,015	\$ 11,671	\$ 9,630	\$ 8,885
Public safety	62,146	67,423	66,325	65,384	69,949	60,882	78,172	80,936
Physical environment	29,135	28,920	27,910	49,678	70,289	40,686	42,048	44,421
Transportation	24,149	6,273	5,791	6,844	5,728	7,783	9,614	12,131
Economic Development	6,937	7,872	6,924	12,428	8,070	8,314	8,732	10,686
Parks & Recreation	7,075	4,217	6,542	10,484	10,760	10,068	11,634	11,893
Health & Sanitation	8,446	9,729	9,209	9,696	9,740	9,498	9,833	10,094
Interest on long-term debt	5,269	4,706	3,199	4,754	4,005	3,585	3,138	2,702
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>	<u>152,487</u>	<u>172,801</u>	<u>181,748</u>
<b>Business-type Activities:</b>								
Metro parking	893	928	740	857	819	1,264	1,464	1,565
Public assembly facilities	3,296	3,778	3,696	3,974	3,718	3,902	4,174	4,356
Knoxville Convention Center	5,363	20,328	18,573	19,562	20,848	20,734	21,246	20,452
Municipal Golf Courses	-	-	-	-	-	306	886	1,390
Total business-type activities	<u>9,552</u>	<u>25,034</u>	<u>23,009</u>	<u>24,393</u>	<u>25,385</u>	<u>26,206</u>	<u>27,770</u>	<u>27,763</u>
Total primary government	<u>\$ 174,940</u>	<u>\$ 178,226</u>	<u>\$ 175,521</u>	<u>\$ 197,709</u>	<u>\$ 220,624</u>	<u>\$ 178,693</u>	<u>\$ 200,571</u>	<u>\$ 209,511</u>
<b>Program Revenues</b>								
<b>Governmental Activities:</b>								
<b>Charges for Services:</b>								
General government	\$ 2,204	\$ 2,424	\$ 6,506	\$ 480	\$ 519	\$ 697	\$ 629	\$ 540
Public safety	1,059	912	1,191	6,995	7,473	9,016	9,233	9,191
Physical environment	565	594	772	815	856	924	1,135	717
Transportation	188	2,219	114	674	665	830	857	688
Economic Development	1,318	1,636	1,946	-	-	78	-	-
Parks & recreation	160	289	217	408	634	666	801	694
Health & sanitation	657	916	682	26	30	48	43	47
Other	2,867	3,216	5,734	1,170	-	-	-	-
Operating grants and contributions	9,857	8,770	9,033	14,899	13,662	9,656	9,804	10,387
Capital grants and contributions	350	1,574	890	4,064	9,693	4,558	5,753	5,161
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>	<u>26,473</u>	<u>28,255</u>	<u>27,425</u>
<b>Business-type Activities:</b>								
<b>Charges for Services:</b>								
Metro parking	742	967	999	1,397	698	1,308	1,716	2,188
Public assembly facilities	1,555	1,923	1,810	1,725	1,994	2,210	2,863	1,812
Knoxville Convention Center	609	4,111	3,748	5,048	4,814	5,975	6,409	5,396
Municipal Golf Courses	-	-	-	-	-	211	776	1,105
Operating grants and contributions	-	-	-	-	-	-	-	1,430
Capital grants and contributions	-	11,998	-	-	-	80	-	-
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>	<u>9,784</u>	<u>11,764</u>	<u>11,931</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>	<u>\$ 36,257</u>	<u>\$ 40,019</u>	<u>\$ 39,356</u>
<b>Net expense:</b>								
Governmental Activities	\$ 146,163	\$ 130,642	\$ 125,427	\$ 143,785	\$ 161,707	\$ 126,014	\$ 144,546	\$ 154,323
Business-type Activities	6,646	6,035	16,452	16,223	17,879	16,422	16,006	15,832
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>	<u>\$ 142,436</u>	<u>\$ 160,552</u>	<u>\$ 170,155</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 EIGHT YEARS**  
**(accrual basis of accounting)**  
**(unaudited - amounts expressed in thousands)**

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>General Revenues and Other Changes in Net Assets</b>								
Governmental Activities:								
Property taxes, interest and penalties	\$ 100,157	\$ 93,991	\$ 94,957	\$ 99,274	\$ 104,290	\$ 107,901	\$ 109,619	\$ 113,846
Intergovernmental revenues	45,801	45,957	47,215	61,816	56,902	64,449	65,482	58,776
Other taxes	13,496	14,907	10,052	6,962	16,392	17,259	17,883	17,908
Other revenue	11,260	8,431	3,104	5,113	10,845	11,454	10,670	6,562
Transfers	(12,957)	(8,356)	(11,040)	(11,032)	(9,535)	(10,261)	(11,010)	(9,561)
Total governmental activities	<u>157,757</u>	<u>154,930</u>	<u>144,288</u>	<u>162,133</u>	<u>178,894</u>	<u>190,802</u>	<u>192,644</u>	<u>187,531</u>
Business-type Activities:								
Other taxes	-	-	4,975	3,978	7,085	6,517	6,820	5,034
Intergovernmental revenues	-	-	1,382	1,367	155	1,296	671	1,759
Grants & contributions	113	-	-	-	-	-	-	-
Other revenue	4	322	61	100	15,120	594	643	676
Transfers	8,135	8,356	11,040	11,032	9,535	10,261	11,010	9,561
Total business-type activities	<u>8,252</u>	<u>8,678</u>	<u>17,458</u>	<u>16,477</u>	<u>31,895</u>	<u>18,668</u>	<u>19,144</u>	<u>17,030</u>
Total primary government	<u>\$ 166,009</u>	<u>\$ 163,608</u>	<u>\$ 161,746</u>	<u>\$ 178,610</u>	<u>\$ 210,789</u>	<u>\$ 209,470</u>	<u>\$ 211,788</u>	<u>\$ 204,561</u>
<b>Changes in Net Assets</b>								
Governmental activities	\$ 11,594	\$ 24,288	\$ 18,861	\$ 18,348	\$ 17,187	\$ 64,788	\$ 48,098	\$ 33,208
Business-type activities	1,606	2,643	1,006	254	14,016	2,246	3,138	1,198
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>	<u>\$ 67,034</u>	<u>\$ 51,236</u>	<u>\$ 34,406</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 EIGHT YEARS**  
**(modified accrual basis of accounting)**  
**(unaudited - amounts expressed in thousands)**

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
General Fund								
Reserved	\$ 3,146	\$ 1,802	\$ 1,953	\$ 1,298	\$ 248	\$ 1,366	\$ 1,333	\$ 1,303
Unreserved	24,851	16,696	18,239	23,748	34,501	45,200	48,223	51,036
Total general fund	<u>\$ 27,997</u>	<u>\$ 18,498</u>	<u>\$ 20,192</u>	<u>\$ 25,046</u>	<u>\$ 34,749</u>	<u>\$ 46,566</u>	<u>\$ 49,556</u>	<u>\$ 52,339</u>
All other governmental funds								
Reserved/Designated	\$ 36,192	\$ 44,038	\$ 62,791	\$ 35,609	\$ 13,132	\$ 15,017	\$ 7,082	\$ 5,312
Unreserved, reported in:								
Special Revenue funds	5,671	5,645	7,664	(2,284)	8,583	11,527	22,903	24,138
Debt Service funds	-	-	-	28,722	30,571	32,941	34,623	36,259
Capital Projects funds	1,885	783	8,831	17,499	28,008	44,688	53,084	55,248
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>	<u>\$ 104,173</u>	<u>\$ 117,692</u>	<u>\$ 120,957</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 EIGHT YEARS**  
**(modified accrual basis of accounting)**  
**(unaudited - amounts expressed in thousands)**

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>Revenues</b>								
Taxes, assessments, interest & penalties	\$ 131,697	\$ 133,667	\$ 135,130	\$ 153,817	\$ 160,146	\$ 168,434	\$ 169,632	\$ 169,521
Licenses, permits & inspection charges	1,551	1,838	2,110	2,312	2,342	2,565	2,281	1,974
Intergovernmental revenue	35,977	31,210	30,995	31,632	36,907	34,185	34,986	31,539
Charges for services	3,664	4,240	4,906	5,547	5,405	6,030	6,323	6,021
Fines & forfeitures	2,665	2,315	3,302	1,536	3,127	4,231	4,953	5,397
Other	38,571	9,187	5,276	8,714	12,727	9,303	10,711	8,800
<b>Total revenues</b>	<b>214,125</b>	<b>182,457</b>	<b>181,719</b>	<b>203,558</b>	<b>220,654</b>	<b>224,748</b>	<b>228,886</b>	<b>223,252</b>
<b>Expenditures</b>								
<b>Current</b>								
General government	13,405	12,742	12,039	11,715	12,974	12,461	16,914	14,310
Public safety	60,925	64,328	63,888	64,643	68,447	70,466	75,821	77,449
Physical environment	27,870	30,470	29,321	21,377	22,742	25,441	21,696	24,435
Solid waste	8,440	9,675	9,193	9,369	-	-	-	-
Parks & recreation	6,634	6,867	6,832	6,567	738	908	910	907
Economic development	8,750	10,426	8,658	26,423	41,325	41,810	48,007	51,701
Other	7,539	4,779	5,483	162	446	-	-	-
Capital Outlay	30,836	19,547	23,317	27,802	27,666	12,504	22,684	24,440
<b>Debt Service</b>								
Principal	11,837	12,158	19,304	10,973	10,646	9,773	8,540	7,408
Interest	5,398	4,796	2,973	4,592	4,004	3,585	3,138	2,754
<b>Total expenditures</b>	<b>181,634</b>	<b>175,788</b>	<b>181,008</b>	<b>183,623</b>	<b>188,988</b>	<b>176,948</b>	<b>197,710</b>	<b>203,404</b>
Excess of revenues over expenditures	32,491	6,669	711	19,935	31,666	47,800	31,176	19,848
<b>Other Financing Sources (Uses)</b>								
Proceeds from issuance of debt	1,521	1,929	42,967	256	-	-	-	-
Transfers in	32,085	39,995	29,637	40,566	29,474	47,722	45,175	40,788
Transfers out	(41,662)	(51,374)	(42,801)	(55,642)	(50,689)	(59,826)	(60,611)	(54,588)
<b>Total other financing sources (uses)</b>	<b>(8,056)</b>	<b>(9,450)</b>	<b>29,803</b>	<b>(14,820)</b>	<b>(21,215)</b>	<b>(12,104)</b>	<b>(15,436)</b>	<b>(13,800)</b>
<b>Net changes in fund balances</b>	<b>\$ 24,435</b>	<b>\$ (2,781)</b>	<b>\$ 30,514</b>	<b>\$ 5,115</b>	<b>\$ 10,451</b>	<b>\$ 35,696</b>	<b>\$ 15,740</b>	<b>\$ 6,048</b>
Debt service as a percentage of noncapital expenditures	11.4%	10.9%	14.1%	10.0%	9.1%	8.1%	6.7%	5.7%

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 TEN YEARS**  
(unaudited - amounts expressed in thousands)

Fiscal Year	Real Property (1)					Assessed Taxable Value	Personal Property (1)		Public Utilities (2)		Total's		Direct Tax Rate	Assessed Value as a Percentage of Actual Value
	Estimated Actual Value:						Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value		
	Commercial	Industrial	Residential & Farm	Exempt Properties	Total's									
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	2,425,619	3.04	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	2.70	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	3,801,543	202,532	5,041,704	176,170	9,221,949	2,862,056	1,052,507	315,752	293,389	161,364	10,567,845	3,339,172	2.81	32%
2007	3,877,677	205,211	5,149,924	189,974	9,422,786	2,920,636	1,098,949	329,685	264,552	145,503	10,786,287	3,395,824	2.81	31%
2008	4,080,438	192,241	5,351,751	219,839	9,844,269	3,047,010	1,024,933	307,481	269,757	148,366	11,138,959	3,502,857	2.81	31%
2009	4,256,046	189,664	5,511,802	261,830	10,219,342	3,156,234	1,016,750	305,026	270,210	148,615	11,506,302	3,609,875	2.81	31%

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	
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
2007	2.06	0.75	-	-	2.81	1.24	0.22	1.23	2.69	5.50
2008	2.06	0.75	-	-	2.81	1.13	0.33	1.23	2.69	5.50
2009	2.06	0.75	-	-	2.81	1.10	0.36	1.23	2.69	5.50

**CITY OF KNOXVILLE, TENNESSEE  
PRINCIPAL PROPERTY TAXPAYERS  
Current Year and Nine Years Ago  
(unaudited - amounts expressed in thousands)**

Taxpayer	Type of Business	2009			2000		
		Taxable Assessed Value <sup>(1)</sup>	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value <sup>(1)</sup>	Rank	Percentage of Total Taxable Assessed Value
Bell South Telecom	Communications	\$ 52,454	1	1.45%	\$ 68,234	1	2.81%
West Town Mall	Retail	25,103	2	0.70%	28,476	2	1.17%
Parkside Dr LLC	Property Management	25,045	3	0.69%			
Knoxville Center Mall	Retail	22,678	4	0.63%	19,250	3	0.79%
AT&T Telecommunications	Communications	20,671	5	0.57%	12,162	5	0.50%
Scripps Network Inc	Cable Television	15,827	6	0.44%			
Wal-Mart Corporation	Retail	14,932	7	0.41%			
Behringer Harvard	Property Management	14,277	8	0.40%			
SJW Land Company	Property Management	13,728	9	0.38%			
Sprint United Management	Communications	11,619	10	0.32%			
First American	Financial Services				16,132	4	0.67%
Parkway Property	Property Management				11,156	6	0.46%
Goody's Family Clothing	Retail				8,964	7	0.37%
East Tennessee Baptist Hospital	Health Care				8,711	8	0.36%
Talisman Knoxville LLC	Property Management				7,840	9	0.32%
Riverview Tower	Property Management				7,707	10	0.32%
		<u>\$ 216,334</u>		<u>5.99%</u>	<u>\$ 188,632</u>		<u>7.77%</u>

<sup>(1)</sup>Data Source: City property tax office

**CITY OF KNOXVILLE, TENNESSEE  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(unaudited - 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
2000	\$ 68,098	\$ 64,377	94.54%	\$ 3,514	\$ 67,891	99.70%
2001	73,953	69,892	94.51%	3,737	73,629	99.56%
2002	77,513	73,595	94.95%	3,521	77,116	99.49%
2003	79,041	74,363	94.08%	4,177	78,540	99.37%
2004	79,603	75,122	94.37%	4,020	79,142	99.42%
2005	91,075	85,989	94.42%	4,403	90,392	99.25%
2006	93,804	90,406	96.38%	2,696	93,102	96.38%
2007	95,423	91,412	95.80%	2,958	94,370	95.80%
2008	98,233	93,938	95.63%	2,311	96,249	95.63%
2009	101,436	96,102	94.74%	-	96,102	94.74%

**CITY OF KNOXVILLE, TENNESSEE  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST EIGHT YEARS  
(unaudited - amounts expressed in thousands, except per capita amount)**

Fiscal Year	Governmental Activities			Business Type Activities		Total Primary Government <sup>(1)</sup>	% of Personal Income <sup>(2)</sup>	Per Capita <sup>(2)</sup>
	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%	1,291.10	
2007	72,370	-	1,222	147,910	221,502	10.23%	1,206.79	
2008	63,900	-	1,156	144,240	209,296	6.27%	1,140.29	
2009	56,560	-	1,088	140,810	198,458	5.59%	1,049.59	

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 EIGHT YEARS**  
(unaudited - amounts expressed in thousands, except for per capita amounts)

Fiscal Year	General Obligation Bonds	Less:		Total	Percentage of Estimated Taxable Value of Property	Per Capita
		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%	354.60
2006	82,080	30,572		51,508	1.54%	283.18
2007	72,370	32,941		39,429	1.16%	214.82
2008	63,900	34,623		29,277	0.84%	159.51
2009	56,560	36,259		20,301	0.56%	107.37

**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  
PLEDGED-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  
PLEDGED-REVENUE COVERAGE  
LAST TEN FISCAL YEARS  
COMPONENT UNIT - KNOXVILLE UTILITIES BOARD  
(unaudited - amounts expressed in thousands)**

Fiscal Year	Gross Revenue	Expenses (net of depreciation and interest)	Net Revenue Available for Debt Service	Debt Service	Revenue Bond Coverage
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
2007	650,153	566,716	83,437	33,455	2.49
2008	689,212	592,251	96,961	38,596	2.51
2009	751,042	640,292	110,750	44,117	2.51

**CITY OF KNOXVILLE, TENNESSEE  
PLEDGED-REVENUE COVERAGE  
LAST TEN FISCAL YEARS  
COMPONENT UNIT - METROPOLITAN KNOXVILLE AIRPORT AUTHORITY  
(unaudited - amounts expressed in thousands)**

Fiscal Year	Gross Revenue (net of grant receipts)	Expenses (net of depreciation and interest)	Net Revenue Available for Debt Service	Debt Service	Revenue Bond Coverage
2000	\$ 18,151	\$ 9,275	\$ 8,876	\$ 3,844	230.9%
2001	19,807	11,291	8,516	6,632	128.4%
2002	18,769	11,485	7,284	4,582	159.0%
2003	18,693	11,630	7,063	4,676	151.0%
2004	19,614	11,843	7,771	4,649	167.2%
2005	22,746	12,643	10,103	4,806	210.2%
2006	25,743	13,615	12,128	7,345	165.1%
2007	27,768	15,274	12,494	7,770	160.8%
2008	30,148	16,100	14,048	8,810	159.5%
2009	28,369	16,934	11,435	7,905	144.7%

**CITY OF KNOXVILLE, TENNESSEE**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**June 30, 2009**  
**(unaudited - amounts expressed in thousands)**

<u>Governmental Unit</u>	<u>Net Direct Outstanding Debt <sup>(1)</sup></u>	<u>Percentage Applicable to Knoxville<sup>(2)</sup></u>	<u>Amount Applicable to Knoxville</u>
City of Knoxville	\$ 57,648	100.00%	\$ 57,648
Knox County	379,055	41.58%	157,611
Knox County Schools	248,066	41.58%	103,146
Total	<u>\$ 684,769</u>		<u>\$ 318,405</u>

Note:

(1) Net direct debt excludes proprietary fund general obligation bonds.

(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

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

Fiscal Year	Population <sup>(1)</sup>	Personal Income (In \$1,000) <sup>(2)</sup>	Per Capita Personal Income <sup>(2)</sup>	Median Age <sup>(1)</sup>	Education Level - Population 25 & Over <sup>(1)</sup>				School Enrollment <sup>(3)</sup>	County Unemployment Rate <sup>(4)</sup>
					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	3.2%
2001	176,781	17,138,808	27,429	-	-	-	-	-	56,458	3.4%
2002	176,876	17,654,927	27,931	-	-	-	-	-	52,391	3.7%
2003	177,595	18,384,062	28,703	38.2	-	-	-	-	56,935	4.0%
2004	178,118	19,544,768	30,209	-	-	-	-	-	55,720	4.0%
2005	180,130	20,266,000	30,899	-	-	-	-	-	53,130	4.2%
2006	182,337	21,643,000	32,430	35.2	28.8%	31.1%	18.9%	12.6%	56,851	3.9%
2007	183,546	33,373,000	33,963	35.1	33.0%	25.5%	17.0%	11.0%	57,576	3.5%
2008	184,802	<sup>(5)</sup>	<sup>(5)</sup>	35.5	33.1%	23.9%	18.2%	11.8%	53,176	4.8%
2009	189,081	<sup>(5)</sup>	<sup>(5)</sup>	35.3	30.2%	26.3%	18.3%	11.5%	54,109	7.8%

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) U.S. Bureau of Labor Statistics - Annual Average

(5) Current data for Personal and Per Capital Income is not yet available.

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

Employer's Name	2009			2000		
	Employees	Rank	Percentage of Total Area Employment <sup>(1)</sup>	Employees	Rank	Percentage of Total Area Employment <sup>(2)</sup>
University of Tennessee, Knoxville	9,317	1	4.17%			
Mercy Health Partners	8,141	2	3.65%			
Covenant Health	8,000	3	3.58%			
University of Tennessee Medical Center	3,225	4	1.44%			
City of Knoxville	2,820	5	1.26%			
County of Knox	2,500	6	1.12%			
Clayton Homes	2,500	7	1.12%			
ALCOA	2,300	8	1.03%			
Denso	2,100	9	0.94%			
Sea Ray Boats, Inc.	1,450	10	0.65%	1,583	1	0.83%
DeRoyal Industries				1,438	2	0.76%
Levi Strauss and Company				900	3	0.47%
Plasti-Line				670	4	0.35%
Knoxville News-Sentinel Company				620	5	0.33%
Matsushita Electronic Components				600	6	0.32%
Philips Electronics of North America Corp.				550	7	0.29%
Breed Technologies				530	8	0.28%
PBR Automotive USA				500	9	0.26%
Fulton Bellows & Components, Inc.				370	10	0.19%

Note:

(1) Source: Tennessee Department of Labor and Workforce Development

Employment Statistics include the Knoxville area MSA as reliable statistics for the City are not available

(2) Estimated - Reliable data no longer available

**CITY OF KNOXVILLE, TENNESSEE**  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION**  
**LAST EIGHT YEARS**  
**(Unaudited)**

Department	Full-time Equivalent Employees as of June 30,							
	2002	2003	2004	2005	2006	2007	2008	2009
Administration	23.0	23.0	21.5	19.5	24.5	24.5	25.0	25.5
Finance and Accountability								
Finance	54.0	54.0	48.0	55.5	56.5	54.5	52.5	52.5
Information Systems	30.0	30.0	28.0	29.0	29.0	30.0	30.0	30.0
Subtotal	84.0	84.0	76.0	84.5	85.5	84.5	82.5	82.5
Operations & Engineering								
Engineering	88.5	89.5	86.0	88.0	88.0	90.0	89.5	89.5
Fleet Services	67.0	67.0	58.0	58.0	57.0	57.0	56.0	56.0
Inspections	31.0	31.0	30.0	30.0	31.0	31.0	31.0	31.0
Subtotal	186.5	187.5	174.0	176.0	176.0	178.0	176.5	176.5
Community and Neighborhood Services								
Public Services	335.0	338.0	315.0	308.0	309.0	307.0	307.0	306.0
Development Services	5.0	5.0	5.0	3.0	3.0	4.0	4.0	4.0
Community Development	20.0	20.0	21.5	20.5	18.5	19.5	21.5	21.5
Recreation	63.5	62.5	58.5	60.5	60.5	59.0	58.0	57.5
Subtotal	423.5	425.5	400.0	392.0	391.0	389.5	390.5	389.0
Law	26.5	25.5	25.5	13.0	13.0	13.0	13.0	14.0
Police								
Sworn	446.0	456.0	421.0	414.0	414.0	414.0	416.0	416.0
Civilian	133.0	133.0	121.0	120.5	120.5	120.5	121.0	121.0
Emergency Management	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0
Subtotal	583.0	593.0	546.0	537.5	537.5	537.5	540.0	540.0
Fire								
Sworn	358.0	358.0	328.0	328.0	328.0	328.0	328.0	328.0
Civilian	12.0	12.0	11.0	11.0	11.0	10.0	10.0	10.0
Subtotal	370.0	370.0	339.0	339.0	339.0	338.0	338.0	338.0
Board Administered/Other Departments								
Legislative	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
City Court	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Civil Service	15.0	15.0	14.0	14.0	14.0	14.5	13.0	13.0
Public Assembly Facilities	47.0	37.0	36.0	36.0	36.0	35.5	35.5	35.5
Subtotal	83.0	73.0	71.0	71.0	71.0	71.0	69.5	69.5
<b>GRAND TOTAL</b>	<b>1,779.5</b>	<b>1,781.5</b>	<b>1,653.0</b>	<b>1,632.5</b>	<b>1,637.5</b>	<b>1,636.0</b>	<b>1,635.0</b>	<b>1,635.0</b>

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

<u>Department</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Public Safety								
Police								
Arrests	14,181	13,435	14,101	14,706	16,656	15,176	20,492	24,008
Citations	36,809	87,387	96,509	84,428	64,705	64,683	95,121	131,619
Fire								
Fire Inspections	3,166	3,604	4,600	4,298	4,057	4,957	3,742	4,051
Alarms Attended	19,940	17,876	17,836	17,639	18,603	19,432	20,174	21,131
First Responder Calls	10,515	11,236	9,234	9,654	9,869	9,146	10,272	11,349
Engineering								
Miles of Streets Resurfaced	51	44	37	50	42	9	84	44
Parks & Recreation								
Recreation Center Participants	328,139	198,684	158,941	309,913	314,836	338,510	372,110	537,486
Service								
Pothole Repairs (by tons of asphalt)	776	680	607	483	515	414	349	383

Sources: Various city departments

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

Department	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Public Safety								
Safety Building - Police	1	1	1	1	1	1	1	1
Fire Halls	18	18	18	18	18	18	18	18
Operations & Engineering								
Street Lights	28,170	28,545	28,545	28,983	29,436	29,440	29,506	29,801
Miles of Streets maintained	968	1,253	1,257	1,264	1,264	1,264	1,274	1,274
Parks & Recreation								
Recreation Centers	15	14	13	14	14	14	14	14
Parks	78	78	79	79	79	79	81	81
Park Acreage	1,741	1,741	1,856	1,856	1,856	1,857	1,858	1,858
Swimming Pools	4	4	4	5	5	5	5	5
Tennis Courts	61	61	61	61	61	61	68	68
Miles of Greenway	28	30	33	38	40	42	42	43
Stormwater								
Storm Sewers (miles)	367	367	371	371	372	372	372	375

Sources: Various city departments

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



***COMPLIANCE SECTION***

*CITY OF KNOXVILLE, TENNESSEE*

*SINGLE AUDIT REPORT AND  
FINDINGS AND RECOMMENDATIONS  
For the Fiscal Year Ended June 30, 2009*

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CITY OF KNOXVILLE, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 For the Year Ended June 30, 2009

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2008	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2009
<b>U.S. Department of Housing and Urban Development</b>							
<u>Direct assistance</u>							
	Community Development Block Grant	14.218	B-07-MC-47-0005	\$ 832,216	\$ 1,676,479	\$ 1,273,954	\$ 429,691
	Community Development Block Grant	14.218	B-08-MC-47-0005	0	0	411,994	411,994
	Neighborhood Stabilization Program	14.256	B-08-MN-47-0002	0	0	1,397	1,397
	Empowerment Zone	14.244	EZ-99-TN-0012	363,832	2,650,597	3,323,008	1,036,243
	Fair Housing 2005	14.400	FF204K054012	(3,086)	0	3,086	0
	Fair Housing 2006	14.400	FF204K064012	(23,100)	0	23,100	0
	Fair Housing 2007	14.400	FF204K074012	(57,000)	0	22,751	(34,249)
	Fair Housing 2008	14.400	FF204K084012	(8,500)	38,796	0	(47,296)
	Fair Housing 2009	14.400	FF204K094012	0	0	0	0
	Home Grant 2004	14.239	M04-MC-47-0201	0	20,481	20,481	0
	Home Grant 2005	14.239	M05-MC-47-0201	0	314,980	623,422	308,442
	Home Grant 2006	14.239	M06-MC-47-0201	0	0	8,756	8,756
	Home Grant 2007	14.239	M07-MC-47-0201	846,036	1,234,576	429,194	40,654
	Home Grant 2008	14.239	M08-MC-47-0201	0	329,968	333,895	3,927
	Total direct assistance			<u>1,950,398</u>	<u>6,265,877</u>	<u>6,475,038</u>	<u>2,159,559</u>
<u>Passed through from</u>							
Tennessee Department of Human Services	Emergency Shelter	14.231	S-07-MC-47-005	53,647	67,210	16,292	2,729
Tennessee Department of Human Services	Emergency Shelter	14.231	S-08-MC-47-005	0	0	71,808	71,808
	Total pass through assistance			<u>53,647</u>	<u>67,210</u>	<u>88,100</u>	<u>74,537</u>
	Total U.S. Department of Housing and Urban Development			<u>2,004,045</u>	<u>6,333,087</u>	<u>6,563,138</u>	<u>2,234,096</u>
<b>U.S. Department of Justice</b>							
<u>Direct assistance</u>							
	Police Integrity Training Initiative	16.710	2003-HS-WX-K025	98,553	98,553	0	0
	RCPI Training 2005	16.710	2004-CK-WX-K039	35,225	125,607	90,382	0
	LEIC - Regional Community Policing Institutes	16.710	2005-HS-WX-K022	33,569	68,666	159,234	124,137
	Project Safe Neighborhoods	16.609	2003-GP-CX-0177	102,230	342,974	240,744	0
	Project Safe Neighborhoods - Gun Violence Eradication	16.609	2006-GP-CX-0065	0	0	59,320	59,320
	2006 Bulletproof Vest Partnership Funding	16.609	2006-BOBX-06136064	4,355	0	(2,090)	2,265
	2006 Knoxville Anti-Gang Initiative	16.609	2006-GP-BX-0089	28,334	56,084	106,707	78,957
	Project Safe Neighborhoods	16.609	2007-GP-CX-0044	0	0	27,508	27,508
	2008 Project Safe Neighborhoods	16.609	2008-GP-CX-0069	0	0	12,460	12,460
	2007 Anti-Gang	16.744	2007-PG-BX-0069	0	0	18,626	18,626
	Family Justice Center	16.590	2004-WE-AX-K007	27,922	44,488	35,078	18,512
	Healing the Heartland	16.590	2006-WE-AX-0073	28,094	42,802	153,187	138,479
Office of Violence Against Children	Transitional Housing Assistance	16.736	2007-WH-AX-0009	29,912	35,487	65,378	59,803
	Total direct assistance			<u>\$ 388,194</u>	<u>\$ 814,661</u>	<u>\$ 966,534</u>	<u>\$ 540,067</u>

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
For the Year Ended June 30, 2009

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2008	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2009
<u>Passed through from</u>							
Department of Finance and Administration:							
Criminal Justice Program	2007 Byrne/Justice Assistance Grant Program	16.579	Z-06-027520-00	\$ 12,450	\$ 71,408	\$ 75,000	\$ 16,042
	2007 Byrne/Justice Assistance Grant Program through Knox County	16.579	2007 F2598-TN-DJ	0	0	22,211	22,211
Office of Juvenile Justice and Delinquency Prevention	2007 Internet Crimes Against Children	16.543	2007-MC-CX-K008	43,668	59,909	98,202	81,961
Total pass through assistance				<u>56,118</u>	<u>131,317</u>	<u>195,413</u>	<u>120,214</u>
Total U.S. Department of Justice				<u>444,312</u>	<u>945,978</u>	<u>1,161,947</u>	<u>660,281</u>
<b>U.S. Department of Energy</b>							
<u>Direct assistance</u>							
	Solar America Initiative	81.111	DE-FC36-08G018095	0	0	33,607	33,607
Total U.S. Department of Energy				<u>0</u>	<u>0</u>	<u>33,607</u>	<u>33,607</u>
<b>U.S. Department of Homeland Security</b>							
<u>Direct assistance</u>							
	Metropolitan Medical Response System	97.071	EMW-2004-GR-0772	108,318	108,318	0	0
	2006 Metropolitan Medical Response System	97.067	2006-GE-T6-0011	117,676	232,327	114,651	0
	2007 Metropolitan Medical Response System	97.067	GG-08-24741-00	0	88,025	99,313	11,288
	2008 Metropolitan Medical Response System	97.067	2008-GE-T8-0048	0	0	24,221	24,221
Total direct assistance				<u>225,994</u>	<u>428,670</u>	<u>238,185</u>	<u>35,509</u>
<u>Passed through from</u>							
Tennessee Emergency Management Agency	Emergency Management Performance Grant	97.042	GG-08-26829 -00	0	136,000	136,000	0
Tennessee Emergency Management Agency	DOE Offsite Emergency Planning and Response	83.552	Z-07-21875-00	15,000	15,000	0	0
Tennessee Emergency Management Agency	DOE 2008 Offsite Emergency Planning and Response	83.552	GG-08-25146-00	0	15,000	15,000	0
Total pass through assistance				<u>15,000</u>	<u>166,000</u>	<u>151,000</u>	<u>0</u>
Total U.S. Department of Homeland Security				<u>240,994</u>	<u>594,670</u>	<u>389,185</u>	<u>35,509</u>
<b>U.S. Department of Labor</b>							
<u>Passed through from</u>							
Senior Service America, Inc.	Senior Aides	17.235	AD-16177-07-60-A-24	33,902	33,902	0	0
	Senior Aides	17.235		0	388,215	436,360	48,145
Total U.S. Department of Labor				<u>\$ 33,902</u>	<u>\$ 422,117</u>	<u>\$ 436,360</u>	<u>\$ 48,145</u>

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
For the Year Ended June 30, 2009

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2008	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2009
<u>U.S. Department of Transportation</u>							
<u>Direct assistance</u>							
	Downtown Knoxville Transit Center/ Linkages Study	20.500	TN-03-0045-00	\$ 14,138	\$ 0	\$ 0	\$ 14,138
	Knoxville Station Transit Center	20.500	TN-03-0091	1,794,859	4,733,446	4,423,212	1,484,625
	Knoxville Station Transit Center	20.500	TN-04-0022	0	2,483,198	5,269,928	2,786,730
	FY06 5309 - Bus Grant	20.500	TN-04-0006-00	0	478,206	478,206	0
	2007 Job Access Grant	20.516	TN-37-X066-00	51,794	124,573	72,779	0
	2006 Formula Grant	20.507	TN-90-X241	13,153	242,299	253,643	24,497
	2006 CMAQ Funding	20.507	TN-95-X004	22,685	0	16,371	39,056
	Y-12 Express Bus Service	20.507	TN-90-X237	27,949	47,445	19,496	0
	2007 Formula Grant	20.507	TN-90-X265	67,795	641,994	576,156	1,957
	CMAQ - Air Quality Alert Days Outreach	20.507	TN-95-X005	0	0	7,731	7,731
	CMAQ - Purchase Buses	20.507	TN-95-X007	0	867,028	867,028	0
	CMAQ - Purchase Related Equipment for Buses	20.507	TN-90-X255-E	0	0	20,384	20,384
	2008 Formula Grant	20.507	TN-90-X275	2,971,951	3,851,927	1,069,138	189,162
	2008 Supplemental (Section 5307-Formula)	20.507	TN-90-X286	0	184,998	184,998	0
	CMAQ - Purchase Buses	20.507	TN-95-X009	0	0	799,356	799,356
	Surface Transportation Program	20.507	TN-95-X009	0	0	1,576,000	1,576,000
	2008 5309 - Bus Grant	20.507	TN-04-0026	0	845	104,253	103,408
	2009 Formula Grant	20.507	TN-90-X300	0	0	3,395,506	3,395,506
				<u>4,964,324</u>	<u>13,655,959</u>	<u>19,134,185</u>	<u>10,442,550</u>
	Total direct assistance						
	<u>Passed through from</u>						
	GHSO - Traffic Enforcement Program	20.600	Z-08-023688-00	36,249	57,928	21,679	0
	Governor's Highway Safety	20.600	Z-09-214346-00	0	50,156	81,827	31,671
	Governor's Highway Safety	20.218	GG-07-20579-01	61,704	54,140	108,753	116,317
	Tennessee Department of Transportation	20.205	STP-EN-9109(47)	144,408	251,440	305,616	198,584
	Tennessee Department of Transportation	20.205	STP-M-9109(53)	139,670	0	601,072	740,742
	Tennessee Department of Transportation	20.205	STP-M-9109(64)	58,371	0	147,783	206,154
	Tennessee Department of Transportation	20.205	STP-EN-9109(73)	168,199	168,199	0	0
	Tennessee Department of Transportation	20.205	STP-EN-9109(100)	222,073	222,073	0	0
	Tennessee Department of Transportation	20.205	Contract 050113; Pin 106077.00	0	0	26,267	26,267
	Tennessee Department of Transportation	20.205	Contract 060134; Pin 108672.00	0	0	1,132,194	1,132,194.00
	Tennessee Department of Transportation	20.205	Contract 070204; Pin 109810.00	229,359	256,933	27,574	0.00
	Tennessee Department of Transportation	20.205	Contract 080013; Pin 110692.00	0	0	139,261	139,261.00
	Total pass through assistance			<u>1,060,033</u>	<u>1,060,869</u>	<u>2,592,026</u>	<u>2,591,190</u>
	Total U.S. Department of Transportation			<u>6,024,357</u>	<u>14,716,828</u>	<u>21,726,211</u>	<u>13,033,740</u>
	Total Federal Assistance			<u>\$ 8,747,610</u>	<u>\$ 23,012,680</u>	<u>\$ 30,310,448</u>	<u>\$ 16,045,378</u>

CITY OF KNOXVILLE, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
 For the Year Ended June 30, 2009

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2008	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2009
<b>STATE ASSISTANCE</b>							
Tennessee Department of Environment and Conservation	Household Hazardous Waste		GG-08-23533-00	\$ 53,147	\$ 53,147	\$ 0	\$ 0
Tennessee Department of Environment and Conservation	Household Hazardous Waste-Second Year Funding		GG-08-23533-00	0	35,937	84,570	48,633
Tennessee Department of Environment and Conservation	Local Parks and Recreation Fund - West Hills Tennis Center		Z-07-031386-00	0	100,000	100,000	0
Tennessee Department of Transportation	2009 State Operating Grant		Z-09-213799-00	0	1,991,023	1,991,023	0
Criminal Justice Program	Internet Crimes Against Children by State Legislation		GG-08-23491-00	241,125	424,164	296,393	113,354
Tennessee Department of Transportation	FTA-TN-37-X066		47-5016-S3-002	106,183	142,571	36,388	0
Tennessee Department of Transportation	FTA-TN-03-0091		GG-06-12952-00	224,358	441,198	552,902	336,062
Tennessee Department of Transportation	FTA-TN-04-0022		GG-08-	0	0	658,740	658,740
Tennessee Department of Transportation	FTA-TN-90-X241		GG-06-12804-00	1,644	30,287	31,705	3,062
Tennessee Department of Transportation	FTA-TN-90-X256		47-CMAQ-S3-004	4,321	0	5,443	9,764
Tennessee Department of Transportation	FTA-TN-90-X237		GG-06-12547-00	3,493	5,930	2,437	0
Tennessee Department of Transportation	FTA-TN-90-X265		GG-08-24190-00	398,715	470,489	72,019	245
Tennessee Department of Transportation	FTA-TN-04-0006		GG-08-23813-00	0	48,973	48,973	0
Tennessee Department of Transportation	FTA-TN-90-X254		contract pending	0	0	966	966
Tennessee Department of Transportation	FTA-TN-90-X255S		contract pending	0	88,792	88,792	0
Tennessee Department of Transportation	FTA-TN-90-X255-ES		contract pending	0	0	2,548	2,548
Tennessee Department of Transportation	FTA-TN-90-X275		GG-09-26971-00	371,493	481,491	133,643	23,645
Tennessee Department of Transportation	FTA-TN-90-X286		GG-09-26973-00	0	23,125	23,125	0
Tennessee Department of Transportation	FTA-TN-95-X009		47-CMAQ-S3-005	0	0	99,920	99,920
Tennessee Department of Transportation	FTA-TN-95-X009		47-CMAQ-S3-005	0	0	197,000	197,000
Tennessee Department of Transportation	FTA-TN-90-????		contract pending	0	0	13,031	13,031
Tennessee Department of Transportation	Tennessee Special Legislative Appropriation		47-LEGS-S3-002	0	406,920	408,105	1,185
Tennessee Department of Transportation	FTA-TN-90-X??? (State portion of 2009 Formula Grant)		contract pending	0	0	424,440	424,440
Total state assistance				<u>\$ 1,404,479</u>	<u>\$ 4,744,047</u>	<u>\$ 5,272,163</u>	<u>\$ 1,932,595</u>

*CITY OF KNOXVILLE, TENNESSEE*

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

*For the Year Ended June 30, 2009*

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of Knoxville, Tennessee, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2 - Loans Outstanding**

The City of Knoxville had the following loan funding balances and loan balances outstanding at June 30, 2009. These 2009 loan funding balances are also included in the federal expenditures presented in the schedule.

Cluster / Program Title	CFDA Number	FY 09 Loan Funding	Outstanding Balance
Community Development Block Grants	14.218	\$ 127,586	\$ 11,201,385
Empowerment Zone	14.244	1,875,967	2,126,745
HOME Investment Partnerships Program	14.239	1,034,238	5,313,798
Total loans		\$ 3,037,791	\$ 18,641,928

**Note 3 - Expenditures Reconciliation**

Expenditures associated with the following grant awards are equal to the total operating expenditures per the fund financial statements plus additions to the inventory for property held for redevelopment in their respective fund. The following reconciliations detail the expenditures as reported on the Schedule of Expenditures of Federal Awards:

	Expenditures per fund financial statements	Reductions to Inventory - other	Total expenditures per Schedule of Federal and State Awards
Community Development Block Grants	\$ 2,188,859	\$ (502,911)	\$ 1,685,948
Empowerment Zone	3,450,123	(127,115)	3,323,008

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

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

We have audited the 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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon December 23, 2009. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units of the City as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported separately by those other auditors. However, this report, insofar as it related to the results of the other auditors, is based solely on the reports of the other auditors.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies referenced as 07-1, 08-2 and 09-1 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 08-3, 09-2 and 09-3.

We also noted certain matters that we reported to management of the City in a separate letter dated December 23, 2009.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, members of City Council, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Pugh & Company, P.C.*

Certified Public Accountants  
December 23, 2009

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of the City of Knoxville, Tennessee ("the City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Knoxville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-3, 09-2 and 09-3.

## Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies and another that we consider to be a material weakness.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-3 and 09-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 09-3 to be a material weakness.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, members of City Council, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Pugh & Company, P.C.*

Certified Public Accountants  
December 23, 2009

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified		
Internal control over financial reporting:				
• Material weakness identified?	_____	yes	<u>  X  </u>	no
• Significant deficiency (ies) identified that are not considered to be material weakness?	<u>  X  </u>	yes	_____	no
Noncompliance material to financial statements noted	_____	yes	<u>  X  </u>	no

Federal Awards

Internal control over major federal programs:				
• Material weakness identified?	<u>  X  </u>	yes	_____	no
• Significant deficiency (ies) identified that are not considered to be material weaknesses?	<u>  X  </u>	yes	_____	no
Type of auditors' report issued on compliance for major federal programs:				Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	yes	<u>  X  </u>	no

Major federal programs for the City of Knoxville for the fiscal year ended June 30, 2009 are:

Program Name	CFDA#
Community Development Block Grant	14.218
Empowerment Zone	14.244
Grants to Encourage Arrest Policies and Enforcement Protection Orders	16.590
Community Prosecution and Project Safe Neighborhoods	16.609
Federal Transit – Capital Investment and Formula Grants	20.500/20.507

Dollar threshold used to distinguish between Type A and Type B Programs		\$ <u>909,313</u>		
Auditee qualified as low-risk auditee?	<u>  X  </u>	yes	_____	no

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2009

II. Findings related to the audit of the financial statements of the City of Knoxville

Unresolved Prior Year Audit Findings:

<b>Finding 07-1:</b>	Timely Account Reconciliations and Recording of Capital Assets
Criteria:	Timely reconciliation of grant receivable accounts should be performed to ensure reasonably accurate financial statements. In addition, timely entering of constructed capital assets into the subsidiary system should be recorded in order to ensure reasonably accurate financial statements.
Condition:	<p>Reconciliations to grant receivable accounts were made throughout the year ended June 30, 2007, but as the audit process began, there were several grant receivable accounts that required significant adjustments to capture the amount due from the granting agencies. It should be noted that the material balances were investigated for the differences during the audit process and were either corrected or adjusted at year end.</p> <p>It was our recommendation in the year ended June 30, 2006 that the City develop a system to track Construction in Progress (CIP) to determine which projects are complete or near completion by verifying with each of the constructing departments on a quarterly basis as to the status of each of their projects for timelier and more accurate information for inclusion in the financial statements. Secondly, we recommended transferring the completed projects at least quarterly from CIP to the fund receiving the completed asset. The process has improved, but items were reconciled during the audit process and several items required adjustment.</p>
Context:	The City's grant receivables total approximately \$6.5 million and capital assets total approximately \$415 million for the year ended June 30, 2007.
Effect:	Many of the accounts had to be adjusted for the year ended June 30, 2007 in order to agree to the supporting documentation and this caused delays in providing the information timely and accurately.
Cause:	The reconciliation process was not timely followed up on once year end journal entries were made as part of the year end close out process for the year ended June 30, 2007. The system the staff is training on for capital assets has not performed as first thought which caused duplication of entries and problems in the projects module.
Recommendation:	<p>The City should continue to perform reconciliations and enhance the year end post closing procedures to verify that the accounts and subsidiary ledgers are in complete agreement for the year end closing of the general ledger system. The grant schedule could be updated throughout the year as grants are added and as the grant period closes out for a more timely and accurate tracking of the grant process.</p> <p>We continue to recommend transferring the completed projects at least semi-annually from CIP to the fund receiving the completed asset and improving communication between the constructing departments and the finance department as to the date of contract completion.</p>

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2009

II. Findings related to the audit of the financial statements of the City of Knoxville (continued)

Unresolved Prior Year Audit Findings (continued):

Current Status: This finding has not been completely resolved. The City has made significant strides in improving the reconciliation process for construction in progress, but certain expenditure items included in CIP need to be maintained separately from those projects that will be capitalized in order to have a more defined record of what actually was utilized in getting the capital asset into service. In addition, certain fully depreciated Knoxville Area Transit assets that should have been retired in prior years were not timely removed because the inventory procedures and fixed asset records have not been consistently reconciled in a timely manner.

Management's Response: While significant progress was made during the preceding fiscal year, additional effort needs to be made to fully resolve this finding. Towards that end, the person responsible for the accounting of capital assets has been assigned the ongoing responsibility of monitoring capital projects. This will facilitate more timely recording of capital asset activities throughout the fiscal year. After the assets are recorded, the capital project will be closed and any remaining residual funds will be transferred to a Project Contingency line item.

In addition, procedures have been changed in order to accommodate the timely removal of assets once they are taken out of service. During the inventory of KAT, it was discovered that certain assets were retired but city finance was not made aware of their disposition. A process is being put in place that requires departments to notify accounting whenever disposing of an asset. In addition, our semi-annual fixed asset inventory should catch any process oversights in a timely manner.

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2009

II. Findings related to the audit of the financial statements of the City of Knoxville (continued)

Unresolved Prior Year Audit Findings (continued):

<b>Finding 08-2:</b>	Timely Depositing of Funds
Criteria:	Deposits of funds should be made within three days of receiving the funds.
Condition:	Certain deposits made by two departments were not deposited within three days.
Context:	The two department's deposits for the days tested made up 5.8% of the total deposits for those two days.
Effect:	Not depositing funds within three days violates TCA § 6-56-111.
Cause:	Some departments keep deposits until a certain amount of collections are present before depositing. In addition, certain departments only make deposits once a week.
Recommendation:	As stated in the code, "every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts." We recommend that each department should attempt to correct procedures that are causing them to be in violation of the three-day deposit rule in order to comply with state law.
Current Status:	This finding has not been resolved. During the June 30, 2009 audit we noted that there were several divisions that had procedures in place that would permit the divisions to hold funds longer than the allowable three days.
Management's Response:	Effort was made to resolve this finding but the summer programs that brought this problem to light were for the most part concluded for the season and the changes will not become truly effective until next summers programs are undertaken.

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2009

II. Findings related to the audit of the financial statements of the City of Knoxville (continued)

Current Year Audit Finding:

**Finding 09-1:** Financial Statement Adjustments

Criteria: The City must properly record its investment in joint venture and property taxes receivable in the City's financial records.

Condition: The City must perform appropriate reconciliations of the financial reports maintained by the joint ventures and various management companies for proper recording of this activity into the City's financial records. The City is also required to record property taxes on the lien date (January 1) even though taxes are not due until October 1.

Context: A prior period adjustment as of July 1, 2008 was required to correct the overstatement of the investment in joint venture of \$2.1 million. There was no impact on beginning of year net assets regarding the property taxes as the property tax receivable (\$101 million) related to the lien date is offset by a deferred revenue liability of the same amount. Property tax receivables were reported as of the lien date at June 30, 2009.

Effect: The investment in the Public Building Authority ("PBA") was overstated and the property tax receivable related to the lien date was not recorded as of June 30, 2008.

Cause: The reconciliation procedures in place from inception allowed for the overstatement of the assets reported for the PBA investment. The property tax receivable related to the lien date was not recorded since it was not billed until after June 30 and not due until October 1.

Recommendation: We recommend that all the components of the PBA investment be appropriately reconciled to the audited financial statements of the PBA and that written procedures be developed so that the reconciliation process can be properly documented and followed in future periods. We also recommend that property tax receivable include assessments as of the lien date.

Management's Response: The auditor's comment was valid and the accounting for the City's investment in the joint venture was totally revamped and procedures put into place to prevent its reoccurrence during the course of the audit. For the current year, we have incorporated the requirement to accrue future tax revenues and will continue to do. We consider this comment closed.



*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2009

III. Findings and questioned costs related to the audit of Federal awards

Unresolved Prior Year Audit Finding:

<b>Finding 08-3:</b>	Reporting
Program:	Community Development Block Grant ("CDBG") (CFDA# 14.218)
Criteria:	Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency in a timely manner.
Condition:	During our audit, we noted that the Community Development Department maintained an Access based report to track and report the activity of the grant to the reporting system required by HUD without reconciling the information to the official financial statement records maintained by the City. Forgivable loan balances were also not reported to the City Finance department for proper recording in the financial statement records.
Questioned Cost:	There are no questioned costs identified.
Context:	Total expenditures for CDBG for fiscal year 2008 totaled \$2,458,948.
Effect:	Maintaining separate accounting records outside of the official financial statement records could allow the department to report erroneous information to HUD.
Cause:	Loan balances were not properly reflected in the financial statements.
Recommendation:	We recommend the Community Development Department perform monthly reconciliations of the information maintained in Access to the accounting records maintained by the finance department to ensure that the information reported to HUD through IDIS agrees. In addition, Community Development should provide all loan balances to the Finance department properly categorized so that the finance department can reconcile and maintain these balances by fund appropriately.
Current Status:	This finding has not been resolved and additional information gathered during the June 30, 2009 audit noted that the loans reported in the CAPER included loans for different HUD programs as well as the CDBG loans. In addition, the current system of maintaining the loans does not allow for payments and adjustments for the loans to be recorded by appropriate loan programs thus resulting in confusion as to which programs have been affected by each month's activity.
Management's Response:	<p>During the preceding year, extensive efforts were put forth by Information Systems, Community Development and Accounting to resolve the problems associated with the utilization of Access for draws and internal reporting. An entirely new module was added to the accounting system to resolve these issues. Certain elements of this module are still being worked on but the main problem of utilizing Access to control our draws has been resolved through the use of the new accounting module. We believe that this part of the comment has been resolved.</p> <p>The second part of the finding related to Community Development's inability to segregate old loans by program. We believe we have found a solution to this problem and its resolution is being explored at this time. Once implemented, adjusting entries will be made to the accounting system and carried forward for future periods.</p>

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2009

III. Findings and questioned costs related to the audit of Federal awards (continued)

Current Year Audit Findings:

<b>Finding 09-2:</b>	Reporting
Program:	Project Safe Neighborhoods (CFDA# 16.609)
Criteria:	Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency in a timely manner.
Condition:	During our audit, we noted that several reports were not submitted timely or with accurate information.
Questioned Cost:	There are no questioned costs identified.
Context:	Total expenditures for all grants associated with CFDA# 16.609 for fiscal year 2009 totaled \$444,649.
Effect:	Total expenditures for the grant fiscal year were not reported in a timely and accurate manner.
Cause:	The grant coordinator is the only person trained to submit these reports. There are no backup plans should the coordinator be unavailable when reports are due.
Recommendation:	We recommend the City establish procedures to ensure that reports for all federal grants are submitted timely and accurately either by cross training an employee within the department responsible for administering the grant and/or an employee in the finance department coordinating these reports and the reconciliation review to the financial records prior to the report submission.
Management's Response:	The Knoxville Police Department has obtained grant funding to hire a Program Specialist to assist the Planning and Grants Manager. The position is 100% grant funded. The Program Specialist will serve as the backup. The Knoxville Police Department has procedures in place to ensure that reports are submitted timely and accurately when the Planning and Grants Manager is absent due to unexpected circumstances.

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2009

III. Findings and questioned costs related to the audit of Federal awards (continued)

Current Year Audit Findings (continued):

<b>Finding 09-3:</b>	Subrecipient Monitoring
Programs:	Family Justice Center (CFDA# 16.590), Project Safe Neighborhoods (CFDA# 16.609) and Capital Improvement and Formula Grants (CFDA# 20.500/20.507)
Criteria:	Grants and compliance requirements passed through to subrecipients and vendors are required to be monitored by the City.
Condition:	Vendors and subrecipients were not properly monitored by the City.
Questioned Cost:	There are no questioned costs identified.
Context:	Total expenditures for all grants associated with these grants for fiscal year 2009 totaled \$19.6 million.
Effect:	Vendors and subrecipients could be in violation of grant compliance requirements. The City did not adhere to the compliance requirement to properly monitor these third parties to the grants.
Cause:	There are no written procedures established by the City to monitor vendors and subrecipients.
Recommendation:	We recommend the City establish procedures to ensure that subrecipient/vendor monitoring is appropriately performed. In addition, each third party for grants that have pass-through ability should be evaluated as to whether they are considered a vendor or a subrecipient under the grant requirements. The City should also provide the CFDA# to each subrecipient to ensure that they recipients understand that these monies are funded through the appropriate federal granting agency and they can appropriately evaluate their responsibility as to Single Audit reporting.
Management's Response:	<p>We acknowledge that our subrecipient monitoring can be improved – both in the actual monitoring as well as documenting of monitoring visits. Appropriate staff has been made aware of the deficiencies and is working on necessary changes. The Knoxville Police Department implemented a subrecipient monitoring policy as of July 1, 2009 which will be handled by the Planning and Grants Manager and assisted by the Program Specialist. KAT has been made aware of the need for enhanced monitoring and has agreed to perform that task.</p> <p>When CFDA#'s (Catalog of Federal Domestic Assistance) numbers are known, they will be incorporated into our agreements when they are crafted. When unknown at the time of the agreement, they will be formally supplied to the subgrantee when available.</p>

*CITY OF KNOXVILLE, TENNESSEE*

Schedule of Corrected Prior Audit Findings  
For the Year Ended June 30, 2009

<b>Finding 08-1:</b>	Coliseum Cash Disbursement Procedures and Reconciliation
Criteria:	Cash disbursement procedures should allow for proper segregation of duties and proper recording of the Coliseum activity in the financial statements of the City.
Condition:	No review of the checks or invoices paid by the Coliseum personnel is performed by the Finance department to ensure appropriateness and proper recording of the activity in the City's financial statements. Checks written against the City's bank account for the Coliseum are only recorded when clearing the bank. We were informed that checks which require dual signatures were sometimes signed in advance by one or both check signers when shows closed late in the evening. The current accounting software utilized by the Coliseum and check writing procedures are out of date and could allow the payees to be altered after checks are typed.
Context:	Coliseum disbursements written outside of the finance department totaled approximately \$5 million.
Effect:	Payments made directly by the Coliseum could violate City purchasing and disbursement policies and are not recorded timely.
Cause:	Current reconciliation procedures for the Coliseum activity only account for the shows closed in the month to be reported to the Finance department.
Recommendation:	We recommend that only show related expenditures be paid by the Coliseum and all other routine purchases and services be submitted through the current purchasing procedures at the City. We also recommend that periodic review of show reconciliations be performed by the finance department to ensure proper adherence to laws and regulations. In addition, signing checks in advance should be strictly forbidden since it negates the purpose of having dual signatures. We recommend that terms be negotiated with the event promoters to wire the settlement to the promoter's bank account on the next business day to avoid advance signing of checks. The accounting software should be updated to the most current version and the audit trail safeguards of the software enabled to track any changes to checks after they have been written. Checks should be printed utilizing a peripheral printer instead of hand typing.
Management's Response:	We concur with the finding and have already started incorporating the recommendations along with other control enhancements.
Current Status:	This finding has been corrected during the year.



Corrective Action Plan

**Finding 2007-1:** Timely Account Reconciliations and Recording of Capital Assets

**Name of contact person:** Jim York, Finance Director

**Corrective action:** To correct this issue, we will need to modify our accounting procedures for the accumulation of costs associated with the acquisition of capital assets. We have changed our process going forward and over time, will completely convert to the new methodology as existing projects are completed and capitalized.

**Anticipated Completion Date:** December 31, 2009

**Finding 2008-2:** Timely Depositing of Funds

**Name of contact person:** Jim York, Finance Director

**Corrective action:** We recognize that funds are to be deposited in a timely manner and have revisited this need with the departments responsible for the collection of City funds.

**Anticipated Completion Date:** December 15, 2009

**Finding 2008-3:** Reporting (Community Development Block Grant ("CDBG") (CFDA# 14.218)

**Name of contact person:** Madeline Rogero, Director of Community Development

**Corrective action:** The discrepancy between receivable balances in the CAPER and the financial statements has been noted and procedures are being revised to correct these discrepancies.

**Anticipated Completion Date:** January 31, 2010.

### Corrective Action Plan (Continued)

**Finding 2009-1:** Financial Statement Adjustments

**Name of contact person:** Jim York, Finance Director

**Corrective action:** The accounting for the joint venture was revised during the audit and procedures amended to maintain proper accounting in the future. We have incorporated the requirement to accrue future tax revenues and will continue to do so.

**Anticipated Completion Date:** September 30, 2009

**Finding 2009-2:** Reporting (Project Safe Neighborhoods (CFDA# 16.609))

**Name of contact person:** Jim York, Finance Director

**Corrective action:** The Knoxville Police Department has obtained grant funding to hire a Program Specialist to assist the Planning and Grants Manager. The position is 100% grant funded. The Program Specialist will serve as the backup. The Knoxville Department has procedures in place to ensure that reports are submitted timely and accurately when the Planning and Grants Manager is absent due to unexpected circumstances.

**Anticipated Completion Date:** December 1, 2009

**Finding 2009-3:** Subrecipient Monitoring - Family Justice Center (CFDA# 16.590), Project Safe Neighborhoods (CFDA# 16.609) and Capital Improvement and Formula Grants (CFDA# 20.500/20.507)

**Name of contact person:** Jim York, Finance Director

**Corrective action:** Police and KAT are aware of their deficiencies and are in the process of taking corrective action.

**Anticipated Completion Date:** December 31, 2009

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