



CITY OF KNOXVILLE
MADELINE ROGERO, MAYOR

Knoxville: Investing in a Great City



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2015

KNOXVILLE, TENNESSEE
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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF KNOXVILLE, TENNESSEE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

**JAMES YORK, CMFO
SENIOR DIRECTOR OF FINANCE**

**CLYDE 'BOE' COLE, CMFO, CGFO
COMPTROLLER**

CITY OF KNOXVILLE, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2015

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INTRODUCTORY SECTION



December 9, 2015

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, 2015. 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 the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133. GASB Statement 68 was adopted in FY2015, which expanded the standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and for pension disclosure, identifies the methods and assumptions that need to be used for projecting benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to the periods of employee service. These changes are discussed further in the footnotes and the Management's Discussion and Analysis.

The City's financial statements have been prepared by the Finance Department and audited by Crosslin & Associates, P.C. 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 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. The Statistical Section provides selected unaudited financial and demographic information on a multi-year basis. Finally, the Compliance Section incorporates information associated with Federal and State grants and our compliance therewith.

Generally accepted accounting principles (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.

This report covers all financial operations of the City of Knoxville, as well as its component units. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. The City also has financial accountability over three component units, Knoxville Utilities Board (KUB), the Metropolitan Knoxville Airport Authority (MKAA), and Knoxville Area Transit (KAT). The financial statements of KUB, MKAA 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.

Governmental Structure

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 members elected at large. The mayor and council members are elected on a non-partisan basis for 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.

Local Economic Condition

The City of Knoxville is the third largest City in the State of Tennessee, having an estimated population of 183,270 (2013 Census Bureau Estimate). Located in East Tennessee at the headwaters of the Tennessee River, the City serves as the economic center of the East Tennessee area, including portions of Kentucky, North Carolina and Virginia. Its trade sector is one of the strongest in the state.

Knoxville has a diversified economy and was ranked in the Top 50 Best Places for Business and Careers, according to Forbes.com, for 2013. This ranking follows a late 2012 Brookings Institution designation that the City was only one of three cities in the country to have recovered from the recession.

With a business-friendly environment, the City opened the Knoxville Entrepreneur Center (KEC) in 2013 as a business accelerator that will help budding entrepreneurs turn ideas into reality. The KEC is a significant component of Knoxville's future economic success, which depends on the city's ability to attract, develop and retain talented people. The center helps business owners collaborate on ideas that will be transformed into jobs and a stronger tax base.

Tourism is an economic generator for Knoxville. According to the Tennessee Department of Tourist Development, tourists spent a total of \$988.05 million in Knox County in 2014, an increase of 6.2% compared to 2013, generating a total of \$49.97 million in state and \$23.50 million in local tax revenues, increases of 7.0% and 6.3%, respectively. More than 9,106 Knox Countians are employed in tourism-related fields.

The City, located in Knox County, has one of the lower sales tax rates in the state. Authorized by state law to levy up to 2.75%, the combined city/county rate is 2.25%. Approximately seventy-four percent of the taxable sales within the County occur inside the corporate limits of Knoxville. Approximately seventy-two percent of the taxes collected within the City are distributed to the Knox County School System with the remainder flowing to the City's general fund. The following table displays the City's portion of local sales tax collections (in thousands) over the past ten years.

<u>Fiscal Year</u>	<u>Collections</u>	<u>% Change</u>
2006	\$34,514	8.59%
2007	\$36,659	6.21%
2008	\$37,274	1.68%
2009	\$34,186	(8.28%)
2010	\$32,654	(4.48%)
2011	\$33,849	3.66%
2012	\$36,379	7.47%
2013	\$35,028	(3.71%)
2014	\$35,783	2.16%
2015	\$37,187	3.92%

As shown, the City, in FY15 experienced a 3.92% increase in local sales tax. The increase is a favorable sign of continued local economic recovery.

The presence of the University of Tennessee along with Tennessee Valley Authority, Oak Ridge National Laboratory and other large governmental installations lend stability to the area, making the local economy less cyclical than either the national or state economy. In April 2015, the Knoxville metro area's civilian labor force (full and part-time, non-farm, wage and salary employees and self-employed persons) totaled 411,660 workers. Average unemployment rate was 4.9 percent, a decline from 5.5 percent in April 2014. Knox County reported a total 231,280 workers and 4.3 percent unemployment in April 2015, an improvement from last year's rate of 4.8 percent.

An extensive transportation network connects Knoxville to the U. S. marketplace. Nearly half of the nation's population is within an eight to ten hour drive 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 six airlines.

The Knoxville Utility Board (KUB) provides electricity, water and wastewater, and gas to more than 444,000 customers in Knox, Union, Grainger, Jefferson and Sevier Counties. It is comprised of 5 major plants, 297 remote facilities, and employs about 930 people. Operating with an \$889 million budget and \$1.651 billion in net capital assets, it is the fourth largest customer of the Tennessee Valley Authority.

The McGhee Tyson Airport (MKA) is served by six major airlines serving 21 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Fort Lauderdale, New York, Chicago, Denver and Washington D.C. Departures and arrivals total 1.746 million passengers annually. The direct and indirect economic impact of the airport is estimated by the Metropolitan Knoxville Airport Authority to be approximately \$1 billion annually. This figure includes payroll, local spending, transportation cost savings, capital spending and other benefits. To build on our economic success, the City of Knoxville became a part of a regional partnership to attract more air carriers to the airport. The Competitive Airfare Partnership is part of an Innovation Valley strategy to encourage more tourists and visitors to the area, and to promote business relocation and industrial development efforts.

Knoxville Area Transit (KAT) is the City of Knoxville's transit system, operating buses, trolleys and paratransit service across the city. KAT's funding comes from the City of Knoxville, the state and federal governments and fare revenues. KAT carries over 3 million passenger trips each year. KAT's 24-route bus system and 3-route trolley system is based at the Knoxville Station Transit Center, which serves as the major public transportation hub for metropolitan Knoxville. The facility, which opened in 2010, is the city's first Silver LEED-certified government building.

Knoxville boasts 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, the Rossini Festival, Christmas in the City and many other cultural activities. The City is increasingly becoming an outdoor destination with the development of an urban wilderness area in south Knoxville and the enhancement of its park system.

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. Two tourist towns are located at the foothills of the Smoky Mountains, Gatlinburg and Pigeon Forge. Gatlinburg 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 is also a shopper's mecca and 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 Knoxville Visitors Center, Outdoor Knoxville, Volunteer Landing, Neyland Stadium, home of the University of Tennessee Volunteer football team, the Knoxville Botanical Gardens, and the Knoxville Zoo.

The Knoxville Symphony, the Knoxville Opera Company, and the Tennessee Children's Dance Ensemble are among the many exceptional arts organizations in the city. Choral groups, dance companies, and eleven 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 receives high honors for quality of life. In 2015, Forbes magazine listed Knoxville as the second most affordable city in America, based on housing prices, living costs, and the consumer price index. The American Chamber of Commerce Researchers Association (ACCRA) also ranked Knoxville as one of the more affordable Southeast urban areas, with a cost-of-living index of 87.4 in 2014, the average of participating cities equaling 100.0. Not only does Knoxville offer a high quality of life, but it has been recognized as a great place to work. CareerBliss.com recently ranked Knoxville as the second happiest city for workers, based on factors such as compensation, growth opportunities and company culture.

The quality of life, a low cost of living, convenient interstate access as well as other factors make the area an attractive location for many types of operations. 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. Other national and global leaders in the area include Home and Garden Television (HGTV), Clayton Homes, DeRoyal Industries, Pilot Flying J Travel Centers, Regal Entertainment, Brunswick Corporation, and Green Mountain Coffee. Sysco Corporation, one of the largest food service marketers and distributors in North America, also calls the Knoxville area home.

Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's (UTK) main campus which experienced an enrollment of 27,845 students for Fall 2015, including its teaching hospital and veterinary school. U.S. News and World Report ranks UTK in the top half, 47th of 119 national public universities. 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.

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 the cost of a control should not exceed the benefits likely to be derived, and 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 exceed 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.

Other information

Independent Audit

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee has selected Crosslin & Associates, P.C. to perform the fiscal year 2015 audit.

MAJOR INITIATIVES

I. Redevelopment

Knoxville is the hub of the East Tennessee region. The city was founded in 1791 and served as the first capital of the state of Tennessee, from 1796 to 1812. It retains the best of its Appalachian heritage today – a strong work ethic, a family-centered community, and an intense respect for the natural beauty of the city and its surroundings.

Downtown Knoxville has enjoyed a sustained resurgence since the start of this century, with a vibrant arts scene and cultural attractions (from the Women's Basketball Hall of Fame to the Knoxville Museum of Art), along with entertainment, shopping and dining opportunities.

The City's Office of Redevelopment has been an important partner in this resurgence, and in 2015 continued its efforts to encourage reinvestment in the urban core and in neighborhoods radiating out in all directions from downtown. The City began construction this year on a \$17 million redesign and reconstruction of a nine-block stretch of Cumberland Avenue, the dense commercial area close to the University of Tennessee, that will modernize aging utility infrastructure, improve traffic flow and improve the aesthetics of the corridor.

On the south bank of the Tennessee River, work continues on the former site of Baptist Hospital, which is being developed by Blanchard & Calhoun Commercial into a \$165 million mixed-use complex of apartments, office space, restaurants and retail. That project is also benefiting from City and Knox County tax-increment financing.

Also on the South Waterfront, work progressed on the planned Suttree Landing Park. The five-acre park will provide public recreation space and river access for boaters. The plan also includes a new street, Waterfront Drive, which will facilitate an extension of the existing neighborhood.

Work moved forward on a more attractive and accessible entrance to Fort Dickerson Park from Chapman Highway, which will bring more attention to the historic Civil War battle site and the park's beautiful quarry.

The City completed installation of an ambitious \$1.2 million Wayfinding program in downtown Knoxville. The project replaced the City's existing directional and informational signs with a coherent set of signs and maps that make navigation easier for drivers and pedestrians.

To the east of downtown, the Office of Redevelopment began design on improved streetscapes for Magnolia Avenue, starting with a "model block" that will serve as a template for improvements all along the historic commercial corridor.

The City of Knoxville encourages reinvestment in other parts of the City through the Community Development Department. Initiatives such as owner-occupied rehabilitations, blighted property acquisitions, and a commercial façade program enhance targeted redevelopment areas.

The façade program improves the appearance of buildings and serves to improve the economic viability of these areas. Better aesthetics are known to increase property values, improve the marketability of buildings and attract commercial tenants and residents.

II. Sustainability

Knoxville has a commitment to energy efficiency and sustainability. The Office of Sustainability continued its work this year with the Knoxville Smarter Cities Partnership. The group was formed to follow through on recommendations made by an IBM Smarter Cities team in 2013, to help low-income residents weatherize their homes and learn more about energy efficiency. The goal is to reduce the need for emergency utility bill assistance. The City is working with partners including the Knoxville Utilities Board, TVA and the Community Action Committee.

The partnership has led to the creation of two separate programs to fund ongoing weatherization for low-to-moderate-income households. The Knoxville Utilities Board created the "Round It Up" program, which automatically rounds up utility bills to the next dollar and directs the extra amount to a weatherization fund. (Customers can opt out of the program.) The partnership also received \$15 million in funding from the Tennessee Valley Authority for the Knoxville Extreme Energy Makeover (KEEM) program, which will also fund residential weatherization.

The Office of Sustainability also took the lead in promoting urban agriculture and community gardens, through a set of proposed ordinances that were adopted this year by City Council to allow more freedom for community gardens to operate within the City and for small growers to directly sell their produce to consumers.

III. Livability

Knoxville consistently receives high honors for quality of life. In 2015, Forbes magazine listed Knoxville as the second most affordable city in America, based on housing prices, living costs, and the consumer price index. It was recently ranked one of the Best Places to Retire by Livability.com, and the City's investment in outdoor recreation and its Urban Wilderness Corridor have attracted favorable coverage from outlets including USA Today and Backpacker magazine.

The City continues to invest in neighborhood infrastructure, recreational facilities, major community events and great public spaces. It is important that neighborhoods also have quality infrastructure and are free from blight. This year's budget provided \$800,000 to Knoxville's Community Development Corporation for the redevelopment of the Walter P. Taylor homes project in the Five Points/Park City area, part of an ongoing 10-year commitment to that area.

Great neighborhoods also have access to parks, greenways, natural areas, and recreational opportunities. They safely accommodate pedestrians, bicycles, public transit, and vehicles. The City has continued to invest in Knoxville's greenway network, with \$1 million designated for greenway construction in the 2015 budget. It also continued to fund necessary demolition and utility

improvements at Lakeshore Park, to lay the groundwork for the implementation of an ambitious new master plan adopted for that park by the nonprofit Lakeshore Park board.

Awards

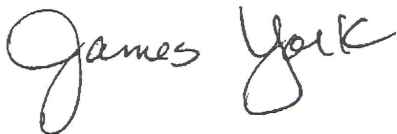
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Knoxville for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the twenty-eighth consecutive 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, 2014. This marks the twenty-seventh 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, Crosslin & Associates, P.C., and the City Council audit committee comprised of Nick Della Volpe (Chair), Daniel Brown, Brenda Palmer, Finbarr Saunders and Marshall Stair. 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 Knoxvilleans.

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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Knoxville
Tennessee**

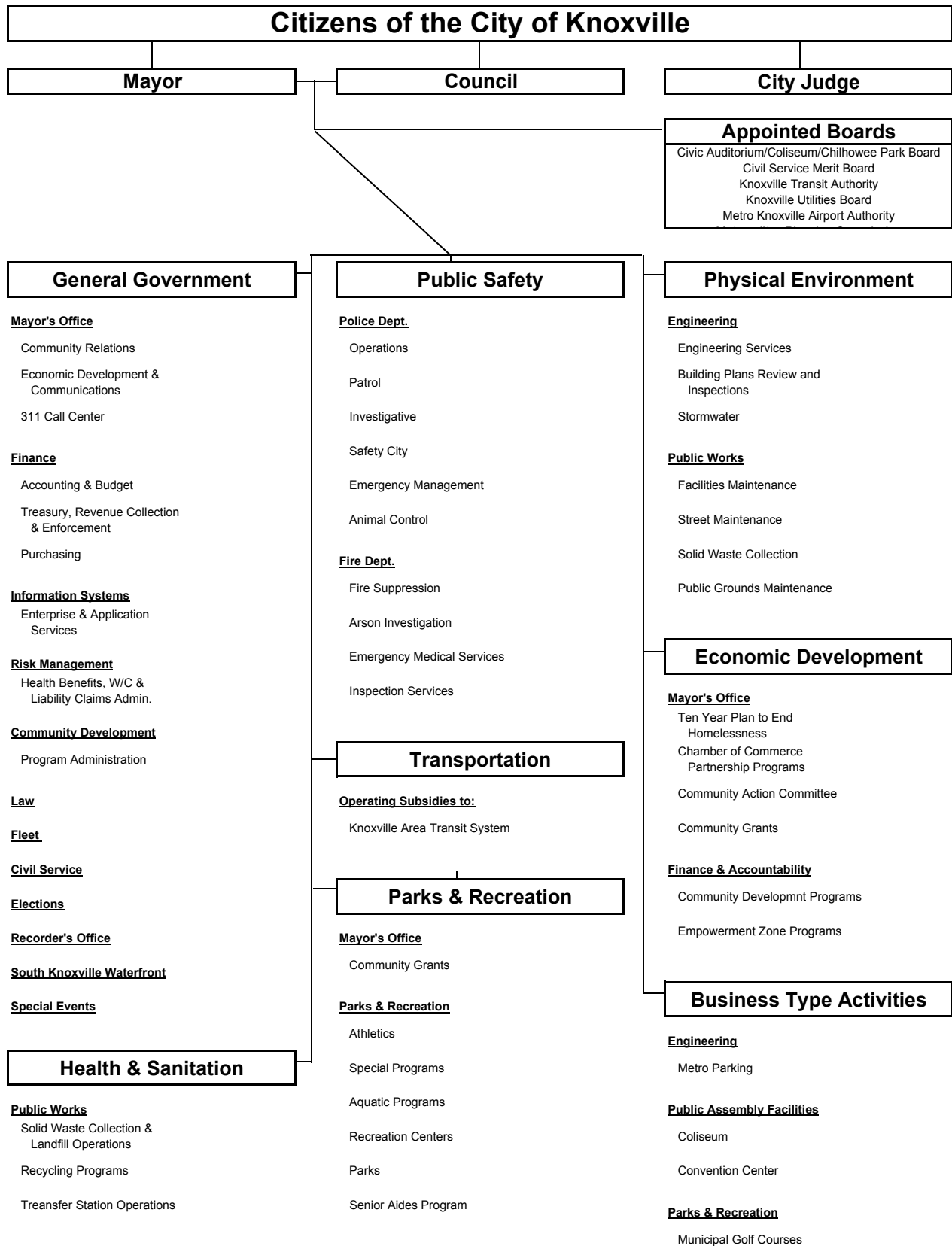
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

City of Knoxville, Tennessee

Organizational Structure by Function



CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF PRINCIPAL OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR

Madeline Rogero

CITY COUNCIL

George Wallace
Brenda Palmer
Marshall Stair

Nick Pavlis, Vice Mayor
Nick Della Volpe
Mark Campen

Duane Grieve
Daniel Brown
Finbarr Saunders

CITY JUDGE

John Rosson

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Deputy to the Mayor – Christi Branscom, Chief Operating Officer
Deputy to the Mayor – Dr. William Lyons, Chief Policy Officer
Community Relations Director and Special Assistant to the Mayor – Thomas E. Strickland, Jr.
Airport – Bill Marrison, President
City Recorder – Cindy Mitchell
Civil Service – Vicki Hatfield, Director
Community Development – Becky Wade, Director
Finance & Accountability – Jim York, Sr. Director
Fire – Stan Sharp, Chief
Information Systems – Janet Wright, Director
Knoxville Area Transit – Dawn Distler, General Manager
Knoxville Utilities Board – Mintha Roach, President
Law – Charles W. Swanson, Sr. Director
Police – David B. Rausch, Chief
Public Assembly Facilities – Greg MacKay, Director
Engineering – James Hagerman, Director
Public Service – David Brace, Director
Parks & Recreation – William Walsh, Director
Special Events – Judith Foltz, Director

FINANCIAL SECTION



Independent Auditor's Report

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

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following discretely presented component units: the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority, which represents 98% of the total assets, 96% of total net position and 97% of the total revenues of the aggregate discretely presented component units of the City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Knoxville, Tennessee, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the general fund and miscellaneous community development funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1, 2 and 19, in fiscal year 2015, the City adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 20 and the schedule of changes in net pension liability and schedule of employer contributions of the pension plan on pages 90 and 91, and the schedule of funding progress and schedule of employer contributions of the other postemployment benefit plan on page 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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, combining and individual fund financial statements and schedules on pages 93 to 122, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Tennessee, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 9, 2015

Management's Discussion and Analysis

This Management Discussion and Analysis (MD & A) seeks to aid the reader in understanding the City of Knoxville Tennessee's basic financial statements and 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, 2015.

Financial Highlights

- The assets and deferred outflows of resources of the City of Knoxville primary government exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$482,740,786 (*net position*). Of this amount, \$189,615,586 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net position increased by \$51,062,472, a change of 11.83% when compared to fiscal year 2013/14. This gain stems from increases in property tax and other revenues as well as effective budgetary controls and involvement of all employees in controlling expenses..
- As of the close of the fiscal year, the city's governmental funds reported combined ending fund balances of \$264,661,136, an increase of \$36,441,569 over the prior year. Of this total, \$234,153,121 or 88.47% is either non-spendable, restricted, committed, or assigned. The remaining balance of \$30,508,015 is available for spending at the city's discretion.
- The ending Fund Balance in the City's General Fund increased by \$4,777,301 or 6.7%. Tax collections, particularly the state shared Halls Income Tax, were much higher than anticipated, and augmented by efficient use of resources contributed significantly to the budgetary surplus and allowed for increased appropriations for other uses during the year. Consistent with fund balance standards, a total of \$443,196 is considered non-spendable and \$44,821,723 is assigned or committed. This leaves a balance of \$30,508,015 available for spending at the City's discretion.
- The City's total debt for the primary government increased by \$21,360,000 from \$159,435,000 to \$180,795,00 during the current fiscal year as a result of normal debt service activity and the issuance of \$31,080,000 Series 2014 General Obligation Bonds to finance various capital improvements.

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

Governmental Activities
Business-Type Activities

Component Units

Knoxville Utilities Board
Metropolitan Knoxville Airport Authority
Knoxville Area Transit

STATEMENT OF NET POSITION

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

The statement of net position presents the consolidated financial condition of the City at a moment of time. This statement presents assets and deferred outflows, liabilities and deferred inflows and total net position 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 position changed during the most recent fiscal year. All changes in net position 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 Non-major Governmental Funds, Special Revenue Funds and Permanent Funds) Governmental funds are as follows:

Major Governmental Funds	Non-Major Governmental Funds/Special Revenue Funds
General	State Street Aid
Debt Service	Community Development Block Grants
Capital Projects	Abandoned Vehicles
	City Inspections
	City Court
	Miscellaneous Grants
	Animal Control
	Miscellaneous Special Revenue Funds
	Storm Water
	Solid Waste
	Knoxville Civic Revitalization
 Permanent Fund 	
	Krutch Park Trust

A budgetary comparison statement for the General Fund and Miscellaneous Community Development Funds (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, 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 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:

Business-Type Activities

Knoxville Convention Center
Other Business-Type Activities -
Metro Parking
Public Assembly Facilities
Municipal Golf Courses

Governmental Activities/Internal Service Funds

Fleet Maintenance
Risk Management
Health Insurance
Equipment Replacement
City Buildings

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

The Statement of Revenues, Expenditures, and Changes in Fund Net Position isolate operating revenues and expenses from other changes in net position 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 position based on their availability for use in operations.

The Statement of Changes in Fiduciary Net Position notes all changes in net assets without distinguishing earnings related changes from other types of changes. These changes to net position 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 non-major governmental funds, non-major 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.

During fiscal year 2015, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. GASB No. 68 was implemented through a restatement of beginning net position. Amounts within this MD&A have been restated, where practical. See Note 2 for further information.

Statement of Net Position at June 30, 2015

A condensed version of the Statement of Net Position follows:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014 (1)	2015	2014 (1)	2015	2014 (1)
Assets						
Cash and investments	\$ 368,429	\$ 313,671	\$ 39,307	\$ 33,074	\$ 407,736	\$ 346,745
Other assets	175,469	184,846	8,173	9,139	183,642	193,985
Capital assets	296,226	276,654	146,598	150,218	442,824	426,872
Total assets	<u>840,124</u>	<u>775,171</u>	<u>194,078</u>	<u>192,431</u>	<u>1,034,202</u>	<u>967,602</u>
Deferred Outflow s	<u>23,094</u>	<u>13,704</u>	<u>1,768</u>	<u>3,599</u>	<u>24,862</u>	<u>17,303</u>
Liabilities						
Other liabilities	25,174	15,123	3,595	1,821	28,769	16,944
Noncurrent liabilities	244,923	260,399	119,825	126,306	364,748	386,705
Total liabilities	<u>270,097</u>	<u>275,522</u>	<u>123,420</u>	<u>128,127</u>	<u>393,517</u>	<u>403,649</u>
Deferred Inflow s	<u>182,403</u>	<u>149,247</u>	<u>403</u>	<u>331</u>	<u>182,806</u>	<u>149,578</u>
Net position						
Net investment in capital assets	247,582	231,666	30,011	29,159	277,593	260,825
Restricted	15,532	49,782	-	-	15,532	49,782
Unrestricted	147,604	82,658	42,012	38,413	189,616	121,071
Total net position	<u>\$ 410,718</u>	<u>\$ 364,106</u>	<u>\$ 72,023</u>	<u>\$ 67,572</u>	<u>\$ 482,741</u>	<u>\$ 431,678</u>

(1) - as restated for adoption of GASB Statement No. 68 related to pensions.

Governmental Activities

Assets have increased by 8.4% and liabilities have decreased by 1.96% when compared to 2014 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. Deferred outflows are generated from pensions and increased 68.5% during fiscal 2015. The majority of the net change in liabilities was due to the issuance of \$31,080,000 in long term debt and the decrease in the net pension liabilities. Deferred inflows primarily representing the ensuing fiscal year tax levy increased by 24.68%, primarily as a result of the pension (\$38.8M) resulting from the implementation of GASB 68. The net result of these changes is an increase of 12.8% in total net position after restatement of beginning net position for adoption of GASB Statement No. 68, related to pensions.

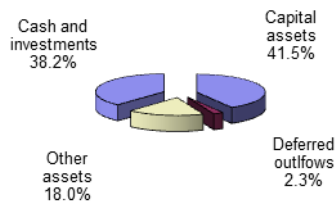
Business-Type Activities

Assets and liabilities have changed by 0.8% and -3.67% respectively from FY2014 levels. Changes in deferred outflows and inflows primarily due to the first year of the implementation of GASB 68 coupled with favorable results from operations accounted for the overall 6.6% increase in net position.

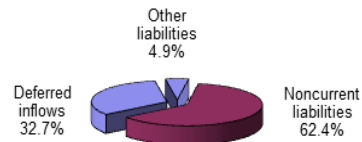
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 41.5% of \$1,059,064 million in total assets and deferred outflows. Taxes and governmental receivables constitute 18%. Current liquidity comprised of cash and investments represents 38.2% and deferred outflows representing interest rate swaps and pension liabilities account for 2.3%.

Primary Government Assets & Deferred Outflows



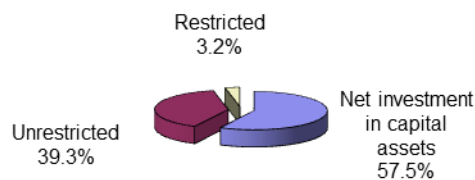
Primary Government Liabilities & Deferred Inflows



Of the total government liabilities, 62.4% are in long-term debt outstanding. Of the total long-term debt, approximately \$115.2 million, or 63.7% is related to debt issued to finance the convention center complex.

A portion of the City's total net position 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 position of the City's governmental activities represent 42.3% of total primary government net assets.

Primary Government Total Net Position



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

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	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 10,925	\$ 11,645	\$ 8,844	\$ 9,570	\$ 19,769	\$ 21,215
Operating grants & contributions	7,710	8,409	1,500	1,500	9,210	9,909
Capital grants & contributions	6,658	4,693	-	-	6,658	4,693
General revenues:						
Taxes	229,205	209,035	9,373	10,284	238,578	219,319
Interest	1,444	1,674	133	164	1,577	1,838
Other	2,497	2,388	1,219	1,018	3,716	3,406
Total revenues	<u>258,439</u>	<u>237,844</u>	<u>21,069</u>	<u>22,536</u>	<u>279,508</u>	<u>260,380</u>
Expenses:						
General government	16,347	32,702	-	-	16,347	32,702
Public safety	91,659	89,816	-	-	91,659	89,816
Physical Environment	49,559	51,368	-	-	49,559	51,368
Transportation	10,866	11,048	-	-	10,866	11,048
Economic development	10,550	8,752	-	-	10,550	8,752
Parks and recreation	10,723	10,345	-	-	10,723	10,345
Health & Sanitation	10,274	10,688	-	-	10,274	10,688
Interest on long-term debt	2,196	1,827	-	-	2,196	1,827
Other	-	-	26,271	29,583	26,271	29,583
Total expenses	<u>202,174</u>	<u>216,546</u>	<u>26,271</u>	<u>29,583</u>	<u>228,445</u>	<u>246,129</u>
Increase (decrease) in net position before transfers	56,265	21,298	(5,202)	(7,047)	51,063	14,251
Transfers	(9,653)	(8,612)	9,653	8,612	-	-
Changes in net position	46,612	12,686	4,451	1,565	51,063	14,251
GASB No. 68 Restatement	-	(177,721)	-	(1,810)	-	(179,531)
Beginning net position (as restated)	364,106	529,141	67,572	67,817	431,678	596,958
Ending net position	<u>\$ 410,718</u>	<u>\$ 364,106</u>	<u>\$ 72,023</u>	<u>\$ 67,572</u>	<u>\$ 482,741</u>	<u>\$ 431,678</u>

Governmental Activities

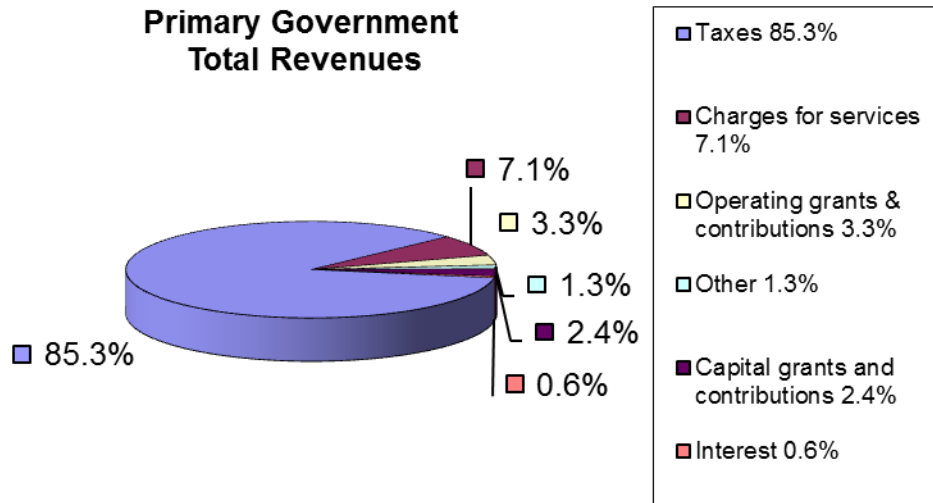
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2015, only activity from the General, Debt Service, and City Court Funds generated material revenues in excess of current expenses. Excess revenue generated by the General Fund is used to support funds that are not self-sufficient on their own and to maintain reserves necessary for the proper operation of the city. Surplus Debt Service fund revenues are generally utilized for one time expenses and capital projects or will be used to retire debt in the future. Excess City Court revenues are transferred to the General Fund to finance general operations. 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 Civic Coliseum/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 college 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. To assist with repayment of the debt associated with the Convention Center, a dedicated Hotel/Motel tax is pledged and used. Additional redevelopment efforts in the city's downtown area are expected to increase the cost effectiveness of the city's infrastructure investments.

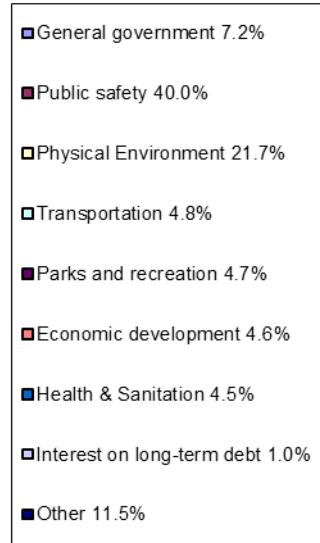
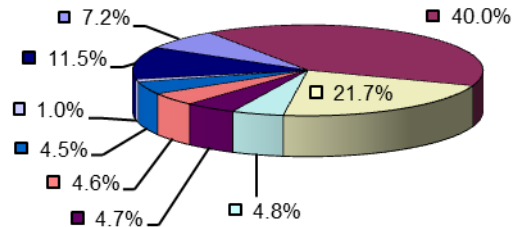
Total Government

Primary Government Revenues were \$279.5 million. The largest portion of these revenues (\$238.6M – 85.3%) was from taxes.



Total primary government expenses totaled \$228.4 million, 40.0% of which was directed toward public safety.

Primary Government Total Expenses



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	
	2015	2014	2015	2014	2015	2014	2015	2014
Program Revenues	\$ 764,310	\$ 752,446	\$ 40,267	\$ 34,248	\$ 17,309	\$ 24,506	\$ 821,886	\$ 811,200
Program Expenses	(730,820)	(723,528)	(32,540)	(32,598)	(28,460)	(33,606)	(791,820)	(789,732)
Total General Revenues	2,482	851	790	762	9,481	9,530	12,753	11,143
Change in Net Assets	35,972	29,769	8,517	2,412	(1,670)	430	42,819	32,611
Net Assets at Year End (as restated)	\$ 928,622	\$ 893,414	\$ 136,533	\$ 128,017	\$ 46,968	\$ 48,638	\$ 1,112,123	\$ 1,070,069

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2015

The total Governmental Funds balance as of June 30, 2015 is \$264.7 million of which the general fund's balance is approximately \$75.8 million, the debt service fund is \$50.3 million, capital projects funds comprise \$113.3 million, miscellaneous community development total \$1.8 million and the remaining \$23.5 million is distributed among the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances increased by \$36.5 million when compared to the prior year. The increase was spread among the various funds with the capital projects fund having the largest (\$32.1 Million) mainly due to the 2014 GO Bond issue. Significant causes of the various increases are explained further in the following section.

Statement of Revenues, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2015

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 the fiscal year ended June 30, 2015, 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	2015	2014	Percent of Total 2015	Change from Prior Year Increase (Decrease)	Percent Change
Taxes, assessments, interest & penalties	\$ 204,089	\$ 184,128	89.50%	\$ 19,961	10.84%
Licenses, permits and inspection charges	2,266	2,027	0.99%	239	11.79%
Intergovernmental revenue	36,125	34,585	15.84%	1,540	4.45%
Charges for services	7,089	6,263	3.11%	826	13.19%
Fines and forfeitures	3,247	3,256	1.42%	(9)	(0.28%)
Other	5,073	5,525	2.22%	(452)	(8.18%)
Totals	<u>\$ 257,889</u>	<u>\$ 235,784</u>	<u>113.08%</u>	<u>\$ 22,105</u>	<u>9.38%</u>

A comparison of revenues between FY14 and FY15 shows total general government revenues increased by approximately \$22.1 million or 9.38%. While the increases are spread between the various funds, the largest increase is in the General Fund's property tax collections (\$19.7 million) which is primarily due to the General Fund tax rate increase for FY15. The capital projects funds increase was due to increased transfers for approved capital projects.

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, 2015, and the percentage of increases and decreases in relation to prior year amounts.

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

Expenditures	2015	2014	Percent of Total 2015	Change from Prior Year	
				Increase (Decrease)	Percent Change
Administration	\$ 3,817	\$ 3,473	1.76%	\$ 344	9.90%
Finance	3,897	3,924	1.80%	(27)	(0.69%)
Information Systems	4,475	3,857	2.06%	618	16.02%
Community Development	6,488	7,133	2.99%	(645)	(9.04%)
South Knoxville Waterfront	460	499	0.21%	(39)	(7.82%)
Parks & Recreation	7,264	6,867	3.35%	397	5.78%
Mass Transit	12,151	12,337	5.60%	(186)	(1.51%)
Engineering	13,701	13,046	6.32%	655	5.02%
Public Services	35,626	36,092	16.43%	(466)	(1.29%)
Law	2,795	2,594	1.29%	201	7.75%
Police	58,891	52,525	27.15%	6,366	12.12%
Fire	40,980	36,699	18.90%	4,281	11.67%
Legislative	985	1,060	0.45%	(75)	(7.08%)
City Elections	4	228	0.00%	(224)	(98.25%)
Civil Service	1,026	1,105	0.47%	(79)	(7.15%)
Knoxville Partnership	630	800	0.29%	(170)	(21.25%)
Metropolitan Planning Commission	990	905	0.46%	85	9.39%
Knoxville Zoological Park	1,159	1,109	0.53%	50	4.51%
Community Agency Grants	1,005	697	0.46%	308	44.19%
Other Nondepartmental	79	68	0.04%	11	16.18%
Community Action Committee	691	616	0.32%	75	12.18%
Tax Increment Payments	1,730	1,247	0.80%	483	38.73%
Capital and Grant Projects	36,163	25,892	16.67%	10,271	39.67%
Debt service:		-			
Principal retirement	5,383	5,291	2.48%	92	1.74%
Interest on bonds and notes	2,136	1,745	0.98%	391	22.41%
Bonds issuance costs	170	-	0.08%	170	-
Total Expenditures	\$ 242,696	\$ 219,809	111.89%	\$ 22,887	10.41%

Overall, general government expenditures in FY 14/15 increased by \$22.9 million. Of the combined \$10.6 million increases in Police and Fire expenditures, approximately \$7.8 million was the result of pay studies recommended salary and benefit increases. Public safety operations accounted for approximately 41.1% of the City's total governmental operations of \$242.7 million. Increased capital project expenditures were a result of timing in relation to various projects being performed in the city.

Proprietary Funds Statements

Statement of Net Assets at June 30, 2015

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

Statement of Revenues, Expenses and Changes in Fund Net Assets for the Year Ended June 30, 2015

A summary of the revenues, expenses, and interfund transfers indicates that there is an increase in total proprietary fund net position, including internal service funds, of \$12.6 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2015

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. Although the Convention Center operated at a loss the amount of the loss has continued to decline over the years. The Metro Parking Fund (parking garages) recovered from last year's small loss. The prior year loss was due to construction closures related to expansion of the facilities. The \$1.2 Million transfer from City Buildings fund represents return of reserves. 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 have a small operating loss which was partially covered with subsidies from the General Fund. When the city reacquired the courses from the private operators five years ago, the condition of the courses and their reputations had diminished. The city continues to work to rebuild the public's confidence in the courses and has achieved a certain degree of success but general economic factors have taken their toll by leveling off customer revenues.

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

Condensed Financial Information Proprietary Funds For Fiscal Year Ending June 30 (In \$1,000's)						
Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2015	2014	2015	2014	2015	2014
I. Business-type Activities						
A. Knoxville Convention Center	\$ 15,460	\$ 16,322	\$ 17,578	\$ 16,651	\$ 5,331	\$ 5,903
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,808	1,550	2,143	4,693	500	125
2. Public Assembly Facilities	2,189	2,263	4,563	5,751	2,486	2,403
3. Municipal Golf Courses	1,082	1,339	1,456	1,427	1,335	182
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	16,319	15,206	12,123	13,065	340	122
2. Risk Management	8,105	8,014	5,918	12,844	(1,039)	546
3. Health Insurance	17,676	17,500	17,006	18,333	1,317	992
4. Equipment Replacement	1,798	1,822	1,459	1,520	89	631
5. City Buildings	941	1,660	1,391	1,517	-	1,237
Totals	<u>\$65,378</u>	<u>\$65,676</u>	<u>\$63,637</u>	<u>\$75,801</u>	<u>\$ 10,359</u>	<u>\$ 12,141</u>

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

	Capital Contributions		Change in Net Position		Net Position at Year End (as restated)	
	2015	2014	2015	2014	2015	2014
I. Business-type Activities						
A. Knoxville Convention Center	\$ -	\$ -	\$ 3,213	\$ 5,574	\$ 34,235	\$ 31,022
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	165	(3,018)	21,233	21,068
2. Public Assembly Facilities	-	-	112	(1,085)	14,724	14,612
3. Municipal Golf Courses	-	-	961	94	1,831	870
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	376	126	4,912	2,389	59,852	54,940
2. Risk Management	-	-	1,148	(4,284)	13,866	12,718
3. Health Insurance	-	-	1,987	159	12,836	10,849
4. Equipment Replacement	119	-	547	933	20,946	20,399
5. City Buildings	-	-	(450)	(1,094)	3,047	3,497
Totals	\$ 495	\$ 126	\$ 12,595	\$ (332)	\$ 182,570	\$ 169,975

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, and former school board employees that had vested rights in the City's pension plan at the time the school system was consolidated with the Knox County schools. The following table notes the contribution rates:

	Condensed Financial Information Pension Trust Fund Contribution Rates		
	FY 14/15 Contribution Rates	FY 13/14 Contribution Rates	Estimated FY 15/16 Contribution Rates
General Government Employees	19.30%	20.90%	20.34%
Police and Fire Employees	42.43%	35.36%	44.85%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 78.9%. The city is currently amortizing the unfunded portion according to an actuarial determined schedule. The plan is to be fully funded in 23 years. In 2012, the city shifted all newly hired employees to a hybrid based pension plan. Lower employer contribution rates for these individuals will offset a portion of the increased costs in funding the older plans. This will result in fairly level nominal contributions in future years. 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 approximately \$7 million in increases 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, 2015

Department	Carry Forward of Prior Year Encumbrances	Other	Total Changes
Administration	\$ 53,603	\$ (200,000)	\$ (146,397)
Finance	1,389	-	1,389
Information Systems	33,441	-	33,441
Community Development	23,099	-	23,099
Waterfront Operations	-	3,700	3,700
Parks & Recreation	17,980	-	17,980
Mass Transit	-	-	-
Public Services	2,811	(88,950)	(86,139)
Engineering	948	-	948
Law	33,054	-	33,054
Police	5,001	-	5,001
Fire	10,747	-	10,747
Legislative	24	-	24
Civil Service	32,117	-	32,117
Nondepartmental	185,131	(66,380)	118,751
Transfers	-	6,950,000	6,950,000
Total General Fund	<u>\$ 399,345</u>	<u>\$ 6,598,370</u>	<u>\$ 6,997,715</u>

The largest change occurred in Transfers which accounted for \$6.95 million of the net \$7 million in revisions. Supplemental and new funding for various construction projects accounted for the bulk of the transfers (\$4.5 Million) and the purchase of a building and site from the state accounted for the balance of the transfers (\$2.4 million) accounted for the balance of the transfers.

Capital Asset and Debt Administration

As of June 30, 2015, as reflected in the following table, the primary government of the City had net investments of \$442.8 million in capital assets. The total belies the fact that the investment in Infrastructure increased by \$14.1 million 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 8 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	
	2015	2014	2015	2014	2015	2014
Land and site improvements	\$ 48,789	\$ 48,764	\$ 7,336	\$ 7,336	\$ 56,125	\$ 56,100
Buildings and improvements	56,693	56,511	230,706	230,362	287,399	286,873
Equipment, furniture & fixtures	90,117	86,894	7,765	7,575	97,882	94,469
Infrastructure	350,213	337,104	1,004	-	351,217	337,104
Construction in progress	29,407	10,884	578	130	29,985	11,014
Less accumulated depreciation	(278,994)	(263,502)	(100,792)	(95,185)	(379,786)	(358,687)
Totals	<u>\$ 296,225</u>	<u>\$ 276,655</u>	<u>\$ 146,597</u>	<u>\$ 150,218</u>	<u>\$ 442,822</u>	<u>\$ 426,873</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	
	2015	2014	2015	2014	2015	2014
Beginning balance	\$ 540,157	\$ 520,979	\$ 245,403	\$ 243,791	\$ 785,560	\$ 764,770
Additions	52,946	28,821	2,116	8,727	55,062	37,548
Deletions	(17,884)	(9,643)	(130)	(7,115)	(18,014)	(16,758)
Balance before depreciation	575,219	540,157	247,389	245,403	822,608	785,560
Accumulated depreciation	(278,994)	(263,502)	(100,792)	(95,185)	(379,786)	(358,687)
Balance after depreciation	<u>\$ 296,225</u>	<u>\$ 276,655</u>	<u>\$ 146,597</u>	<u>\$ 150,218</u>	<u>\$ 442,822</u>	<u>\$ 426,873</u>

As of the year-end, the City's Total Primary Government had \$180.8 million in general obligation debt outstanding.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current - Due in 1 year						
General Obligation Bonds	\$ 6,141	\$ 5,382	\$ 4,534	\$ 4,337	\$ 10,675	\$ 9,719
Total Current	<u>6,141</u>	<u>5,382</u>	<u>4,534</u>	<u>4,337</u>	<u>10,675</u>	<u>9,719</u>
Non Current - Due in more than 1 year						
General Obligation Bonds	59,415	34,476	110,705	115,240	170,120	149,716
Total Non Current	<u>59,415</u>	<u>34,476</u>	<u>110,705</u>	<u>115,240</u>	<u>170,120</u>	<u>149,716</u>
Subtotal	65,556	39,858	115,239	119,577	180,795	159,435
Unamortized Premiums, Discounts and Gain on Refunding	5,089	5,131	1,347	1,483	6,436	6,614
Total Long Term Debt	<u>\$ 70,645</u>	<u>\$ 44,989</u>	<u>\$ 116,586</u>	<u>\$ 121,060</u>	<u>\$ 187,231</u>	<u>\$ 166,049</u>

Ratings on the City's General Obligation Bonded debt are as follows:

For additional information on the long-term debt of the City, please refer to Note 10 of the Notes to Financial Statements.

	<u>2015</u>	<u>2014</u>
Moddy's Investors Service	Aa1	Aa1
Standard & Poor's	AA+	AA+
Fitch Ratings	AAA	AAA

Economic Factors

As with most local governments, the largest source of revenue for the City of Knoxville is taxes. This revenue category represents \$174.8 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 generally been relatively moderate, a trend that is expected to continue. In FY15 the taxable value of real property increased by 0.1% and the overall tax roll increased by 1.8%. This change is due normal growth due to new construction. Historically, the city has collected an average of 95% of property taxes in the year they are due. The trend has, in recent years, been upward due to better economic conditions and enhanced collection efforts. This upward movement has slowed somewhat with the recent recession but not significantly. The trend in personal property has been more volatile but has trended upward in the recent past. Going forward we forecast slight growth in this source. We expect limited to no growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately \$37.2 million or 18.1% of total General Fund revenues. This source tends to be somewhat more elastic than other taxes and is more cyclical in nature. The continued increase in internet shopping also serves to lower growth in this revenue source. In FY 14/15 receipts from this source grew by 3.9% as compared to FY 13/14. Going forward we expect to see moderate annual growth in the 3% to 4% range.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for \$26.7 million or 13% of total revenue. When compared to FY 13/14 this represents a increase of approximately \$0.3 million or 1.14%. The change in this category was due to a reduction in receipts from the Hall Income Tax (an intangible tax on investments). The revenue from this source was extraordinarily high in FY 12/13 in which it grew by \$8.6 million (220%) to a total of \$12.56 million for the year. The amount in FY 13/14 represented a reversion toward the mean (\$9.1 million) and for FY15 it again decreased to 8.4 million. This source has been extremely volatile revenue in recent years. To offset this volatility the revenue is budgeted very conservatively. To illustrate, this category of revenue, despite the reduction, still finished 72% over the budgeted amount.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Overall these categories show a small increase (\$107,712 – 2.85%) when compared to FY 13/14. Interest earnings, which are grouped under the category of miscellaneous revenue, reflect a minor decrease. Increases in Charges for Service reflected a gain of (\$150,335 – 9.7%) with no one particular item being responsible for the increase. Revenues from the City Municipal Court system are also down due to some state government issues in responding to delinquent payers, and as part of a continued downward trend for this revenue. Improvements in the court management system and system processes are expected to reverse this trend going forward.

In short, the revenue picture is relatively good in most areas but bear watching in other areas. Revenues are expected to increase in the future, albeit at modest levels. On the expenditure side, costs are increasing. The largest concerns on this side of the ledger are salary, benefit, and pension costs.

The largest increase in costs is expected in the area of pensions. The City currently has a defined benefit system. The plan is currently underfunded though the funding status has improved in recent years. The City is amortizing the unfunded portion over the next twenty three years, and costs are expected to rise for another four years before leveling off. This increase is primarily due to a lowering of the discount rate in order to be more conservative. The Pension System is reevaluating its portfolio to try and lower risk. Also, in 2012 the citizens approved a new pension plan for all employees hired after January 1, 2013. It is expected that will reduce future costs

Salary costs are expected to increase in the future. The City has a longstanding ordinance which mandates a two and one half percent (2 1/2 %) annual increase. This requirement typically results in increased costs. The City has maintained staffing levels at a constant number over the past years. The primary benefit cost is health care. The City has experienced double digit premium increases in recent years, the increases dropping slightly within the past two years. The City makes a concerted effort, through plan design changes and a focus on wellness, to contain health care costs. This focus has enabled the City to hold increases below national averages. The City operates a self-insurance plan and believes that it has adequate reserves to deal with any extraordinary costs.

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 its adjoining Gay Street which bring people into the downtown area from the surrounding areas. The 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. We believe that these efforts will allow us to slow down or avoid future expenditure increases.

FINANCIAL CONTACT

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

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CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
JUNE 30, 2015

	Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government		
Assets					
Cash and cash equivalents	\$ 8,312,708	\$ 4,114,747	\$ 12,427,455	\$ 137,249,590	\$ 149,677,045
Investments	336,716,600	35,192,210	371,908,810	130,410,070	502,318,880
Receivables (net of allowance for uncollectibles):					
Accounts	8,249,120	2,752,864	11,001,984	88,557,854	99,559,838
Taxes	148,847,530	-	148,847,530	-	148,847,530
Notes and leases	16,442,485	-	16,442,485	-	16,442,485
TVA conservation program	-	-	-	10,109,135	10,109,135
Other	486,861	-	486,861	81,324	568,185
Internal balances	(3,865,000)	3,865,000	-	-	-
Due from fiduciary fund	485,000	-	485,000	-	485,000
Due from component units	793,946	-	793,946	-	793,946
Inventories	1,832,590	140,026	1,972,616	9,840,938	11,813,554
Prepaid items	55,757	43,598	99,355	10,701,604	10,800,959
Equity interest in joint venture	2,141,194	1,371,382	3,512,576	-	3,512,576
Deferred charges	-	-	-	767,750	767,750
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	27,463,800	27,463,800
Unused bond proceeds	23,399,921	-	23,399,921	46,053,950	69,453,871
Receivables	-	-	-	395,000	395,000
Other	-	-	-	43,897	43,897
Other assets	-	-	-	12,887,166	12,887,166
Net pension asset	-	-	-	6,021,629	6,021,629
Capital assets:					
Land and site improvements	48,789,176	7,336,303	56,125,479	184,163,130	240,288,609
Buildings and improvements	56,692,847	230,706,333	287,399,180	197,738,699	485,137,879
Utility plant in service	-	-	-	2,210,535,681	2,210,535,681
Equipment, furniture and fixtures	90,117,055	7,765,379	97,882,434	41,603,624	139,486,058
Infrastructure	350,213,435	1,003,574	351,217,009	-	351,217,009
Construction in progress	29,406,676	577,907	29,984,583	206,421,107	236,405,690
Less accumulated depreciation	(278,993,710)	(100,791,593)	(379,785,303)	(989,997,293)	(1,369,782,596)
Total assets	840,124,191	194,077,730	1,034,201,921	2,331,048,655	3,365,250,576
Deferred outflows of resources					
Pensions	23,093,631	239,536	23,333,167	3,157,199	26,490,366
Interest rate swap	-	1,528,879	1,528,879	2,514,204	4,043,083
Unamortized bond refunding costs	-	-	-	25,230,799	25,230,799
Total deferred outflows of resources	23,093,631	1,768,415	24,862,046	30,902,202	55,764,248
Liabilities					
Accounts payable	16,412,582	2,925,360	19,337,942	53,902,133	73,240,075
Matured principal & interest on bonds	-	-	-	11,306,248	11,306,248
Accrued liabilities	7,500,571	48,102	7,548,673	21,295,974	28,844,647
Due to primary government	-	-	-	793,946	793,946
Due to component unit	-	-	-	-	-
Due to other governmental agencies	460,556	-	460,556	-	460,556
Customer deposits, plus accrued interest	477,125	166,901	644,026	16,465,292	17,109,318
Accrued interest	323,530	323,520	647,050	83,345	730,395
Unearned revenue	-	131,593	131,593	-	131,593
Other current liabilities	-	-	-	23,301,664	23,301,664
Noncurrent liabilities:					
Long-term debt due within one year	6,710,085	4,533,860	11,243,945	34,195,000	45,438,945
Long-term debt due in more than one year	63,934,294	112,052,499	175,986,793	1,047,065,000	1,223,051,793
Other noncurrent liabilities due within one year	12,841,249	183,950	13,025,199	28,631,810	41,657,009
Other noncurrent liabilities due in more than one year	14,362,505	-	14,362,505	-	14,362,505
Net pension liability	147,074,582	1,525,516	148,600,098	-	148,600,098
Derivative instruments - interest rate swaps	-	1,528,879	1,528,879	4,883,863	6,412,742
Total liabilities	270,097,079	123,420,180	393,517,259	1,241,924,275	1,635,441,534
Deferred inflows of resources					
Assessed and unlevied property taxes	125,765,960	-	125,765,960	-	125,765,960
Pensions	38,828,338	402,743	39,231,081	6,378,310	45,609,391
Other	17,808,881	-	17,808,881	1,526,309	19,335,190
Total deferred inflows of resources	182,403,179	402,743	182,805,922	7,904,619	190,710,541
Net position					
Net investment in capital assets	247,581,872	30,011,544	277,593,416	774,412,071	1,052,005,487
Restricted for:					
Debt service	-	-	-	14,847,859	14,847,859
Park Maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	244,944	-	244,944	-	244,944
Other	14,662,775	-	14,662,775	1,748,589	16,411,364
Unrestricted	147,603,908	42,011,678	189,615,586	321,113,444	510,729,030
Total net position	\$ 410,717,564	\$ 72,023,222	\$ 482,740,786	\$ 1,112,121,963	\$ 1,594,862,749

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General Government	\$ 16,346,735	\$ 1,922,556	\$ 976,807	\$ -
Public Safety	91,658,680	6,263,303	702,260	822,465
Physical Environment	49,559,583	761,178	81,489	1,869,289
Transportation	10,866,150	729,027	-	-
Economic Development	10,549,638	577,888	5,949,685	3,890,177
Parks & Recreation	10,723,333	630,200	-	-
Health & Sanitation	10,273,698	40,810	-	76,376
Interest on Long-Term Debt	2,196,238	-	-	-
Total governmental activities	<u>202,174,055</u>	<u>10,924,962</u>	<u>7,710,241</u>	<u>6,658,307</u>
Business-type activities:				
Metro Parking	2,720,870	1,538,615	-	-
Public Assembly Facilities	4,563,430	1,786,185	-	-
Knoxville Convention Center	17,530,056	4,437,583	1,500,000	-
Municipal Golf Courses	1,456,470	1,081,883	-	-
Total business-type activities	<u>26,270,826</u>	<u>8,844,266</u>	<u>1,500,000</u>	<u>-</u>
Total primary government	<u>\$ 228,444,881</u>	<u>\$ 19,769,228</u>	<u>\$ 9,210,241</u>	<u>\$ 6,658,307</u>
Combined Discretely Presented Component Units	<u>\$ 791,820,612</u>	<u>\$ 796,845,435</u>	<u>\$ 7,653,837</u>	<u>\$ 17,386,248</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 on disposal of capital assets
 Transfers
 Total general revenues and transfers

Change in net position

Net position, as restated - beginning of year
 Net position - end of year

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
Governmental Activities	Business-type Activities	Total		
\$ (13,447,372)	\$ -	\$ (13,447,372)	\$ -	\$ (13,447,372)
(83,870,652)	-	(83,870,652)	-	(83,870,652)
(46,847,627)	-	(46,847,627)	-	(46,847,627)
(10,137,123)	-	(10,137,123)	-	(10,137,123)
(131,888)	-	(131,888)	-	(131,888)
(10,093,133)	-	(10,093,133)	-	(10,093,133)
(10,156,512)	-	(10,156,512)	-	(10,156,512)
(2,196,238)	-	(2,196,238)	-	(2,196,238)
<u>(176,880,545)</u>	<u>-</u>	<u>(176,880,545)</u>	<u>-</u>	<u>(176,880,545)</u>
-	(1,182,255)	(1,182,255)	-	(1,182,255)
-	(2,777,245)	(2,777,245)	-	(2,777,245)
-	(11,592,473)	(11,592,473)	-	(11,592,473)
-	(374,587)	(374,587)	-	(374,587)
-	(15,926,560)	(15,926,560)	-	(15,926,560)
<u>(176,880,545)</u>	<u>(15,926,560)</u>	<u>(192,807,105)</u>	<u>-</u>	<u>(192,807,105)</u>
-	-	-	30,064,908	30,064,908
140,772,456	-	140,772,456	-	140,772,456
67,587,581	3,451,237	71,038,818	9,457,550	80,496,368
-	2,186,157	2,186,157	-	2,186,157
-	3,734,690	3,734,690	-	3,734,690
499,685	-	499,685	-	499,685
11,870,215	-	11,870,215	-	11,870,215
6,608,800	-	6,608,800	-	6,608,800
1,864,959	-	1,864,959	-	1,864,959
2,311,656	1,219,251	3,530,907	1,581,666	5,112,573
1,444,242	133,434	1,577,676	1,707,351	3,285,027
185,214	-	185,214	6,432	191,646
(9,652,840)	9,652,840	-	-	-
<u>223,491,968</u>	<u>20,377,609</u>	<u>243,869,577</u>	<u>12,752,999</u>	<u>256,622,576</u>
46,611,423	4,451,049	51,062,472	42,817,907	93,880,379
364,106,141	67,572,173	431,678,314	1,069,304,056	1,500,982,370
<u>\$ 410,717,564</u>	<u>\$ 72,023,222</u>	<u>\$ 482,740,786</u>	<u>\$ 1,112,121,963</u>	<u>\$ 1,594,862,749</u>

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Debt Service	Capital Projects	Special	Other Governmental Funds	Total Governmental Funds
				Revenue Fund Miscellaneous Community Development Funds		
Assets						
Cash and cash equivalents	\$ 1,555,395	\$ 24,229	\$ 3,664,907	\$ 182,147	\$ 908,493	\$ 6,335,171
Investments	56,427,333	56,053,154	114,515,837	1,628,486	24,353,403	252,978,213
Accounts Receivable	1,740,991	248,299	3,701,102	249,753	2,626,996	8,567,141
Taxes Receivable	123,386,914	25,460,616	-	-	-	148,847,530
Notes Receivable	454,464	759,100	-	12,704,584	2,524,337	16,442,485
Due from other funds	2,705,400	-	2,000,000	-	5,000	4,710,400
Due from fiduciary funds	485,000	-	-	-	-	485,000
Due from component unit	793,946	-	-	-	-	793,946
Inventories	432,138	-	401,758	18,699	31,586	884,181
Prepaid items	11,058	-	-	-	-	11,058
Total assets	<u>\$ 187,992,639</u>	<u>\$ 82,545,398</u>	<u>\$ 124,283,604</u>	<u>\$ 14,783,669</u>	<u>\$ 30,449,815</u>	<u>\$ 440,055,125</u>
Liabilities						
Accounts payable	\$ 3,355,501	\$ -	\$ 7,493,069	\$ 226,567	\$ 2,140,377	\$ 13,215,514
Accrued liabilities	3,811,051	-	886,573	3,730	221,909	4,923,263
Customer deposits	-	-	-	31,280	445,845	477,125
Due to other funds	-	7,000,000	-	-	1,575,400	8,575,400
Due to other governmental agencies	413,052	-	35,756	-	11,748	460,556
Total liabilities	<u>7,579,604</u>	<u>7,000,000</u>	<u>8,415,398</u>	<u>261,577</u>	<u>4,395,279</u>	<u>27,651,858</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	104,640,102	25,293,148	-	-	-	129,933,250
Unavailable revenue - other	-	-	2,570,142	12,708,084	2,530,655	17,808,881
Total deferred inflows of resources	<u>104,640,102</u>	<u>25,293,148</u>	<u>2,570,142</u>	<u>12,708,084</u>	<u>2,530,655</u>	<u>147,742,131</u>
Fund Balances						
Non-Spendable	443,196	-	401,758	18,699	655,651	1,519,304
Restricted	-	-	22,000,772	1,795,309	13,112,418	36,908,499
Committed	41,468,912	50,252,250	90,895,534	-	9,755,812	192,372,508
Assigned	3,352,810	-	-	-	-	3,352,810
Unassigned	30,508,015	-	-	-	-	30,508,015
Total fund balances	<u>75,772,933</u>	<u>50,252,250</u>	<u>113,298,064</u>	<u>1,814,008</u>	<u>23,523,881</u>	<u>264,661,136</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 187,992,639</u>	<u>\$ 82,545,398</u>	<u>\$ 124,283,604</u>	<u>\$ 14,783,669</u>	<u>\$ 30,449,815</u>	<u>\$ 440,055,125</u>

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

CITY OF KNOXVILLE, TENNESSEE

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Amounts reported for the governmental activities in the Statement of Net Position are different because:

Fund balance - governmental funds		\$264,661,136
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the balance sheets of the governmental funds.		271,479,095
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 position.		4,167,290
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 position.		110,547,588
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.		(323,530)
Pension amounts not reported in the funds:		
Net pension liability (asset)		(144,272,233)
Deferred outflows of resources related to pensions		22,653,607
Deferred inflows of resources related to pensions		(38,088,505)
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	(65,555,540)	
Discounts and Premiums (net)	(5,088,839)	
Compensated absences	(9,462,505)	(80,106,884)
Net position - governmental activities		<u>\$ 410,717,564</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes, assessments, interest & penalties	\$ 174,806,710	\$ 24,054,868	\$ -	\$ -	\$ 5,227,024	\$ 204,088,602
Licenses, permits & inspection charges	342,041	-	-	-	1,924,209	2,266,250
Intergovernmental	26,697,915	-	3,890,177	1,542,951	3,993,910	36,124,953
Charge for services	1,706,102	-	-	1,505,040	3,877,458	7,088,600
Fines & forfeitures	647,552	-	-	-	2,599,791	3,247,343
Other	1,186,911	550,523	2,342,411	44,482	948,714	5,073,041
Total revenues	<u>205,387,231</u>	<u>24,605,391</u>	<u>6,232,588</u>	<u>3,092,473</u>	<u>18,571,106</u>	<u>257,888,789</u>
Expenditures:						
Current:						
Administration	3,811,762	-	-	-	4,986	3,816,748
Finance	3,694,988	-	-	-	202,491	3,897,479
Information Systems	4,475,059	-	-	-	-	4,475,059
Community Development	1,930,882	-	-	2,593,068	1,964,336	6,488,286
South Knoxville Waterfront	460,238	-	-	-	-	460,238
Parks & Recreation	7,207,770	-	-	-	55,917	7,263,687
Mass Transit	12,151,361	-	-	-	-	12,151,361
Engineering	5,780,784	-	-	-	7,920,037	13,700,821
Public Services	22,935,897	-	-	-	12,690,035	35,625,932
Law	1,724,325	-	-	-	1,070,659	2,794,984
Police	56,350,066	-	-	-	2,540,666	58,890,732
Fire	40,282,280	-	-	-	698,185	40,980,465
Legislative	976,712	-	-	-	8,620	985,332
Civil Service	1,026,475	-	-	-	-	1,026,475
City Elections	4,387	-	-	-	-	4,387
Knoxville Partnership	630,080	-	-	-	-	630,080
Metropolitan Planning Commission	990,250	-	-	-	-	990,250
Knoxville Zoological Park	1,158,610	-	-	-	-	1,158,610
Community Agency Grants	1,005,000	-	-	-	-	1,005,000
Other Nondepartmental	78,473	-	-	-	-	78,473
Community Action Committee	690,640	-	-	-	-	690,640
Tax Increment Payments	1,729,887	-	-	-	-	1,729,887
Capital & grant projects	-	-	36,162,676	-	-	36,162,676
Debt Service:						
Principal retirement	-	5,382,720	-	-	-	5,382,720
Interest payments on bonds & notes	-	2,136,008	-	-	-	2,136,008
Bond issuance costs	-	169,500	-	-	-	169,500
Total expenditures	<u>169,095,926</u>	<u>7,688,228</u>	<u>36,162,676</u>	<u>2,593,068</u>	<u>27,155,932</u>	<u>242,695,830</u>
Excess (deficiency) of revenues over (under) expenditures	36,291,305	16,917,163	(29,930,088)	499,405	(8,584,826)	15,192,959
Other financing sources (uses)						
Bonds proceeds	-	-	31,080,000	-	-	31,080,000
Debt issue premium	-	-	527,039	-	-	527,039
Transfers in	2,161,350	-	30,776,171	-	12,765,212	45,702,733
Transfers out	(33,675,354)	(15,520,500)	(400,566)	-	(6,464,744)	(56,061,164)
Total other financing sources (uses)	<u>(31,514,004)</u>	<u>(15,520,500)</u>	<u>61,982,644</u>	<u>-</u>	<u>6,300,468</u>	<u>21,248,608</u>
Net change in fund balances	4,777,301	1,396,663	32,052,556	499,405	(2,284,358)	36,441,567
Fund balances - beginning	<u>70,995,632</u>	<u>48,855,587</u>	<u>81,245,508</u>	<u>1,314,603</u>	<u>25,808,239</u>	<u>228,219,569</u>
Fund balances - ending	<u>\$ 75,772,933</u>	<u>\$ 50,252,250</u>	<u>\$ 113,298,064</u>	<u>\$ 1,814,008</u>	<u>\$ 23,523,881</u>	<u>\$ 264,661,136</u>

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

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, 2015**

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

Net changes in fund balances - total governmental funds	\$ 36,441,567
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 that meet criteria for capitalization (\$32,439,186) exceeds depreciation expenses (\$15,252,809).	17,186,379
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(558,042)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(25,950,349)
Change in 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.	(60,200)
Pension income not reported in the funds	11,407,442
The internal service fund is used by management to charge the costs of fleet maintenance.	4,912,264
The internal service fund is used by management to charge the costs of risk management.	1,147,869
The internal service fund is used by management to charge the costs of employee health insurance.	1,986,725
The internal service fund is used by management to charge the costs of equipment replacement.	547,387
The internal service fund is used by management to charge the costs of City buildings.	<u>(449,619)</u>
Change in net position - governmental activities	<u>\$ 46,611,423</u>

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

CITY OF KNOXVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Adjustment to Budgetary Basis</u>	<u>Actual on Budgetary Basis</u>	<u>Budgetary Basis Variance With Final Budget</u>
Revenues						
Property taxes -						
Current	\$ 94,302,560	\$ 94,302,560	\$ 95,276,242	\$ -	\$ 95,276,242	\$ 973,682
Prior years	5,437,280	5,437,280	5,115,563	-	5,115,563	(321,717)
Business taxes	7,254,470	7,254,470	6,608,766	-	6,608,766	(645,704)
Local shared sales tax	36,118,670	36,118,670	37,187,140	-	37,187,140	1,068,470
Alcoholic beverage taxes	11,591,760	11,591,760	11,870,215	-	11,870,215	278,455
Payments in lieu of taxes	15,530,820	15,530,820	16,883,825	-	16,883,825	1,353,005
Franchise fees	1,806,110	1,806,110	1,864,959	-	1,864,959	58,849
Intergovernmental -						
Federal	962,450	962,450	971,814	-	971,814	9,364
State -						
Sales tax	12,407,450	12,407,450	13,547,325	-	13,547,325	1,139,875
Income tax	4,900,000	4,900,000	8,443,975	-	8,443,975	3,543,975
Other	3,314,470	3,314,470	3,681,801	-	3,681,801	367,331
Local	53,000	53,000	53,000	-	53,000	-
Licenses and permits	331,180	331,180	342,041	-	342,041	10,861
Fines & forfeits	586,620	586,620	647,552	-	647,552	60,932
Charges for services	1,463,470	1,463,470	1,706,102	-	1,706,102	242,632
Other -						
Interest	272,160	272,160	300,144	-	300,144	27,984
Rents & concessions	97,080	97,080	91,052	-	91,052	(6,028)
Miscellaneous	340,880	576,095	795,715	-	795,715	219,620
Appropriated fund balance	2,034,600	8,781,700	-	-	-	(8,781,700)
Total revenues	<u>198,805,030</u>	<u>205,787,345</u>	<u>205,387,231</u>	<u>-</u>	<u>205,387,231</u>	<u>(400,114)</u>
Expenditures						
Current -						
Administration	4,649,640	4,020,042	3,811,762	25,675	3,837,437	182,605
Finance	4,108,960	3,764,019	3,694,988	361	3,695,349	68,670
Information systems	4,496,830	4,528,271	4,475,059	39,524	4,514,583	13,688
Community development	2,064,790	2,587,889	1,930,882	3,200	1,934,082	653,807
South Knoxville Waterfront	456,560	460,260	460,238	-	460,238	22
Parks & recreation	7,138,540	7,320,110	7,207,770	33,840	7,241,610	78,500
Mass transit	14,215,970	14,215,970	12,151,361	-	12,151,361	2,064,609
Public services	23,773,130	23,298,991	22,935,897	13,155	22,949,052	349,939
Engineering	6,013,300	6,007,088	5,780,784	27,908	5,808,692	198,396
Law	1,930,000	1,963,054	1,724,325	45,474	1,769,799	193,255
Police	56,687,170	56,690,741	56,350,066	14,319	56,364,385	326,356
Fire	39,976,440	40,304,728	40,282,280	13,338	40,295,618	9,110
Legislative	1,045,200	1,045,224	976,712	30	976,742	68,482
Civil Service	1,081,380	1,113,498	1,026,475	-	1,026,475	87,023
Nondepartmental -						
City Elections	10,000	10,000	4,387	-	4,387	5,613
Knoxville Partnership	800,080	800,080	630,080	-	630,080	170,000
Metropolitan Planning Commission	905,000	990,250	990,250	-	990,250	-
Knoxville Zoological Gardens	1,158,610	1,158,610	1,158,610	-	1,158,610	-
Community Agency Grants	1,255,000	1,255,000	1,005,000	250,000	1,255,000	-
Other Nondepartmental	78,480	78,480	78,473	-	78,473	7
Community Action Committee	690,640	690,640	690,640	-	690,640	-
Tax Increment Payments	1,717,400	1,729,900	1,729,887	-	1,729,887	13
Total expenditures	<u>174,253,120</u>	<u>174,032,845</u>	<u>169,095,926</u>	<u>466,824</u>	<u>169,562,750</u>	<u>4,470,095</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,551,910</u>	<u>31,754,500</u>	<u>36,291,305</u>	<u>(466,824)</u>	<u>35,824,481</u>	<u>4,069,981</u>
Other Financing Sources (Uses)						
Transfers in	4,649,870	4,665,270	2,161,350	-	2,161,350	2,503,920
Transfers out	(29,201,780)	(36,419,770)	(33,675,354)	-	(33,675,354)	2,744,416
Total other financing sources (uses)	<u>(24,551,910)</u>	<u>(31,754,500)</u>	<u>(31,514,004)</u>	<u>-</u>	<u>(31,514,004)</u>	<u>(240,496)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>4,777,301</u>	<u>(466,824)</u>	<u>4,310,477</u>	<u>\$ 4,310,477</u>
Fund balance - beginning			<u>70,995,632</u>	<u>(235,215)</u>	<u>70,760,417</u>	
Fund balance - ending			<u>\$ 75,772,933</u>	<u>\$ (702,039)</u>	<u>\$ 75,070,894</u>	

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GAAP BASIS
 MISCELLANEOUS COMMUNITY DEVELOPMENT FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Intergovernmental	\$ 795,280	\$ 845,280	\$ 1,542,951	\$ 697,671
Charges for services	1,696,000	1,791,028	1,505,040	(285,988)
Other	-	-	44,482	44,482
Total revenues	<u>2,491,280</u>	<u>2,636,308</u>	<u>3,092,473</u>	<u>456,165</u>
Expenditures				
Current:				
Community Development	<u>2,491,280</u>	<u>2,636,308</u>	<u>2,593,068</u>	<u>(43,240)</u>
Total expenditures	<u>2,491,280</u>	<u>2,636,308</u>	<u>2,593,068</u>	<u>(43,240)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>499,405</u>	<u>499,405</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>499,405</u>	<u>\$ 499,405</u>
Fund balances - beginning			<u>1,314,603</u>	
Fund balances - ending			<u>\$ 1,814,008</u>	

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2015

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Assets				
Current assets:				
Cash & temporary investments	\$ 3,050,857	\$ 1,063,890	\$ 4,114,747	\$ 1,977,537
Investments	23,611,763	11,580,447	35,192,210	107,138,308
Accounts receivable	2,519,972	232,892	2,752,864	168,840
Due from other funds	3,000,000	1,000,000	4,000,000	2,402,000
Due from component unit	-	-	-	-
Inventories	107,311	32,715	140,026	948,409
Prepaid items	27,738	15,860	43,598	44,699
Total current assets	<u>32,317,641</u>	<u>13,925,804</u>	<u>46,243,445</u>	<u>112,679,793</u>
Noncurrent assets:				
Land & site improvements	2,952,020	4,384,283	7,336,303	-
Building, building improvements and infrastructure	180,566,774	51,143,133	231,709,907	257,391
Equipment	4,738,192	3,027,187	7,765,379	80,614,582
Construction in progress	-	577,907	577,907	693,371
Less: accumulated depreciation	<u>(67,980,081)</u>	<u>(32,811,512)</u>	<u>(100,791,593)</u>	<u>(56,818,960)</u>
Total capital assets (net of accumulated depreciation):	120,276,905	26,320,998	146,597,903	24,746,384
Equity interest in joint venture	780,264	591,118	1,371,382	2,141,194
Total noncurrent assets	<u>121,057,169</u>	<u>26,912,116</u>	<u>147,969,285</u>	<u>26,887,578</u>
Total assets	<u>153,374,810</u>	<u>40,837,920</u>	<u>194,212,730</u>	<u>139,567,371</u>
Deferred outflows of resources				
Pensions	-	239,536	239,536	440,024
Interest rate swap	1,528,879	-	1,528,879	-
Total deferred outflows of resources	<u>1,528,879</u>	<u>239,536</u>	<u>1,768,415</u>	<u>440,024</u>
Liabilities				
Current liabilities:				
Accounts payable	2,107,810	817,550	2,925,360	3,197,068
Accrued liabilities	323,520	48,102	371,622	2,577,308
Customer deposits	-	166,901	166,901	-
Unearned revenue	121,923	9,670	131,593	-
Due to other funds	-	135,000	135,000	2,402,000
Compensated absences	-	183,950	183,950	141,249
Net pension liability	-	1,525,516	1,525,516	2,802,349
Long-term debt due within one year	4,533,860	-	4,533,860	-
Estimated claims liability	-	-	-	5,100,000
Total current liabilities	<u>7,087,113</u>	<u>2,886,689</u>	<u>9,973,802</u>	<u>16,219,974</u>
Noncurrent liabilities:				
Long-term debt due in more than one year	112,052,499	-	112,052,499	-
Estimated claims liability	-	-	-	12,500,000
Derivative instrument - interest rate swap	1,528,879	-	1,528,879	-
Total noncurrent liabilities	<u>113,581,378</u>	<u>-</u>	<u>113,581,378</u>	<u>12,500,000</u>
Total liabilities	<u>120,668,491</u>	<u>2,886,689</u>	<u>123,555,180</u>	<u>28,719,974</u>
Deferred inflows of resources				
Pensions	-	402,743	402,743	739,833
Total deferred inflows of resources	<u>-</u>	<u>402,743</u>	<u>402,743</u>	<u>739,833</u>
NET POSITION				
Net investment in capital assets	3,690,546	26,320,998	30,011,544	24,746,384
Unrestricted	<u>30,544,652</u>	<u>11,467,026</u>	<u>42,011,678</u>	<u>85,801,204</u>
Total net position	<u>\$ 34,235,198</u>	<u>\$ 37,788,024</u>	<u>\$ 72,023,222</u>	<u>\$ 110,547,588</u>

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

CITY OF KNOXVILLE, TENNESSEE

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating revenues				
Charges for services	\$ 4,474,912	\$ 4,666,202	\$ 9,141,114	\$ 43,600,706
Total operating revenues	<u>4,474,912</u>	<u>4,666,202</u>	<u>9,141,114</u>	<u>43,600,706</u>
Operating expenses				
Personal services	-	2,273,002	2,273,002	3,450,401
Materials & supplies	14,900	132,687	147,587	2,042,893
Maintenance	107,168	899,085	1,006,253	498,397
Depreciation & amortization	4,010,408	1,596,038	5,606,446	5,998,957
Other services and charges	10,707,898	3,262,049	13,969,947	25,843,792
Total operating expenses	<u>14,840,374</u>	<u>8,162,861</u>	<u>23,003,235</u>	<u>37,834,440</u>
Operating income (loss)	<u>(10,365,462)</u>	<u>(3,496,659)</u>	<u>(13,862,121)</u>	<u>5,766,266</u>
Nonoperating revenues (expense)				
Interest income	115,419	18,015	133,434	126,116
Intergovernmental revenue	10,482,347	389,737	10,872,084	-
Other revenues (expenses)	387,389	4,434	391,823	998,033
Gain (loss) on disposal of capital assets	-	-	-	53,682
Interest expense	(2,737,011)	-	(2,737,011)	-
Total nonoperating revenues (expenses)	<u>8,248,144</u>	<u>412,186</u>	<u>8,660,330</u>	<u>1,177,831</u>
Income (loss) before transfers and capital contributions	<u>(2,117,318)</u>	<u>(3,084,473)</u>	<u>(5,201,791)</u>	<u>6,944,097</u>
Transfers in	6,030,786	4,327,820	10,358,606	2,479,431
Transfers out	(700,000)	(5,766)	(705,766)	(1,773,841)
Capital contributions	-	-	-	494,939
Change in net position	<u>3,213,468</u>	<u>1,237,581</u>	<u>4,451,049</u>	<u>8,144,626</u>
Net position as restated, beginning of year	<u>31,021,730</u>	<u>36,550,443</u>	<u>67,572,173</u>	<u>102,402,962</u>
Net position, end of year	<u>\$ 34,235,198</u>	<u>\$ 37,788,024</u>	<u>\$ 72,023,222</u>	<u>\$ 110,547,588</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating activities				
Cash received from customers and users	\$ 4,351,753	\$ 4,749,971	\$ 9,101,724	\$ -
Receipts from interfund services provided	-	-	-	45,379,958
Cash paid to suppliers	(9,445,797)	(3,587,480)	(13,033,277)	(4,671,990)
Cash paid to employees	-	(2,368,372)	(2,368,372)	(3,700,856)
Cash paid for interfund services used	(107,168)	-	(107,168)	(1,688,711)
Payments of claims and insurance	-	-	-	(21,746,492)
Net cash provided by (used in) operating activities	<u>(5,201,212)</u>	<u>(1,205,881)</u>	<u>(6,407,093)</u>	<u>13,571,909</u>
Noncapital financing activities				
Transfers from other funds	7,931,782	3,862,820	11,794,602	4,099,047
Transfers to other funds	(700,000)	(655,766)	(1,355,766)	(2,062,457)
Tax and intergovernmental revenues	10,869,736	394,171	11,263,907	998,991
Net cash provided by (used in) noncapital financing activities	<u>18,101,518</u>	<u>3,601,225</u>	<u>21,702,743</u>	<u>3,035,581</u>
Capital and related financing activities				
Principal paid on general obligation bond maturities	(4,473,197)	-	(4,473,197)	-
Interest paid	(2,737,011)	-	(2,737,011)	-
Acquisition and construction of capital assets	(14,900)	(1,971,218)	(1,986,118)	(8,317,691)
Proceeds from sale of capital assets	-	-	-	106,946
Capital contributions	-	-	-	375,962
Net cash provided by (used in) capital and related financing activities	<u>(7,225,108)</u>	<u>(1,971,218)</u>	<u>(9,196,326)</u>	<u>(7,834,783)</u>
Investing activities				
Sales/(purchases) of investments, net	(3,729,835)	(696,782)	(4,426,617)	(8,896,717)
Investment earnings	115,419	18,015	133,434	125,158
Net cash provided by (used in) investing activities	<u>(3,614,416)</u>	<u>(678,767)</u>	<u>(4,293,183)</u>	<u>(8,771,559)</u>
Net increase (decrease) in cash and cash equivalents	<u>2,060,782</u>	<u>(254,641)</u>	<u>1,806,141</u>	<u>1,148</u>
Cash and cash equivalents				
Beginning of year	<u>990,075</u>	<u>1,318,531</u>	<u>2,308,606</u>	<u>1,976,389</u>
End of year	<u>\$ 3,050,857</u>	<u>\$ 1,063,890</u>	<u>\$ 4,114,747</u>	<u>\$ 1,977,537</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (10,365,462)	\$ (3,496,659)	\$ (13,862,121)	\$ 5,766,266
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,010,408	1,596,038	5,606,446	5,998,957
Pension expense (income)	-	(120,620)	(120,620)	(221,577)
Net change in equity investment in joint venture	159,790	139,448	299,238	180,366
Change in assets and liabilities				
(Increase) decrease in receivables	(97,901)	10,663	(87,238)	(137,079)
(Increase) decrease in prepayments	(11,471)	7,197	(4,274)	(43,550)
(Increase) decrease in inventories	(30,463)	2,527	(27,936)	114,525
Increase (decrease) in accounts payable	1,185,948	557,169	1,743,117	1,941,317
Increase (decrease) in accrued expenses	(26,803)	10,400	(16,403)	(27,316)
Increase (decrease) in compensated absences	-	14,850	14,850	-
Increase (decrease) in deferred revenue	121,923	9,670	131,593	-
Increase (decrease) in customer deposits	(147,181)	63,436	(83,745)	-
Total adjustments	<u>5,164,250</u>	<u>2,290,778</u>	<u>7,455,028</u>	<u>7,805,643</u>
Net cash provided by (used in) operating activities	<u>\$ (5,201,212)</u>	<u>\$ (1,205,881)</u>	<u>\$ (6,407,093)</u>	<u>\$ 13,571,909</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2015

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	\$ 1,966	\$ 933,348
Cash equivalents	5,823,018	-
United States government securities	35,320,272	-
State & municipal government securities	1,390,353	480,801
International securities	199,253,943	-
Corporate bond & indentures	69,385,361	-
Real estate investment trusts	69,570,041	-
Domestic equity securities	163,264,326	-
Pending sales proceeds	488,228	-
Other receivables	788	1,947
Accrued interest & dividends	1,555,966	-
Equipment, furniture & fixtures	31,496	-
Accumulated depreciation	(29,334)	-
Total assets	<u>\$ 546,056,424</u>	<u>\$ 1,416,096</u>
Liabilities		
Accounts payable	658,514	-
Investment purchases pending	645,904	-
Health care claims liability	-	931,096
Due to other funds	-	485,000
Total liabilities	<u>\$ 1,304,418</u>	<u>\$ 1,416,096</u>
Net Position Restricted for Pensions	<u>\$ 544,752,006</u>	

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	City Employees' Pension Trust Fund
Additions	
Employee contributions	\$ 4,122,537
Employer contributions	22,590,334
Total contributions	<u>26,712,871</u>
Investment earnings:	
Interest and dividends	8,601,025
Net appreciation/(depreciation) in the fair value of investments	2,944,798
Other income	208,704
Total investment earnings (loss)	<u>11,754,527</u>
Less investment expense	<u>(3,880,858)</u>
Net investment earnings (loss)	<u>7,873,669</u>
Total additions (net)	<u>34,586,540</u>
Deductions	
Benefits paid	42,608,879
Refunds	910,626
Administration expenses	740,110
Total deductions	<u>44,259,615</u>
Change in net position	(9,673,075)
Total net position - beginning	<u>554,425,081</u>
Total net position - ending	<u>\$ 544,752,006</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF NET POSITION - DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2015

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Assets				
Cash and cash equivalents	\$ 124,892,534	\$ 12,236,358	\$ 120,698	\$ 137,249,590
Investments	90,332,784	40,071,930	5,356	130,410,070
Receivables (net of allowance for uncollectibles):				
Accounts	77,844,543	4,618,222	6,095,089	88,557,854
TVA conservation program	10,109,135	-	-	10,109,135
Other	43,229	38,095	-	81,324
Inventories	8,421,065	-	1,419,873	9,840,938
Prepaid items	10,257,247	444,357	-	10,701,604
Deferred charges	-	767,750	-	767,750
Restricted assets:				
Temporarily restricted:				
Bond funds	26,154,107	1,309,693	-	27,463,800
Unused bond proceeds	46,053,950	-	-	46,053,950
Receivables	-	395,000	-	395,000
Other	43,897	-	-	43,897
Net pension asset	6,021,629	-	-	6,021,629
Other assets	12,887,166	-	-	12,887,166
Capital assets:				
Land and site improvements	-	182,000,318	2,162,812	184,163,130
Buildings and improvements	-	165,100,821	32,637,878	197,738,699
Utility plant in service	2,210,535,681	-	-	2,210,535,681
Equipment, furniture and fixtures	-	11,223,026	30,380,598	41,603,624
Construction in progress	193,812,149	12,608,958	-	206,421,107
Less accumulated depreciation	(753,200,620)	(214,155,194)	(22,641,479)	(989,997,293)
Total assets	<u>2,064,208,496</u>	<u>216,659,334</u>	<u>50,180,825</u>	<u>2,331,048,655</u>
Deferred outflows of resources				
Pensions	3,157,199	-	-	3,157,199
Interest rate swap	-	2,514,204	-	2,514,204
Unamortized bond refunding costs	25,230,799	-	-	25,230,799
Total deferred outflows of resources	<u>28,387,998</u>	<u>2,514,204</u>	<u>-</u>	<u>30,902,202</u>
Liabilities				
Accounts payable	51,902,425	1,613,896	385,812	53,902,133
Matured principal & interest on bonds	11,306,248	-	-	11,306,248
Accrued liabilities	19,729,155	1,059,020	507,799	21,295,974
Due to primary government	-	-	793,946	793,946
Customer deposits, plus accrued interest	16,465,292	-	-	16,465,292
Accrued interest	-	83,345	-	83,345
Other liabilities	23,301,664	-	-	23,301,664
Noncurrent liabilities:				
Long-term debt due within one year	29,830,000	4,365,000	-	34,195,000
Long-term debt due in more than one year	976,430,000	70,635,000	-	1,047,065,000
Unamortized premiums/discounts	28,631,810	-	-	28,631,810
Derivative instruments - interest rate swaps	-	4,883,863	-	4,883,863
Total liabilities	<u>1,157,596,594</u>	<u>82,640,124</u>	<u>1,687,557</u>	<u>1,241,924,275</u>
Deferred inflows of resources				
Pensions	6,378,310	-	-	6,378,310
Unavailable revenue - other	-	-	1,526,309	1,526,309
Total deferred inflows of resources	<u>6,378,310</u>	<u>-</u>	<u>1,526,309</u>	<u>7,904,619</u>
Net position				
Net investment in capital assets	650,464,457	81,407,805	42,539,809	774,412,071
Restricted for:				
Debt service	14,847,859	-	-	14,847,859
Other	43,896	1,704,693	-	1,748,589
Unrestricted	263,265,378	53,420,916	4,427,150	321,113,444
Total net position	<u>\$ 928,621,590</u>	<u>\$ 136,533,414</u>	<u>\$ 46,966,959</u>	<u>\$ 1,112,121,963</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF ACTIVITIES - DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Units			
					Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Component units:								
Knoxville Utilities Board	\$ 730,820,149	\$ 763,703,989	\$ -	\$ 605,907	\$ 33,489,747	\$ -	\$ -	\$ 33,489,747
Metropolitan Knoxville Airport Authority	32,540,166	30,829,239	-	9,437,726	-	7,726,799	-	7,726,799
Knoxville Area Transit	28,460,297	2,312,207	7,653,837	7,342,615	-	-	(11,151,638)	(11,151,638)
Total component units	<u>\$ 791,820,612</u>	<u>\$ 796,845,435</u>	<u>\$ 7,653,837</u>	<u>\$ 17,386,248</u>	<u>\$ 33,489,747</u>	<u>\$ 7,726,799</u>	<u>\$ (11,151,638)</u>	<u>\$ 30,064,908</u>
General revenues:								
Intergovernmental revenue, unrestricted					-	-	9,457,550	9,457,550
Other unrestricted revenue					1,565,032	-	16,634	1,581,666
Unrestricted investment earnings					916,983	790,367	1	1,707,351
Gain on disposal of capital assets					-	-	6,432	6,432
Total general revenues					<u>2,482,015</u>	<u>790,367</u>	<u>9,480,617</u>	<u>12,752,999</u>
Change in net position					35,971,762	8,517,166	(1,671,021)	42,817,907
Net position, as restated - beginning					<u>892,649,828</u>	<u>128,016,248</u>	<u>48,637,980</u>	<u>1,069,304,056</u>
Net position - ending					<u>\$ 928,621,590</u>	<u>\$ 136,533,414</u>	<u>\$ 46,966,959</u>	<u>\$ 1,112,121,963</u>

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 and can be removed 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 (MKAA) operates two airport facilities that serve Knoxville and the surrounding area. MKAA 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 the 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

Metropolitan Knoxville Airport Authority
P. O. Box 15600
Knoxville, Tennessee 37901
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
FOR THE YEAR ENDED JUNE 30, 2015

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 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 position 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.

The **statement of net position** presents the City's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 or up to one year for grant revenues. 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.

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).

Special Revenue Fund - Miscellaneous Community Development Funds - The miscellaneous community development funds account for various grants restricted for housing and humanity by state and federal granting agencies.

The City reports the following major proprietary fund:

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. The fund's fiduciary net position has been determined on the same basis used by the Pension System.

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 31st 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 a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Knoxville Utilities Board, the Knoxville Area Transit and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 unavailable revenue (deferred inflows) is provided for remaining property tax receivables.

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

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.

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 \$2,737,011 and no interest was capitalized because there were no major construction projects associated with the Convention Center in the current year.

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.

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred outflows of resources - In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expense) until then. The City has three items that qualify for reporting in this category. The *deferred charge on refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The *effective portions of interest rate swaps* relate to interest rate swap agreements which are considered to be hedging derivative financial instruments. Changes in the fair market value of hedging derivatives are reported as deferred outflows of resources. The amounts for *pensions* relates to certain differences between projected and actual actuarial results, certain differences between projected and actual investment earnings, as well as contributions between the measurement and reporting dates, which are accounted for as deferred outflows of resources.

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, 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.

Deferred inflows of resources - In addition to liabilities, the balance sheets and statements of net position will sometimes report a separate section for deferred inflows of resources. *Deferred inflows of resources* represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The City has three items that qualify for reporting in this category. The *unavailable revenue* reported in the balance sheet, which arises under a modified accrual basis of accounting, represents amounts that are deferred and recognized as an inflow of resources in the periods that the amounts become available. The *assessed and unlevied property taxes* reported in the statement of net position arises from imposed nonexchange revenues (property taxes) which are assessed prior to the end of the fiscal year but levied in the subsequent year, and *other* arises from amounts equal to loans receivable that are subject to grant restrictions. The amounts for *pensions* relate to certain differences between projected and actual actuarial results and certain differences between project and actual investment earnings, which are accounted for as deferred inflows of resources.

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 unearned 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.

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - The City's fund balance is classified into the following categories:

Non-spendable Fund Balance - Fund balances reported as non-spendable in the accompanying financial statements represent amounts for permanent fund principal restrictions, inventory, prepaid expenditures, advances to other funds and noncurrent notes receivables.

Restricted Fund Balance - Fund balances reported as restricted are the result of externally imposed restrictions placed upon current resources by state statutes, creditors, bond covenants, donors or grantors.

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

Committed Fund Balance - Fund balances reported as committed are self-imposed restrictions placed upon certain resources by the City Council through the adoption of an ordinance and cannot be used for any other purpose unless formal action is approved by the City Council.

Assigned Fund Balance - Fund balances reported as assigned are intended for certain purposes as approved by City Council, or management. City Council has a fund balance policy that allows assigned amounts to be re-assigned by City Council, or management.

Unassigned Fund Balance - In accordance with GAAP, the general fund is the only governmental fund that reports an unassigned fund balance. The unassigned fund balance has not been restricted, committed, or assigned to a specific purpose within the general fund.

When committed, assigned or unassigned fund balance amounts are available for use, it is the City's policy to use the committed fund balance first; the assigned fund balance second; and then the unassigned fund balance, as they are needed.

Stabilization Arrangement - The City has a fund balance policy established by the City Council that requires the general fund to maintain a minimum unrestricted fund balance of 20% of ensuing year's appropriated general fund expenditures. The fund has been established for the purposes of setting aside amounts for use in specific and non-routine situations, which include certain emergency and urgent situations, as have been established by Charter and the City's Administrative Rules. For the current fiscal year ending June 30, 2015, the City met the minimum general fund balance policy. See Note 12.

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.

Postemployment Benefits - Postemployment pension benefits are accounted for under GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, which establishes standards for the measurement, recognition and display of pension expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information. See additional information regarding the City's pension benefits in Accounting Pronouncements below and in Notes 19 and 2. The City's Retirement Plan (City of Knoxville Pension System) issues a separate, publically available financial report under the requirements of GASB Statement No. 67, as further described in Note 19.

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

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Postemployment healthcare benefits other than pension benefits are accounted for under GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, which establishes standards for the measurement, recognition, and display of postemployment healthcare benefits expense and related liabilities, assets, and note disclosures, as further described in Note 20 and, if applicable, required supplementary information.

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.

Accounting Pronouncements

The City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. This Statement improves accounting and financial reporting by state and local governments for pensions.

The City adopted GASB Statement No. 69, Government Operations and Disposals of Government Operations, required for fiscal periods beginning after December 15, 2013, in fiscal 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

The City adopted GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. This Statement improves accounting and financial reporting by state and local governments for pensions by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement.

The City plans to adopt GASB Statement No. 72, Fair Value Measurement and Application, required for fiscal periods beginning after June 15, 2015, in fiscal 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements.

The City plans to adopt GASB Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, required for fiscal periods beginning after June 15, 2015 and 2016, in fiscal 2016 and 2017, respectively. This Statement improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

The City plans to adopt GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, required for fiscal periods beginning after June 15, 2016, in fiscal 2017. This Statement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

The City plans to adopt GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, required for fiscal periods beginning after June 15, 2017, in fiscal 2018. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City plans to adopt GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, required for fiscal periods beginning after June 15, 2015, in fiscal 2016. This Statement identified - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles.

The City plans to adopt GASB Statement No. 77, Tax Abatement Disclosures, required for fiscal periods beginning after December 15, 2015, in fiscal 2017. This Statement improves financial reporting by giving users of financial statements essential information regarding tax abatements that is not currently reported consistently or comprehensively.

Unless otherwise noted, management is in the process of determining the effects that the adoption of these Statements will have on the City's financial statements.

NOTE 2 - RESTATEMENT OF NET POSITION

The City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, for the year ended June 30, 2015. The Statement establishes accounting and financial reporting requirements that, among other things, require the City to recognize a liability equal to the net pension liability. The impact on the financial statements was a decrease in beginning net position as follows:

	Statement of Activities			Statement of Revenues, Expenses, and Changes in Net Position	Statement of Activities Component
	Governmental Activities	Business-type Activities	Component Units	Proprietary Funds	Component Units
Net position - beginning of year, as previously reported	\$ 541,827,183	\$ 69,381,511	\$ 1,070,068,031	\$ 69,381,516	\$ 1,070,068,031
Adjustment to record net pension liability and related deferred outflows and inflows of resources	<u>(177,721,042)</u>	<u>(1,809,343)</u>	<u>(763,975)</u>	<u>(1,809,343)</u>	<u>(763,975)</u>
Net position - beginning of year, as restated	<u>\$ 364,106,141</u>	<u>\$ 67,572,173</u>	<u>\$ 1,069,304,056</u>	<u>\$ 67,572,173</u>	<u>\$ 1,069,304,056</u>

NOTE 3 - 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 position 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 4 - 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, 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.

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 2015.

General Fund	\$6,964,216
Special Revenue Funds	590,846
Debt Service Fund	12,500
Capital Project Funds	5,255,000
Enterprise Funds	2,826,374
Internal Service Funds	1,660,461

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. Encumbrances outstanding at year-end are classified as restricted, committed or assigned fund balances depending on the governmental fund purpose and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbered appropriations are appropriated in the ensuing year's budget.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

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	Budget	Actual	Variance
			Favorable (Unfavorable)			Favorable (Unfavorable)
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 21,066,390	\$21,490,853	\$ 424,463	\$21,066,390	\$ 18,277,385	\$ 2,789,005
Metro Parking	2,754,230	2,307,614	(446,616)	2,754,230	2,142,963	611,267
Public Assembly Facilities	5,061,766	4,680,762	(381,004)	5,061,766	4,569,196	492,570
City Golf Courses	2,489,680	2,417,832	(71,848)	2,489,680	1,456,470	1,033,210
<i>Knoxville Area Transit (Component Unit)</i>	23,213,578	26,789,276	3,575,698	23,213,578	28,460,297	(5,246,719)
<i>Internal Service Funds</i>						
Fleet Maintenance	16,817,736	17,155,064	337,328	16,817,736	12,242,800	4,574,936
Risk Management	9,418,520	8,709,661	(708,859)	9,418,520	7,561,792	1,856,728
Employee Health Insurance	19,572,386	18,981,709	(590,677)	19,572,386	16,994,984	2,577,402
Equipment Replacement	1,825,940	1,964,988	139,048	1,825,940	1,417,601	408,339
City Buildings	1,391,210	941,485	(449,725)	1,391,210	1,394,104	(2,894)

NOTE 5 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds except the City Employees' 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 9 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 other equities.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

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, 2015, the average weighted maturity of the City's portfolio was 134 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.

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 35% 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 10% of the portfolio, or \$10 million, whichever is less, shall be from a single issuer. As of June 30, 2015, the City held securities in various municipal bonds of \$64 million or approximately 16% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from Baa2 to Baa3 and are part of the permanent fund for Krutch Park.

As of June 30, 2015, the City had the following investments and maturities.

Investments:	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 2 Years</u>	<u>2 - 4 Years</u>
Primary Government:				
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	\$ 2,431,107	\$ -	\$ 1,430,097	\$ 1,001,010
Private Equity Funding Corporation (PEFCO)	992,060	-	-	992,060
Federal Farm Credit Bureau (FFCB)	4,000,097	999,804	3,000,293	-
Other Governmental Bonds	81,663,637	36,886,044	32,796,917	11,980,676
Certificates of Deposit	10,998,350	6,998,350	4,000,000	-
Corporate Equities	210,054	210,054	-	-
Tennessee Local Government Investment Pool	295,013,426	295,013,426	-	-
	<u>\$ 395,308,731</u>	<u>\$ 340,107,678</u>	<u>\$ 41,227,307</u>	<u>\$ 13,973,746</u>
Fiduciary Activities:				
Tennessee Local Government				
Investment Pool	<u>\$ 480,801</u>	<u>\$ 480,801</u>	<u>\$ -</u>	<u>\$ -</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
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

Deposits and investments of component units and the City Employees' Pension Trust Fund are classified in the statement of net position and the statement of fiduciary net position, respectively, as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Deposits:				
Bank balances	\$ 152,841,579	\$ 13,546,051	\$ 120,698	\$ 1,966
Carrying amounts:				
Deposits (net of outstanding checks) in financial institutions	\$ 124,892,534	\$ 13,546,051	\$ 120,698	\$ 1,966
Certificates of deposit	27,949,045	-	-	-
Total deposits - carrying value	<u>\$ 152,841,579</u>	<u>\$ 13,546,051</u>	<u>\$ 120,698</u>	<u>\$ 1,966</u>

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	\$ -	\$ -	\$ -	\$ 5,823,018	\$ 5,823,018	\$ 5,823,018
United States government securities	85,660,429	-	-	35,320,272	120,980,701	120,980,701
Domestic equity securities	-	-	-	163,264,326	163,264,326	163,264,326
Corporate bonds	-	-	-	69,385,361	69,385,361	69,385,361
State and municipal government securities	-	-	-	1,390,353	1,390,353	1,390,353
Real estate investment trusts	-	-	-	69,570,041	69,570,041	69,570,041
International securities	-	-	-	199,253,943	199,253,943	199,253,943
Total classified investments	85,660,429	-	-	544,007,314	629,667,743	629,667,743
Investments not categorized:						
Investments in state treasurer's investment pool	48,785,708	40,071,930	5,356	-	88,862,994	88,862,994
Total investments	<u>\$ 134,446,137</u>	<u>\$ 40,071,930</u>	<u>\$ 5,356</u>	<u>\$ 544,007,314</u>	<u>\$ 718,530,737</u>	<u>\$ 718,530,737</u>
Total deposits and investments	<u>\$ 287,287,716</u>	<u>\$ 53,617,981</u>	<u>\$ 126,054</u>	<u>\$ 544,009,280</u>		

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	\$ 124,892,534	\$ 12,236,358	\$ 120,698	\$ 1,966
Investments	90,332,784	40,071,930	5,356	544,007,314
Unused bond proceeds	46,053,950	1,309,693	-	-
Bond funds	26,154,107	-	-	-
Other temporarily restricted assets	43,897	-	-	-
	287,477,272	53,617,981	126,054	544,009,280
Less accrued interest	(189,556)	-	-	-
Total deposits and investments	<u>\$ 287,287,716</u>	<u>\$ 53,617,981</u>	<u>\$ 126,054</u>	<u>\$ 544,009,280</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 6 - RECEIVABLES

Receivables at June 30, 2015, 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	\$ 741,894	\$ 105,246	\$ 732,535	\$ 161,316	\$ -	\$ -	\$ 1,740,991
Debt service fund	-	239,174	-	-	9,125	-	248,299
Capital projects fund	-	249,082	3,452,020	-	-	-	3,701,102
Special revenue funds:							
Miscellaneous community development funds	-	-	249,753	-	-	-	249,753
Other governmental funds	865,409	1,139	1,730,171	16,750	13,527	-	2,626,996
Knoxville Convention Center	-	209	-	-	2,519,763	-	2,519,972
Other enterprise funds	-	-	194,416	23,526	14,950	-	232,892
Internal service funds	-	33,030	-	135,810	-	-	168,840
Total primary government	<u>1,607,303</u>	<u>627,880</u>	<u>6,358,895</u>	<u>337,402</u>	<u>2,557,365</u>	<u>-</u>	<u>11,488,845</u>
Component units:							
Knoxville Utilities Board	10,109,135	43,229	-	73,599,059	4,966,423	(720,939)	87,996,907
Metropolitan Knoxville Airport Authority	-	38,095	3,533,113	1,085,109	-	-	4,656,317
Knoxville Area Transit	-	-	6,095,089	-	-	-	6,095,089
Total reporting entity	<u>\$ 11,716,438</u>	<u>\$ 709,204</u>	<u>\$ 15,987,097</u>	<u>\$ 75,021,570</u>	<u>\$ 7,523,788</u>	<u>\$ (720,939)</u>	<u>\$ 110,237,158</u>
Fiduciary Activities:							
City Employees' Pension Trust Fund	<u>\$ -</u>	<u>\$ 1,555,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 788</u>	<u>\$ -</u>	<u>\$ 1,556,754</u>

NOTE 7 - NOTES AND LEASES RECEIVABLE

Notes and leases receivable consisted of the following:

Governmental Funds:	
Notes Receivable	
General Fund	\$ 454,464
Debt Service Fund	759,100
Special Revenue Fund - Miscellaneous Community Development Funds	12,704,584
Other Governmental Funds - Community Development Block Grant Funds	<u>2,524,337</u>
Total Notes Receivable	<u>\$ 16,442,485</u>

The \$759,100 due to the Debt Service Fund is related to the Knoxville Community Development Corporation's ("KCDC") participation in the City's 2000A bond issue in the original amount of \$15,860,000. This bond issue was refunded and is now listed as the 2005A General Obligation Bond issue. \$2,540,000 of the bond issue was set aside for KCDC to use in a HOPE 6 project that needed additional funding. KCDC makes annual amortizing payments to the City which offset the net amount due by the City on the bonds.

The \$12,704,584 due to the Miscellaneous Community Development Funds and the \$2,524,337 due to the Community Development Block Grant Funds are notes due the City that were funded by Federal Community Development grant programs. The combined amount of \$15,228,921 is included in other deferred inflows of resources.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 7 - NOTES AND LEASES RECEIVABLE - Continued

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2042. As of June 30, 2015, minimum future base rentals to be received on noncancellable leases are as follows:

<u>Year Ended June 30,</u>	
2016	\$ 8,900,859
2017	8,988,458
2018	8,873,289
2019	5,037,918
2020	1,619,586
Thereafter	<u>13,823,026</u>
Total	<u>\$47,333,136</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 \$677,000 are included in other noncurrent assets in the accompanying statement of net position as of June 30, 2015. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$2,768,805 for the year ended June 30, 2015.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Primary Government				
Governmental activities:				
<i>Nondepreciable:</i>				
Land	\$ 48,763,754	\$ 25,422	\$ -	\$ 48,789,176
Construction in progress	10,883,543	30,446,893	(11,923,760)	29,406,676
Total nondepreciable capital assets	<u>59,647,297</u>	<u>30,472,315</u>	<u>(11,923,760)</u>	<u>78,195,852</u>
<i>Depreciable:</i>				
Buildings and building improvements	56,511,387	754,081	(572,621)	56,692,847
Equipment, furniture and fixtures	86,894,210	8,610,791	(5,387,946)	90,117,055
Infrastructure	337,103,788	13,109,647	-	350,213,435
Total depreciable capital assets	<u>480,509,385</u>	<u>22,474,519</u>	<u>(5,960,567)</u>	<u>497,023,337</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(32,849,681)	(1,836,369)	474,044	(34,212,006)
Equipment, furniture and fixtures	(62,321,282)	(6,824,838)	5,287,256	(63,858,864)
Infrastructure and site improvements	(168,331,063)	(12,591,777)	-	(180,922,840)
Total accumulated depreciation	<u>(263,502,026)</u>	<u>(21,252,984)</u>	<u>5,761,300</u>	<u>(278,993,710)</u>
Total depreciable capital assets, net	<u>217,007,359</u>	<u>1,221,535</u>	<u>(199,267)</u>	<u>218,029,627</u>
Governmental activities capital assets, net	<u>\$ 276,654,656</u>	<u>\$ 31,693,850</u>	<u>\$ (12,123,027)</u>	<u>\$ 296,225,479</u>
Business-type activities:				
<i>Nondepreciable:</i>				
Land	\$ 7,336,303	\$ -	\$ -	\$ 7,336,303
Artwork	764,875	-	-	764,875
Construction in progress	129,602	577,907	(129,602)	577,907
Total nondepreciable capital assets	<u>8,230,780</u>	<u>577,907</u>	<u>(129,602)</u>	<u>8,679,085</u>
<i>Depreciable:</i>				
Buildings and building improvements	230,361,991	344,342	-	230,706,333
Equipment, furniture and fixtures	6,810,608	189,896	-	7,000,504
Infrastructure and site improvements	-	1,003,574	-	1,003,574
Total depreciable capital assets	<u>237,172,599</u>	<u>1,537,812</u>	<u>-</u>	<u>238,710,411</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(90,435,884)	(5,346,055)	-	(95,781,939)
Equipment, furniture and fixtures	(4,749,263)	(260,391)	-	(5,009,654)
Infrastructure and site improvements	-	-	-	-
Total accumulated depreciation	<u>(95,185,147)</u>	<u>(5,606,446)</u>	<u>-</u>	<u>(100,791,593)</u>
Total depreciable capital assets, net	<u>141,987,452</u>	<u>(4,068,634)</u>	<u>-</u>	<u>137,918,818</u>
Business-type activities capital assets, net	<u>\$ 150,218,232</u>	<u>\$ (3,490,727)</u>	<u>\$ (129,602)</u>	<u>\$ 146,597,903</u>
Fiduciary activities:				
Knoxville Employees' Pension Plan				
<i>Depreciable: Equipment, furniture and fixtures</i>	\$ 38,358	\$ 1,151	\$ (8,013)	\$ 31,496
<i>Accumulated Depreciation</i>	(32,805)	(4,542)	8,013	(29,334)
Total Knoxville Employees' Pension Plan	<u>\$ 5,553</u>	<u>\$ (3,391)</u>	<u>\$ -</u>	<u>\$ 2,162</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 8 - CAPITAL ASSETS - Continued

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

Governmental Activities

General	\$ 1,949,591
Public Safety	6,038,717
Physical Environment	11,866,565
Economic Development	39,123
Parks and Recreation	1,169,569
Health and Sanitation	<u>189,419</u>
	<u>\$21,252,984</u>

Business-type Activities

Knoxville Convention Center	\$4,010,409
Metro Parking	1,023,665
Public Assembly Facilities	6,500
Municipal Golf Courses	<u>565,872</u>
	<u>\$5,606,446</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 8 - CAPITAL ASSETS - Continued

Capital asset activity for component units for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Component Units				
Knoxville Utilities Board				
<i>Nondepreciable: Construction in Progress</i>	\$ 124,829,743	\$ 164,644,375	\$ (95,661,969)	\$ 193,812,149
<i>Depreciable:</i>				
Pumping and treatment plant	269,158,546	4,348,531	(608,563)	272,898,514
Distribution & collection plant	1,715,577,399	80,478,618	(13,225,851)	1,782,830,166
General plant	146,172,851	10,527,779	(1,893,629)	154,807,001
Total depreciable assets	2,130,908,796	95,354,928	(15,728,043)	2,210,535,681
Accumulated depreciation	(706,864,663)	(63,051,875)	16,715,918	(753,200,620)
Total depreciable capital assets, net	1,424,044,133	32,303,053	987,875	1,457,335,061
Total Knoxville Utilities Board	<u>\$ 1,548,873,876</u>	<u>\$ 196,947,428</u>	<u>\$ (94,674,094)</u>	<u>\$ 1,651,147,210</u>
Metropolitan Knoxville Airport Authority				
<i>Nondepreciable:</i>				
Land	\$ 31,580,972	\$ 6,914,234	\$ -	\$ 38,495,206
Construction in progress	9,941,849	10,644,599	(7,977,490)	12,608,958
Total nondepreciable capital assets	41,522,821	17,558,833	(7,977,490)	51,104,164
<i>Depreciable:</i>				
Land improvements	143,343,108	162,004	-	143,505,112
Buildings and building improvements	164,686,414	414,407	-	165,100,821
Equipment, furniture and fixtures	10,330,786	1,236,800	(344,560)	11,223,026
Total depreciable capital assets	318,360,308	1,813,211	(344,560)	319,828,959
<i>Accumulated depreciation:</i>				
Land improvements	(111,130,571)	(3,009,449)	-	(114,140,020)
Buildings and building improvements	(83,831,759)	(6,930,737)	-	(90,762,496)
Equipment, furniture and fixtures	(8,820,055)	(748,532)	315,909	(9,252,678)
Total accumulated depreciation	(203,782,385)	(10,688,718)	315,909	(214,155,194)
Total depreciable capital assets, net	114,577,923	(8,875,507)	(28,651)	105,673,765
Total Metropolitan Knoxville Airport Authority	<u>\$ 156,100,744</u>	<u>\$ 8,683,326</u>	<u>\$ (8,006,141)</u>	<u>\$ 156,777,929</u>
Knoxville Area Transit				
<i>Nondepreciable:</i>				
Land	\$ 1,970,380	\$ 192,432	\$ -	\$ 2,162,812
Artwork	49,000	-	-	49,000
Total nondepreciable capital assets	2,019,380	192,432	-	2,211,812
<i>Depreciable:</i>				
Buildings and building improvements	32,637,878	-	-	32,637,878
Equipment, vehicles, furniture and fixtures	30,851,033	-	(519,435)	30,331,598
Total depreciable capital assets	63,488,911	-	(519,435)	62,969,476
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(6,743,827)	(1,030,789)	-	(7,774,616)
Equipment, vehicles, furniture and fixtures	(12,955,754)	(2,430,544)	519,435	(14,866,863)
Total accumulated depreciation	(19,699,581)	(3,461,333)	519,435	(22,641,479)
Total depreciable capital assets, net	43,789,330	(3,461,333)	-	40,327,997
Total Knoxville Area Transit	<u>\$ 45,808,710</u>	<u>\$ (3,268,901)</u>	<u>\$ -</u>	<u>\$ 42,539,809</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2015 is as follows:

	Due From Other Funds	Due To Other Funds	Internal Balances	Due From Component Units	Due To Primary Government
Governmental Activities					
<i>General Fund</i>	\$ 2,705,400	\$ -	\$ 2,705,400	\$ 793,946	\$ -
<i>Debt Service Fund</i>	-	7,000,000	(7,000,000)	-	-
<i>Special Revenue Fund:</i>					
Abandoned Vehicles	-	2,000	(2,000)	-	-
City Inspections	-	280,000	(280,000)	-	-
City Court	-	8,300	(8,300)	-	-
Miscellaneous Grants	5,000	985,100	(980,100)	-	-
Storm Water	-	115,000	(115,000)	-	-
Solid Waste	-	185,000	(185,000)	-	-
<i>Capital Projects Fund</i>	2,000,000	-	2,000,000	-	-
<i>Internal Service Funds:</i>					
Fleet Maintenance	2,402,000	-	2,402,000	-	-
Health Insurance	-	1,660,000	(1,660,000)	-	-
Health Care	-	675,000	(675,000)	-	-
City Buildings	-	67,000	(67,000)	-	-
Total governmental activities	<u>\$ 7,112,400</u>	<u>\$ 10,977,400</u>	<u>\$ (3,865,000)</u>	<u>\$ 793,946</u>	<u>\$ -</u>
Business-Type Activities					
Knoxville Convention Center	3,000,000	-	3,000,000	-	-
Public Assembly Facilities	1,000,000	-	1,000,000	-	-
Metro Parking	-	135,000	(135,000)	-	-
Total business-type activities	<u>4,000,000</u>	<u>135,000</u>	<u>3,865,000</u>	<u>-</u>	<u>-</u>
Component Units:					
Knoxville Area Transit	-	-	-	-	793,946
	<u>\$ 11,112,400</u>	<u>\$ 11,112,400</u>	<u>\$ -</u>	<u>\$ 793,946</u>	<u>\$ 793,946</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM DEBT

Bonds at June 30, 2015, are comprised of the following issues:

	General Obligation Bonds		
	Governmental Activities	Business-type Activities	Total
Primary Government			
General Obligation Bonds Series 2009 - VI-L-1 through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	\$ -	\$ 16,375,000	\$ 16,375,000
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 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	6,490,000	-	6,490,000
General Obligation Refunding Bonds Series 2012 maturing through 2025 at varying rates of interest ranging from 1.0% to 5.0%	27,985,540	38,894,460	66,880,000
General Obligation Bonds Series 2014 maturing through 2034 at varying rates of interest ranging from 2.8% to 3.2%	31,080,000	-	31,080,000
Total Primary Government	\$ 65,555,540	\$ 115,239,460	\$ 180,795,000

On October 10, 2014, the City issued \$31,080,000 General Obligation Bonds Series 2014, with final maturity occurring May 1, 2034, with interest rates ranging from 2.8% to 3.2%. The proceeds of the bonds will be used to pay costs for certain capital projects of the City.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM DEBT - Continued

	<u>Revenue Bonds</u>
Component Units:	
<i>Knoxville Utilities Board:</i>	
Electric Revenue Bonds Series W to FF, maturing through 2032 at varying rates of interest ranging from 1.45% to 6.35%	\$ 247,055,000
Water Revenue Bonds Series R to CC maturing through 2050 at varying rates of interest ranging from 2.0% to 5.5%	148,400,000
Gas Revenue Bonds Series L to S, maturing through 2050 at varying rates of interest ranging from 2.0% to 6.2%	107,545,000
Waste Water Revenue Bonds Series 2005 A&B, 2007, 2008, 2010, 2010C, 2012A, 2012B, 2013A, 2014A, 2015A, 2015B maturing through 2047 at varying rates of interest ranging from 1.18% to 6.5%	<u>503,260,000</u> <u>\$ 1,006,260,000</u>
<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 a synthetic rate of 5.29%	\$ 11,145,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. \$27,700,000 bears interest at a synthetic rate of 3.502%. The remaining principal bears interest at a variable rate (0.13% at June 30, 2015).	<u>63,855,000</u> <u>\$ 75,000,000</u>

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, 2015, these requirements had been satisfied.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - 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
2016	\$ 6,141,140	\$ 2,328,160	\$ 4,533,860	\$ 3,853,782
2017	4,997,760	2,038,503	5,157,240	3,642,039
2018	4,742,180	1,788,615	5,357,820	3,399,802
2019	4,946,980	1,617,422	5,558,020	3,210,896
2020	5,241,380	1,383,073	5,838,620	2,950,070
2021-2025	21,786,100	4,363,013	29,878,900	16,436,498
2026-2030	9,150,000	2,171,688	40,405,000	9,761,625
2031-2034	8,550,000	686,813	18,510,000	1,257,525
	65,555,540	\$ 16,377,286	115,239,460	\$ 44,512,238
Unamortized premium	5,088,839		1,346,899	
Total	\$ 70,644,379		\$ 116,586,359	

Component Units	Revenue Bonds and Local Gov't Public Improvement Bonds	
	Principal	Interest
2016	\$ 34,195,000	\$ 38,080,059
2017	35,640,000	38,779,282
2018	37,020,000	37,553,889
2019	38,490,000	36,240,722
2020	40,145,000	34,848,419
2021-2025	226,985,000	150,618,700
2026-2030	214,435,000	111,818,728
2031-2035	156,405,000	78,166,981
2036-2040	150,365,000	49,577,542
2041-2045	125,080,000	20,061,169
2046-2050	22,500,000	1,850,275
	\$ 1,081,260,000	\$ 597,595,766

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - 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. On December 16, 2009, the City refinanced the Series III-F loan as Series VI L-1 while maintaining the original III-F amortization schedule. The refinancing was done to achieve lower rates on the bonds by reissuing them without an insurance provision. The principal outstanding on these notes, subject to the swap agreement, as of June 30, 2015, is \$16,375,000.

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. The result of the swap was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F (now VI L-1) bonds to synthetic fixed rates.

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 the interest rate swap agreement exceed the outstanding principal of the Series VI L-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index (the "SIFMA"). The City pays Wells Fargo interest at a fixed rate of 3.955%. Wells Fargo 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, 2015, 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>
Business-Type Activities General Obligation Bonds Series VI-L-1 through Public Building Authority of Sevier County	\$16,375,000	12/16/2009	3.955%	70% of 1 Month LIBOR	\$(1,528,879)	6/1/2020	A+

Fair Value - As of June 30, 2015, the swap had a negative fair value of \$1,528,879. The negative fair value of the swap 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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 10 - LONG-TERM DEBT - Continued

The current notional and fair value amounts of the outstanding swap as of June 30, 2015, were as follows:

<u>Associated Debt Issue</u>	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2015</u>		<u>June 30, 2015 Notional Amount</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Business-Type Activities					
Hedging Derivative					
Loan Payable to the Public Building Authority of Sevier County - Series VI-L1	Deferred Outflow of Resources	\$533,982	Debt	\$(1,528,879)	\$16,375,000

Credit Risk - As of June 30, 2015, 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, 2015, the senior debt of Wells Fargo was rated A2 by Moody's Investor Services.

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. The City refinanced the Series III-F bonds on December 16, 2009, thereby removing the credit enhancement from the bonds and eliminating 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, 2015, debt service requirements of the variable-rate debt and net swap payments for their terms are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

<u>For the year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Interest Rate Swap Payment</u>	<u>Total</u>
2016	\$ 2,990,000	\$ 736,875	\$ (47,500)	\$ 3,679,375
2017	3,125,000	602,325	(38,800)	3,688,525
2018	3,270,000	461,700	(29,800)	3,701,900
2019	3,415,000	314,550	(20,300)	3,709,250
2020	3,575,000	160,875	(10,400)	3,725,475
	<u>\$ 16,375,000</u>	<u>\$ 2,276,325</u>	<u>\$ (146,800)</u>	<u>\$ 18,504,525</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM DEBT - Continued

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.

The terms and fair values of the outstanding swaps as of June 30, 2015, are as follows:

<u>Associated Bond Issues</u>	<u>Outstanding Notional Amounts</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Swap Termination Date</u>
Series II-D-1	\$11,145,000	9/8/2000	5.29%	SIFMA Municipal Swap Index	6/1/2026
Series V-A-1	<u>24,285,000</u>	6/28/2001	4.36%	62.5% of 5 Year LIBOR	6/1/2021
	<u>\$35,430,000</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 fair value of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Hedging Derivative Instruments Risks

The Authority has a cash flow hedge associated with the Series II-D-1 bond - Using the regression analysis method this pay-fixed interest rate swap has been determined to be effective. Accordingly, the \$129,878 decrease in the fair value in 2015 is included in accumulated deferred outflow of resources in the statements of net position. The estimated fair value of \$2,514,204 has been reported as a long-term liability.

Credit Risk - As of June 30, 2015, the Authority's cash flow hedge is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

At the time of the swap the counterparty was unrated. In order to mitigate the potential for credit risk, the Authority received a Financial Guarantee Insurance Policy for the swap agreement 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 agreement was entered. As of June 30, 2015, Ambac's credit rating has been severely downgraded and has been withdrawn by the rating agencies.

Interest Rate Risk - The Authority is exposed to interest rate risk on this instrument. As the Securities Industry and Financial Markets Association™ Index swap index decreases, the Authority's net payment on the swap increases.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 10 - LONG-TERM DEBT - Continued

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.

Investment Derivative Instrument Risks

The Authority has an investment derivative associated with the Series V-A-1 bond. Accordingly, the \$479,594 decrease in its fair value in fiscal year 2015 is reported as a change in fair value of investment interest rate swap in the nonoperating income portion of the Statements of Revenues, Expenses and Changes in Net Position. The estimated fair value of \$2,369,659 has been reported as a long-term liability at June 30, 2015.

Credit risk: As of June 30, 2015, the Authority’s investment derivative is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative’s fair value.

For the swap associated with Series V-A-1 bonds, the swap counterparty, Morgan Keegan Financial Products was rated “A+” by Standard and Poor’s as of June 30, 2015, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody’s, Standard & Poor’s and Fitch, respectively.

Interest rate risk: The Authority is exposed to interest rate risk on this instrument. As the LIBOR decreases, the Authority’s net payment on the swap increases.

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 the associated bonds. Once the swap is terminated, the Authority will not realize the synthetic rate offered by the swaps on the underlying bond issues.

Scheduled Debt Service Requirements

As of June 30, 2015, scheduled debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending <u>June 30,</u>	Variable Rate Bonds		Interest Rate	
	<u>Principal</u>	<u>Interest</u>	<u>Swaps, net</u>	<u>Total</u>
2016	\$ 4,365,000	\$ 392,445	\$1,069,380	\$ 5,826,825
2017	4,590,000	365,650	930,393	5,886,043
2018	4,825,000	337,227	784,324	5,946,551
2019	5,075,000	307,135	630,833	6,012,968
2020	5,335,000	275,128	469,509	6,079,637
2021-2022	31,570,000	823,214	671,838	33,065,052
2026-2028	<u>19,240,000</u>	<u>63,230</u>	<u>14,701</u>	<u>19,317,931</u>
Total	<u>\$75,000,000</u>	<u>\$2,564,029</u>	<u>\$4,570,978</u>	<u>\$82,135,007</u>

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM DEBT - Continued

Advance and Current Refundings

Component units

Knoxville Utilities Board

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. During fiscal year 2011, KUB's Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective October 1, 2014 these bonds became subject to a 7.3% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds. During fiscal year 2013, KUB's Electric Division issued Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds. During fiscal year 2015, KUB's Electric Division issued Series EE 2015 bonds to retire a portion of outstanding Series Y 2009 bonds as follows. On May 1, 2015 \$28.6 million in revenue refunding bonds with an average interest rate of 3.4 percent were issued to advance refund \$27.5 million of outstanding bonds with an average interest rate of 4.6 percent. The net proceeds of \$31 million (after payment of \$0.3 million in issuance costs plus premium of \$2.4 million and an additional issuer equity contribution of \$0.3 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 15 years by \$2.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.6 million. KUB's Electric Division also issued Series DD 2014 and Series FF 2015 to fund electric system capital improvements. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$37.6 million at June 30, 2015, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Gas Division issued Series L 2005 bonds in part to retire certain existing debt and fund gas system capital improvements. 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. During fiscal year 2008, KUB's Gas Division issued Series N 2007 to fund gas system capital improvements. During fiscal year 2010, KUB's Gas Division issued Series O 2010 bonds to retire Series I 2001 bonds. During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective October 1, 2014, these bonds became subject to a 7.3% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K 2004 bonds. During fiscal year 2013, KUB's Gas Division issued Series R 2012 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series S 2013 bonds to retire Series M 2006 outstanding bonds. During fiscal year 2014, KUB's Gas Division issued Series T 2013 to fund gas system capital improvements. During fiscal year 2015, KUB's Gas Division issued Series U 2015

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM DEBT - Continued

bonds to retire Series N 2007 outstanding bonds as follows. On May 1, 2015, \$11.8 million in revenue refunding bonds with an average interest rate of 3.3 percent were issued to advance refund \$11.5 million of outstanding bonds with an average interest rate of 4.6 percent. The net proceeds of \$12.4 million (after payment of \$0.2 million in underwriting fees and other issuance costs plus premium of \$0.7 million and an additional issuer equity contribution of \$0.1 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 16 years by \$1.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$11.5 million at June 30, 2015, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Water Division issued Series R 2005 bonds for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 bonds to retire certain existing debt and fund water system capital improvements. 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's Water Division issued Series T 2007 bonds to fund water system capital improvements. During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements. During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds. During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds. During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements. During fiscal year 2015, KUB's Water Division issued Series BB 2015 bonds to retire a portion of outstanding Series T 2007 bonds as follows. On May 1, 2015, \$23 million in revenue refunding bonds with an average interest rate of 3.3 percent were issued to advance refund \$22.2 million of outstanding bonds with an average interest rate of 4.5 percent. The net proceeds of \$24 million (after payment of \$0.2 million in underwriting fees and other issuance costs plus premium of \$1.1 million and an additional issuer equity contribution of \$0.1 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 18 years by \$2.4 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.8 million. KUB's Water Division also issued Series AA 2014 and Series CC 2015 bonds to fund water system capital improvements. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$22.2 million at June 30, 2015, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Wastewater Division issued Series 2005B bonds in part to retire certain existing debt and fund wastewater system capital improvements. 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. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, KUB's Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective October 1, 2014, these bonds became subject to a 7.3% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 10 - LONG-TERM DEBT - Continued

received from the United States Government for each interest payment. Effective October 1, 2014, these bonds became subject to a 7.3% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds. During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds. During fiscal year 2015, KUB's Wastewater Division issued Series 2015A bonds to retire a portion of outstanding Series 2005A, Series 2007, and Series 2008 bonds as follows. On May 1, 2015, \$129.8 million in revenue refunding bonds with an average interest rate of 3.8 percent were issued to refund \$127.2 million of outstanding bonds with an average interest rate of 4.5 percent. The net proceeds of \$135.5 million (after payment of \$1.5 million in underwriting fees and other issuance costs plus premium of \$7.2 million) were used to refund Series 2005A currently and to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2007 and Series 2008 bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 27 years by \$13.4 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$9.3 million. KUB's Wastewater Division also issued Series 2014A and Series 2015B bonds to fund wastewater system capital improvements. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$90.7 million at June 30, 2015, and the trust account assets are not included in the financial statements.

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 \$85,758,140 set to expire November 2018. Costs of maintaining this letter of credit and other administrative fees are included in interest expense.

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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM DEBT - Continued

Changes in Long-Term Liabilities

The following schedule is a summary of the changes in long-term liabilities (including current amounts) for the year ended June 30, 2015:

	Balance June 30, 2014	Additions and Transfers	Reductions and Transfers	Balance June 30, 2015	Due Within One Year
Primary Government					
<i>Governmental Activities:</i>					
General obligation bonds	\$ 39,858,260	\$ 31,080,000	\$ 5,382,720	\$ 65,555,540	\$ 6,141,140
Add unamortized amounts for issuance premiums	<u>5,130,746</u>	<u>527,039</u>	<u>568,946</u>	<u>5,088,839</u>	<u>568,945</u>
	44,989,006	31,607,039	5,951,666	70,644,379	6,710,085
Estimated claims liability	17,600,000	3,255,682	3,255,682	17,600,000	5,100,000
Compensated absences payable	9,337,818	7,824,787	7,558,851	9,603,754	7,600,000
Net pension liability	<u>177,721,043</u>	<u>74,573,113</u>	<u>105,219,574</u>	<u>147,074,582</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 249,647,867</u>	<u>\$ 117,260,621</u>	<u>\$ 121,985,773</u>	<u>\$ 244,922,715</u>	<u>\$ 19,410,085</u>
<i>Business-type Activities:</i>					
General obligation bonds	\$ 119,576,740	\$ -	\$ 4,337,280	\$ 115,239,460	\$ 4,533,860
Add unamortized amounts for issuance premiums	<u>1,482,816</u>	<u>-</u>	<u>135,917</u>	<u>1,346,899</u>	<u>135,917</u>
	121,059,556	-	4,473,197	116,586,359	4,669,777
Compensated absences payable	169,100	93,714	78,864	183,950	183,950
Net pension liability	1,809,343	807,552	1,091,379	1,525,516	-
Derivative instrument - interest rate swaps	<u>2,062,861</u>	<u>-</u>	<u>533,982</u>	<u>1,528,879</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 125,100,860</u>	<u>\$ 901,266</u>	<u>\$ 6,177,422</u>	<u>\$ 119,824,704</u>	<u>\$ 4,853,727</u>

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$141,249 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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 10 - LONG-TERM DEBT - Continued

All bonds and loans are backed by the full faith and credit of the City. In addition to the primary pledge of property taxes, the City has pledged convention center revenues net of operating expenses (if any) as a secondary pledge to repay the \$59.97 million TN Series A-4-A long-term debt issue used to construct the center. For the year ended June 30, 2015, principal and interest payments on all debt issues were approximately 11% of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately \$248.1 million, based on market interest rates effective on June 30, 2015.

	Balance June 30, 2014	Additions and Transfers	Reductions and Transfers	Defeased	Balance June 30, 2015	Due Within One Year
Component Units						
<i>Knoxville Utilities Board:</i>						
Revenue bonds	\$ 864,740,000	\$ 356,160,000	\$ 26,240,000	\$ 188,400,000	\$ 1,006,260,000	\$ 29,830,000
TVA conservation program	10,885,245	2,629,945	3,178,508	-	10,336,682	1,500,000
Compensated absences	8,475,812	14,845,854	14,704,822	-	8,616,844	3,000,000
Customer advances for construction	1,607,364	1,361,196	663,502	-	2,305,058	17,000
Other	256,124	739,871	517,198	-	478,797	35,000
Total Knoxville Utilities Board	<u>885,964,545</u>	<u>375,736,866</u>	<u>45,304,030</u>	<u>188,400,000</u>	<u>1,027,997,381</u>	<u>34,382,000</u>
<i>Metropolitan Knoxville Airport Authority:</i>						
Revenue/general obligation bonds	<u>79,155,000</u>	-	<u>4,155,000</u>	-	<u>75,000,000</u>	<u>4,365,000</u>
Total Metropolitan Knoxville Airport Authority	<u>79,155,000</u>	-	<u>4,155,000</u>	-	<u>75,000,000</u>	<u>4,365,000</u>
Total component units	<u>\$ 965,119,545</u>	<u>\$ 375,736,866</u>	<u>\$ 49,459,030</u>	<u>\$ 188,400,000</u>	<u>\$ 1,102,997,381</u>	<u>\$ 38,747,000</u>

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, Delta Air Lines, formerly 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.

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 Delta Air Lines, are the only security for the bondholders. The entire amount of the bonds was outstanding at June 30, 2015.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 11 - 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, 2015 were \$1,248,772.

Component Units

The Knoxville Utilities Board has non-cancellable operating lease commitments for office equipment and vehicles that expire in various years through June 30, 2020. Future minimum lease payments under leases having initial or remaining non-cancellable terms in excess of one year as follows:

	<u>Amount</u>
2016	\$ 45,858
2017	27,456
2018	12,470
2019	8,189
2020	<u>8,189</u>
Total	<u>\$102,162</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 12 - FUND BALANCES

Detail fund balances are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Funds		Total
				Miscellaneous Community Development Fund	Other Funds	
Fund Balances:						
Nonspendable:						
Inventory	\$ 432,138	\$ -	\$ 401,758	\$ 18,699	\$ 31,586	\$ 884,181
Prepays	11,058	-	-	-	-	11,058
Permanent Fund Principal	-	-	-	-	624,065	624,065
Restricted for:						
Unspend Bond Proceeds	-	-	22,000,772	-	-	22,000,772
Street Improvements	-	-	-	-	3,047,054	3,047,054
Community Development	-	-	-	1,795,309	-	1,795,309
Law Enforcement	-	-	-	-	4,864,648	4,864,648
Parks & Recreation	-	-	-	-	225,840	225,840
Solid Waste Operations	-	-	-	-	4,729,924	4,729,924
Krutch Park	-	-	-	-	244,943	244,943
Committed to:						
Debt Service	-	50,252,250	-	-	-	50,252,250
Economic Stabilization	41,275,270	-	-	-	-	41,275,270
Other Capital Projects	-	-	90,895,534	-	-	90,895,534
Abandoned Vehicle Operations	-	-	-	-	1,313,680	1,313,680
City Inspections Operations	-	-	-	-	425,277	425,277
City Court Operations	-	-	-	-	1,263,281	1,263,281
Animal Control Operations	-	-	-	-	567,073	567,073
Beer Board	-	-	-	-	140,284	140,284
Finance & Accountability	193,642	-	-	-	-	193,642
Law Enforcement	-	-	-	-	1,916,705	1,916,705
Safety City	-	-	-	-	561,312	561,312
Storm Water Operations	-	-	-	-	968,106	968,106
Community Development	-	-	-	-	2,600,103	2,600,103
Assigned to:						
Administration	279,196	-	-	-	-	279,196
Appropriated Fund Balance	2,065,000	-	-	-	-	2,065,000
Community Development	959,176	-	-	-	-	959,176
Parks & Recreation	49,438	-	-	-	-	49,438
Unassigned	30,508,015	-	-	-	-	30,508,015
Total Fund Balances	\$75,772,933	\$50,252,250	\$ 113,298,064	\$ 1,814,008	\$ 23,523,881	\$ 264,661,136

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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.

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 \$2.5 million were considered adequate to cover any costs incurred but not reported as of year-end.

	2015	2014
Claims liability, beginning of year	\$ 2,500,000	\$ 1,000,000
Provision for incurred claims	12,046,596	10,440,628
Payments made on claims	<u>(12,046,596)</u>	<u>(8,940,628)</u>
Claims liability, end of year	<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>

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 \$17,600,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities as of June 30, 2015.

An analysis of claims activity for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Claims liability, beginning of year	\$ 17,600,000	\$ 12,200,000
Provision for incurred claims	3,255,682	9,527,971
Payments made on claims	<u>(3,255,682)</u>	<u>(4,127,971)</u>
Claims liability, end of year	<u>\$ 17,600,000</u>	<u>\$ 17,600,000</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 13 - RISK MANAGEMENT - Continued

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2015, 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 \$5.1 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.

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, 2015, the amount of these liabilities was \$1,699,525. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Claims liability, beginning of year	\$ 1,572,570	\$ 1,733,984
Provision for incurred claims	14,222,337	12,105,053
Payments made on claims	(14,095,382)	(12,266,467)
Claims liability, end of year	\$ 1,699,525	\$ 1,572,570

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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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.

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, 2006, 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 \$1,000,000 by August 1, 2012 and increase \$50,000 each year through 2016.

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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 15 - MANAGEMENT AGREEMENTS - Continued

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 various parking lots. 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.

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 August 1, 2012 and calls for an annual management fee of \$129,250 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 \$267,450 in fiscal year 2011, said maximum to be annually adjusted by the CPI.

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, 2015 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, 2015:

	<u>Spent to Date</u>	<u>Contractual Commitment Remaining at June 30, 2015</u>
Bridge Maintenance	\$ 432,399	\$ 2,123,231
Cumberland Avenue Improvements	63,279	17,213,925
Drainage Improvements	4,480,279	1,385,867
Greenway Improvements	1,620,351	548,642
Information Systems Upgrades	470,806	586,705
Lakeshore Park Improvements	1,281,714	114,971
Miscellaneous Equipment Acquisition	63,960	241,116
New Facilities & Renovation	153,731	170,894
Parks Improvements	453,426	303,241
Paving Program	10,230,664	4,171,857
Redevelopment Program	1,430,786	124,282
Roadway Improvements	2,644,412	1,876,021
Sidewalk Improvements	990,022	523,372
South Knoxville Waterfront	1,649,811	6,133,974
Streetscapes	502,130	1,549,748
Traffic Improvements	-	1,311,600
Water Quality Improvements	318,259	113,662
	<u>318,259</u>	<u>113,662</u>
Total	<u>\$ 26,786,029</u>	<u>\$ 38,493,108</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

Component units

Knoxville Utilities Board

Purchased Gas Adjustments - In November 1990, KUB implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB 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 KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of GASB Statement No. 62 (Statement No. 62), Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

The PGA is intended to assure 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 PGA is also intended to assure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, KUB tracks the actual over/under recovered amount in the (under)/over recovered 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 KUB's customers. The amount of over-recovered costs was \$1,063,761 at June 30, 2015.

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. These changes in electric costs are reflected as adjustments to the base electric rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, and KUB meets the remaining criteria of Statement No. 62.

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

In April 2011, TVA modified its wholesale rate structure to demand and energy billing for its distributors. In response, KUB revised its PPA to include a deferred accounting component to ensure appropriate matching of revenue and expense and cost recovery. KUB will adjust its retail rates on an annual basis to flow any over or under recovery of wholesale power costs through to its customers via the PPA.

Under the PPA mechanism, KUB tracks the actual (under)/over recovered amount in the (under)/over recovered Purchased Power Costs accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any (under)/over recovered amounts are promptly passed on to KUB's customers. The amount of over recovered cost was \$500,522 at June 30, 2015.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2015, the Gas Division of the Knoxville Utilities Board hedged 51% of its total gas purchases via gas supply contracts. As of June 30, 2015, the Gas Division had hedged the price on approximately 24% of its anticipated gas purchases for fiscal year 2016.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Demand:					
Transportation	\$ 14,644,864	\$ 13,319,984	\$ 13,319,984	\$ 13,319,984	\$ 3,833,028
Storage	4,595,112	4,516,904	4,178,474	3,163,184	1,190,405
Demand total	<u>\$ 19,239,976</u>	<u>\$ 17,836,888</u>	<u>\$ 17,498,458</u>	<u>\$ 16,483,168</u>	<u>\$ 5,023,433</u>
Commodity:					
Baseload	<u>\$ 13,359,181</u>	<u>\$ 5,883,795</u>	<u>\$ 5,874,650</u>	<u>\$ 5,874,650</u>	<u>\$ 1,801,950</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for Conoco, Shell Energy and BP are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the CNX contract is based upon firm supply obligations and the applicable four month New York Mercantile Exchange (“NYMEX”) strip prices at July 31, 2015.

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, the remediation of identified sanitary sewer overflows (“SSOs”) on KUB’s wastewater system must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville’s waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB’s Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the “BEHRC”) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018, and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately \$120 million.

KUB’s funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2015, the Wastewater Division had issued \$485 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50% rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8% rate increase, which was effective in September 2008, and two 12% rate increases, which were effective in April 2011 and October 2012, and three 6% rate increases effective October 2014, October 2015 and October 2016, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB completed its eleventh full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 17 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on five major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for \$3,773,493 in aviation area revenue during 2015. In addition, a significant portion of terminal area revenue is directly and indirectly generated from four of these airline's passengers, which accounted for approximately 84% of total passengers during 2015. As of June 30, 2015, 72% 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 18 – TRANSFERS - Continued

	Governmental Activities						Business-type Activities				Internal Service Funds			
	General Fund	Debt Service	Capital Projects	State Street Aid	City Inspections	City Court	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Public Assembly Facilities	Convention Center	Fleet Maintenance	Risk Management	Total
Transfers To:														
Primary Government:														
Governmental Activities:														
General Fund	9,987,000	14,958,000	95,394	588,600	-	2,161,350	2,938,336	175,000	260,000	-	120,000	1,653,841	2,161,350	
Capital Projects Fund	552,450	-	-	-	-	-	-	-	-	-	-	-	30,776,171	
City Inspections	-	-	-	-	-	-	-	-	-	-	-	-	552,450	
Miscellaneous Special Revenue Funds	16,572	-	-	-	-	-	-	-	-	-	-	-	16,572	
Revenue Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	
Miscellaneous Grants	3,002,420	-	-	-	-	-	-	-	-	-	-	-	3,002,420	
Storm Water	9,193,770	-	-	-	-	-	-	-	-	-	-	-	9,193,770	
Solid Waste	-	-	-	-	-	-	-	-	-	-	-	-	-	
Business-type Activities:														
Metro Parking	-	500,000	-	-	-	-	-	-	-	-	-	-	500,000	
Convention Center	5,330,786	-	-	-	-	-	-	-	-	700,000	-	-	6,030,786	
Public Assembly Facilities	2,492,140	-	-	-	-	-	-	-	-	-	-	-	2,492,140	
City Golf Courses	1,111,640	-	224,040	-	-	-	-	-	-	-	-	-	1,335,680	
Internal Service Funds:														
Fleet Maintenance	-	62,500	81,132	-	-	-	103,311	-	210,000	2,600	-	-	459,543	
Risk Management	613,900	-	-	-	-	-	-	-	-	-	-	-	613,900	
Health Insurance	1,316,650	-	-	-	-	-	-	-	-	-	-	-	1,316,650	
Equipment Replacement	58,026	-	-	-	2,842	-	1,165	24,140	-	3,166	-	-	89,339	
	\$ 33,675,354	\$ 15,520,500	\$ 400,566	\$ 588,600	\$ 2,842	\$ 2,161,350	\$ 3,042,812	\$ 199,140	\$ 470,000	\$ 5,766	\$ 120,000	\$ 1,653,841	\$ 58,540,771	

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 19 - RETIREMENT AND DISABILITY PLANS

City of Knoxville Pension System

General Information about the Pension Plan

Plan Description, Benefits Provided and Contribution - The City 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, including certain former City School employees. All participants are fully vested in the plan after 5 - 10 years of service. The plan includes employees of the City of Knoxville, and is designed to provide retirement, disability, and death benefits. The following description of the City of Knoxville Pension System is for general information purposes only. For complete details of the plan, refer to the City of Knoxville Charter Article XIII, Section 1301 - 1390.

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. The City adopted employer financial reporting requirements for the Plan, as required by GASB Statement No. 68, in fiscal year 2015, as further described in Note 1.

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. The normal retirement benefit will be equal to one-twelfth of credit service and a percentage of base earnings (ranging from 0.75% to 0.88%) plus a percentage of average excess earnings (ranging from 1.5% to 1.76%), determined by age. Base earnings are annual earnings up to \$4,800. Excess earnings are annual earnings over \$4,800. Average is defined as the highest average earnings over a span of two years (for general government) or three years (for education).

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. The immediately monthly pension is 50% of the member's average monthly salary for the highest two years. To this percentage will be added 1% each year (and a fraction based on completed months) of service after January 1, 1979, and after the member has reached age 50 and completed 25 years of service, subject to a maximum addition of 10%.

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. The normal monthly retirement benefit payable for life is as follows: 2% of member's service, subject to a maximum of 30 years of service until January 4, 1997; 2.1% of member's service, subject to a maximum of 30 years of service until January 4, 1999; 2.4% of member's service, subject to a maximum of 30 years of service until January 5, 2001, and 2.5% of member's average salary thereafter. Average salary is determined over three years until January 4, 1997, two years thereafter.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

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. The normal retirement benefit is 50% of the member's highest monthly salary while employed in an eligible position. To this percentage will be added 2% for each year of service worked after 25 years to a maximum of 30 years (maximum of 60% benefit).

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. Two options exist for benefits under this division. Option 1: the monthly normal retirement for life will be equal to one-twelfth of the product of credited service times a percentage of average annual earnings ranging from 1.07% to 1.35% and average annual earnings. In addition, 3% of the member contributions go into a supplemental retirement account. The City contributes 1.5% of gross regular bi-weekly payroll into the account, which the member is entitled. Option 2: the normal retirement will be equal to credited service times 2% of average annual earnings until January 5, 2001 and 2.1% of average annual earnings thereafter.

Division H - All general government and uniformed safety employees who were employed on or after January 1, 2013. Members of Division H are covered by Social Security. Participation in Division H requires employee contributions of 6% of annual earnings. Division H provides for normal retirement benefits at age 63 and ten years of service for general government employees, and age 56 and twenty-five years of service or age 63 and ten years of service for uniformed safety employees. The normal retirement benefit for life will be equal to one-twelfth of the greater of 2% for each year of service times average compensation, or the annuity value of the member's hypothetical account which includes member's contributions, employers contribution credit equal to 8% of member's compensation for general government and 10% for uniformed safety, and interest credit based on the change in market value of the fund.

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. A contribution was made for this department of \$1,590,991 for 2015.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are equal to the change in the Consumer Price Index value on the 1982-1994 based of 1.7 percent, limited to a maximum increase in retirement allowance of 3 percent.

Note that only Division H is open - all others closed.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Employees covered by the benefit terms. Membership of the Plan consisted of the following at July 1, 2014, the date of the latest actuarial valuation:

Active participants	1,514
Active with frozen benefits (teachers)	3
Vested terminated participants	88
Retired participants	<u>2,163</u>
 Total	 <u>3,768</u>

Employer Contributions - In accordance to Section 1360.10 of the City Charter, the City's contribution is based on an actuarially determined percentage of the monthly base earnings of the System's participants. The contribution for the former Board of Education department is an actuarially determined amount based on a level dollar amount to fund any actuarial liability.

The recommended contributions are determined using the entry age normal funding method. Unfunded actuarial accrued liabilities are being amortized over a thirty year period, of which 22 years remain at July 1, 2015. Projected covered payroll for the year beginning July 1, 2015 amounted to approximately \$70,991,948. The ratio of the net pension liability to the covered payroll was 242.4%.

The contributions for the year ended June 30, 2015 were based on the actuarial valuation as of July 1, 2013. The table below shows the contribution rates as percentages of covered payroll.

<u>Plan</u>	<u>2015</u>	<u>2014</u>
C	42.43%	25.84%
A, B, G	19.30%	14.66%
H, general government	8.68%	8.00%
H, uniformed	14.00%	10.00%

In addition to these actuarially determined contributions, the City of Knoxville contributes 1.5% of the monthly base earnings of participants in Division G, Option 1 to defined contribution accounts held within the System. Contributions to this plan for the fiscal years ended June 30, 2015 and 2014 were \$231,053 and \$256,675, respectively.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Net Pension Liability

The City's net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation method	Entry age normal
Amortization method	Closed amortization
Remaining amortization period	23 years
Asset valuation method	Market value, adjusted for a 10-year phase-in of each year's difference between actual and expected value.
Cost of living adjustment	3.5% per annum for all except Division H; 3.0% per annum for Division H
Investment rate of return	5.5% per annum for Division H; 7.375% per annum for all other divisions
Inflation	2.75% per annum

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 is based on the experience study shown below:

	<u>General Government</u>	<u>Uniformed Bodies</u>
Age 20	12.0%	12.0%
Age 35	5.2%	6.2%
Age 50	4.1%	4.3%
Age 60	3.5%	3.5%

Mortality rates for Divisions A, B and G (not including Board of Education) were based on the GA-51 Male Projected to 1980 table with a 5 year setback for females. Board of Education Divisions A and B are based on the RP-2000 Combined Mortality Table for Males or Females. Mortality Rates for Divisions C, F and H (Uniformed Bodies) are weighted 25% on the GA-51 Male Projected to 1980 table and 75% on the 1971 Group Annuity Mortality table. Division H (General Government) mortality rates were based on the 1994 GAM – Male only.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006 – July 1, 2011.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major class included in the System's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Assets Class</u>	<u>Target Allocation</u>
Equity	41.5%
Fixed Income	30.0
Hedge Funds	5.0
Risk Parity	5.0
Real Assets	17.5
Cash	1.0

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Expected* Nominal Rate of Return</u>
Large Cap Stocks	4.50%	7.25%
Small-Mid Cap Stocks	4.25	7.00
Developed International Stocks	5.25	8.00
Emerging Markets Stocks	6.75	10.00
Private Equity	8.25	11.00
Core Bonds	1.75	4.50
Long Bonds	2.25	5.00
High Yield Bonds	2.25	5.00
TIPS	1.75	4.50
Emerging Markets Debt	5.00	7.75
Hedge Funds	5.00	7.75
Real Estate	6.75	9.50
Energy/Commodities	6.75	9.50
Cash	1.25	4.00

*Includes 2.75% Inflation

Discount Rate: The discount rate used to measure the total pension liability on the first basis is equal to the System's expected rate of return of 7.375% (5.5% for Division H). The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current statutory contribution rates and that contributions from the City will be made at the current statutory contributions rates. Based on those assumptions, the System's net position is expected to be available indefinitely. The long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments. The System has historically earned over 8% for the past twenty years on a rolling average rate of return which includes the financial crisis of 2008-2009.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at June 30, 2014	\$ 682,700,768	\$ 491,213,168	\$ 191,487,600
Changes for the year:			
Service cost	12,325,832	-	12,325,832
Interest expense	49,402,615	-	49,402,615
Experience losses (gains)	866,648	-	866,648
Contributions - City	-	15,239,948	(15,239,948)
Contributions - members	-	4,000,994	(4,000,994)
Net investment income	-	87,070,012	(87,070,012)
Refunds of contributions	(768,187)	(768,187)	-
Benefits paid	(41,502,497)	(41,502,497)	-
Plan administrative expenses	-	(828,357)	828,357
Net changes	<u>20,324,411</u>	<u>63,211,913</u>	<u>(42,887,502)</u>
Balances at June 30, 2015	<u>\$ 703,025,179</u>	<u>\$ 554,425,081</u>	<u>\$ 148,600,098</u>

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 7.375 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.375 percent) or 1-percentagepoint higher (8.375 percent) than the current rate:

	<u>1% Decrease (6.375%)*</u>	<u>Current Rate (7.375%)*</u>	<u>1% Increase (8.375%)*</u>
Net Pension Liability	\$ 230,159,959	\$ 148,600,098	\$ 81,365,754

* For Division H, current rate is 5.5%; 1% decrease is 4.5%; 1% increase is 6.5%.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued City of Knoxville Pension System financial report.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension expense of \$10,840,692. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 742,834	\$ -
Net difference between projected and actual earnings on investments	-	39,231,080
Contributions made subsequent to the measurement date	22,590,334	-
Total	\$ 23,333,168	\$ 39,231,080

The amounts shown above for contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ending June 30,	
2016	(9,683,964)
2017	(9,683,964)
2018	(9,683,964)
2019	(9,683,964)
2020	123,806
Thereafter	123,806

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

Payable to the Pension Plan

At June 30, 2015, the City reported no contributions payable to the pension plan required for the year ended June 30, 2015.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Component Units

<u>Name</u>	<u>Type</u>	<u>Status</u>
Knoxville Utilities Board	Defined Benefit	Closed
	Defined Contribution	Open
Metropolitan Knoxville Airport Authority	Defined Contribution	Open

Additional information regarding the pension plans of the above component units can be found in their separately issued financial statements.

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 \$396,372 in 2015.

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 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.

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 \$91,065 in 2015.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) has established 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, 2015, the City and the retirees contributed \$454,250 and \$616,919, 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 approximately 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.

For June 30, 2015, the City's annual OPEB cost of \$1,071,169 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 the past three fiscal years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$1,071,169	100%	\$ -
June 30, 2014	1,208,802	100%	-
June 30, 2013	1,210,950	100%	-

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, 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.

The actuarial accrued liability for benefits was \$9.2 million. Since there are no plan assets, the unfunded actuarial accrued liability is \$9.2 million. The covered payroll was \$71.6 million and the ratio of the UAAL to covered payroll is 12.9%.

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial 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 January, 1, 2015 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 9% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a 8 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, 2015 was 30 years.

Component Units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 594 former employees and 619 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. 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.

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, 2015, 375 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, and be enrolled in medical coverage on their last day.

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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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

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 Trust 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 general administration and responsibility for the proper operation of the Trust is governed by a board of trustees, appointed by the 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.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2015 were \$3.5 million. The contribution to the Trust exceeded the annual required contribution (ARC), as determined by the Postretirement Benefit Plan's actuarial valuation as of January 1, 2013 which was \$3.5 million. As of June 30, 2015, the employer OPEB obligation has been exceeded by \$174,410.

The ARC for the fiscal year ending June 30, 2016, as determined by the Plan's actuarial valuation as of January 1, 2014 is \$953,221.

The actuarial valuation for the Plan as of January 1, 2015 has been completed. The valuation determined that the Plan's actuarial accrued liability was \$47.7 million. The actuarial value of the Plan's assets was \$47.7 million. As a result, the Plan's unfunded actuarial accrued liability was \$47,162.

The Plan's actuarial funded ratio was 100%. The valuation also determined that the employer's ARC is \$620,015 for the fiscal year ending June 30, 2017. Additional information regarding the KUB Plan, including the OPEB Schedule of Funding Progress, can be found in their separately issued financial statements.

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	\$14,250,324
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	16,535,897
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	1,804,675
Subsidies paid by the City to Knoxville Area Transit	9,457,550

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CITY OF KNOXVILLE, TENNESSEE

Required Supplementary Information
June 30, 2015

Schedule of Changes in Net Pension Liability and Related Parties - City of Knoxville Pension System
(Dollar Amounts in Millions)

Unaudited - See Accompanying Auditor's Report

	<u>2014</u>
Total Pension Liability	
Service cost	\$ 12.3
Interest	49.4
Changes of benefit terms	-
Differences between expected and actual experience	0.9
Changes in assumptions	-
Benefit payments/refunds	<u>(42.3)</u>
Net change in total pension liability	20.3
Total pension liability, beginning	<u>682.7</u>
Total pension liability, ending (a)	<u><u>703.0</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 15.2
Contributions - employee	4.0
Net investment income	87.1
Benefit payments/refunds	(42.3)
Administrative expenses	(0.8)
Other	<u>-</u>
Net change in plan fiduciary net position	\$ 63.2
Plan fiduciary net position - beginning	<u>491.2</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 554.4</u></u>
Net pension liability - ending (a) - (b)	<u><u>\$ 148.6</u></u>
Plan fiduciary net position as a % of the total pension liability	78.9%
Covered-employee payroll	\$ 69.9
Net pension liability as a % of covered-employee payroll	212.6%

Note: This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF KNOXVILLE, TENNESSEE

**Required Supplementary Information
June 30, 2015**

**Schedule of Employer Contributions - City of Knoxville Pension System
(Dollar amounts in millions)**

Unaudited - See Accompanying Auditor's Report

	June 30, 2015	June 30, 2014 *
Actuarially determined contribution	\$ 22.6	\$ 20.9
Contributions in relation to the actuarially determined contribution	22.6	20.9
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 71.0	\$ 69.9
Contributions as a percentage of covered-employee payroll	31.8%	29.9%

* Includes \$5.6 million credited from the 2012 contribution held in reserve.

Note: This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Schedule of Employer Contributions - Knoxville Utilities Board

Unaudited - See Accompanying Auditor's Report

	January 1, 2014
Actuarially determined contribution	\$ 5,908,541
Contributions in relation to the actuarially determined contribution	5,908,541
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 50,246,074
Contributions as a percentage of covered-employee payroll	11.8%

Note: This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF KNOXVILLE, TENNESSEE

**Required Supplementary Information
June 30, 2015**

Schedule of Funding Progress - City of Knoxville Other Postemployment Benefits Plan

Unaudited - See Accompanying Auditor's Report

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2015	\$ -	\$ 9,245,472	\$ 9,245,472	0.0%	\$ 71,611,139	12.9%
July 1, 2014	-	9,284,342	9,284,342	0.0%	68,764,297	13.5%
July 1, 2013	-	14,851,766	14,851,766	0.0%	71,419,342	20.8%
July 1, 2012	-	14,527,571	14,527,571	0.0%	68,580,125	21.2%
July 1, 2011	-	13,192,062	13,192,062	0.0%	66,027,397	20.0%
July 1, 2010	-	12,968,732	12,968,732	0.0%	63,402,532	20.5%
July 1, 2009	-	15,445,521	15,445,521	0.0%	58,946,845	26.2%

Schedule of Employer Contributions - City of Knoxville Other Postemployment Benefits Plan

Unaudited - See Accompanying Auditor's Report

Year Ended	Annual OPEB Cost	Annual Required Contribution	Percentage Contributed
June 30, 2015	\$ 1,071,169	\$ 1,071,169	100.0%
June 30, 2014	1,208,802	1,208,802	100.0%
June 30, 2013	1,210,950	1,210,950	100.0%
June 30, 2012	1,341,716	1,341,716	100.0%
June 30, 2011	1,317,879	1,317,879	100.0%
June 30, 2010	1,413,425	1,413,425	100.0%

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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

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

Permanent Fund

Krutch Park Trust Fund	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, 2015

Special Revenue Funds						
Assets	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Cash & cash equivalents	\$ -	\$ 79,944	\$ 364	\$ 3,298	\$ 2,067	\$ 125,007
Investments	2,521,041	-	1,349,020	771,903	1,381,329	-
Accounts receivable	865,409	119,158	1,077	7,930	15,445	1,593,147
Notes receivable	-	2,524,337	-	-	-	-
Inventories	-	31,586	-	-	-	-
Due from other funds	-	-	-	-	-	5,000
Due from governmental agencies	-	-	-	-	-	-
Total assets	<u>\$ 3,386,450</u>	<u>\$ 2,755,025</u>	<u>\$ 1,350,461</u>	<u>\$ 783,131</u>	<u>\$ 1,398,841</u>	<u>\$ 1,723,154</u>
Liabilities						
Accounts payable	\$ 339,396	\$ 129,371	\$ 25,132	\$ 2,471	\$ 102,486	\$ 594,341
Accrued liabilities	-	17,427	9,650	75,384	24,774	8,304
Customer deposits	-	52,304	-	-	-	-
Due to other funds	-	-	2,000	280,000	8,300	985,100
Due to component unit	-	-	-	-	-	-
Due to other governmental agencies	-	-	-	-	-	7,097
Total liabilities	<u>339,396</u>	<u>199,102</u>	<u>36,782</u>	<u>357,855</u>	<u>135,560</u>	<u>1,594,842</u>
Deferred inflows of resources						
Unavailable revenue - other	-	2,524,337	-	-	-	6,318
Total deferred inflows of resources	<u>-</u>	<u>2,524,337</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,318</u>
Fund balances						
Non-spendable	-	31,586	-	-	-	-
Restricted	3,047,054	-	-	-	-	121,994
Committed	-	-	1,313,679	425,276	1,263,281	-
Total fund balances	<u>3,047,054</u>	<u>31,586</u>	<u>1,313,679</u>	<u>425,276</u>	<u>1,263,281</u>	<u>121,994</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,386,450</u>	<u>\$ 2,755,025</u>	<u>\$ 1,350,461</u>	<u>\$ 783,131</u>	<u>\$ 1,398,841</u>	<u>\$ 1,723,154</u>

Special Revenue Funds (continued)					Permanent Fund		
Animal Control	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ 411,111	\$ 2,267	\$ 2,458	\$ -	\$ 626,516	\$ 281,977	\$ 908,493
566,823	7,646,999	1,145,571	5,784,721	2,600,103	23,767,510	585,893	24,353,403
250	8,859	1,055	13,527	-	2,625,857	1,139	2,626,996
-	-	-	-	-	2,524,337	-	2,524,337
-	-	-	-	-	31,586	-	31,586
-	-	-	-	-	5,000	-	5,000
-	-	-	-	-	-	-	-
<u>\$ 567,073</u>	<u>\$ 8,066,969</u>	<u>\$ 1,148,893</u>	<u>\$ 5,800,706</u>	<u>\$ 2,600,103</u>	<u>\$ 29,580,806</u>	<u>\$ 869,009</u>	<u>\$ 30,449,815</u>
\$ -	\$ 73,399	\$ 4,368	\$ 869,413	\$ -	\$ 2,140,377	\$ -	\$ 2,140,377
-	8,582	61,420	16,368	-	221,909	-	221,909
-	393,541	-	-	-	445,845	-	445,845
-	-	115,000	185,000	-	1,575,400	-	1,575,400
-	-	-	-	-	-	-	-
-	4,651	-	-	-	11,748	-	11,748
-	480,173	180,788	1,070,781	-	4,395,279	-	4,395,279
-	-	-	-	-	2,530,655	-	2,530,655
-	-	-	-	-	2,530,655	-	2,530,655
-	-	-	-	-	31,586	624,065	655,651
-	4,968,501	-	4,729,925	-	12,867,474	244,944	13,112,418
567,073	2,618,295	968,105	-	2,600,103	9,755,812	-	9,755,812
<u>567,073</u>	<u>7,586,796</u>	<u>968,105</u>	<u>4,729,925</u>	<u>2,600,103</u>	<u>22,654,872</u>	<u>869,009</u>	<u>23,523,881</u>
<u>\$ 567,073</u>	<u>\$ 8,066,969</u>	<u>\$ 1,148,893</u>	<u>\$ 5,800,706</u>	<u>\$ 2,600,103</u>	<u>\$ 29,580,806</u>	<u>\$ 869,009</u>	<u>\$ 30,449,815</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Revenues						
Taxes, assessments, interest & penalties	\$ 4,722,598	\$ -	\$ -	\$ -	\$ 504,426	\$ -
Licenses, permits & inspection charges	-	-	-	1,924,209	-	-
Intergovernmental	-	1,665,491	-	-	-	2,256,032
Charges for services	-	-	434,998	-	1,676,301	-
Fines & forfeitures	-	-	-	-	1,239,784	-
Other	2,113	300,506	276,036	1,139	22,020	49
Total revenues	<u>4,724,711</u>	<u>1,965,997</u>	<u>711,034</u>	<u>1,925,348</u>	<u>3,442,531</u>	<u>2,256,081</u>
Expenditures						
Current:						
Administration	-	-	-	-	-	-
Finance	-	-	-	-	-	2,493
Community Development	-	1,964,336	-	-	-	-
Parks and Recreation	-	-	-	-	-	-
Engineering	4,064,976	-	846,695	-	-	79,617
Public Services	-	-	-	2,467,136	-	44,823
Law	-	-	-	-	1,070,659	-
Police	-	-	-	-	-	1,487,339
Fire	-	-	-	-	-	649,826
Legislative	-	-	-	-	-	-
Total expenditures	<u>4,064,976</u>	<u>1,964,336</u>	<u>846,695</u>	<u>2,467,136</u>	<u>1,070,659</u>	<u>2,264,098</u>
Excess (deficiency) of revenues over (under) expenditures	659,735	1,661	(135,661)	(541,788)	2,371,872	(8,017)
Other financing sources (uses)						
Transfers in	-	-	-	552,450	-	-
Transfers out	(588,600)	-	-	(2,842)	(2,161,350)	-
Total other financing sources (uses)	<u>(588,600)</u>	<u>-</u>	<u>-</u>	<u>549,608</u>	<u>(2,161,350)</u>	<u>-</u>
Net changes in fund balances	71,135	1,661	(135,661)	7,820	210,522	(8,017)
Fund balances - beginning	<u>2,975,919</u>	<u>29,925</u>	<u>1,449,340</u>	<u>417,456</u>	<u>1,052,759</u>	<u>130,011</u>
Fund balances - ending	<u>\$ 3,047,054</u>	<u>\$ 31,586</u>	<u>\$ 1,313,679</u>	<u>\$ 425,276</u>	<u>\$ 1,263,281</u>	<u>\$ 121,994</u>

Special Revenue Funds (Continued)						Permanent Fund	
Animal Control	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,227,024	\$ -	\$ 5,227,024
-	-	-	-	-	1,924,209	-	1,924,209
-	72,387	-	-	-	3,993,910	-	3,993,910
40,810	262,539	130,680	1,132,132	199,998	3,877,458	-	3,877,458
-	1,360,007	-	-	-	2,599,791	-	2,599,791
484	197,973	851	147,042	2,256	950,469	(1,755)	948,714
41,294	1,892,906	131,531	1,279,174	202,254	18,572,861	(1,755)	18,571,106
-	4,986	-	-	-	4,986	-	4,986
-	-	-	-	199,998	202,491	-	202,491
-	-	-	-	-	1,964,336	-	1,964,336
-	-	-	-	-	-	55,917	55,917
-	-	2,928,749	-	-	7,920,037	-	7,920,037
23,231	83,279	-	10,071,566	-	12,690,035	-	12,690,035
-	-	-	-	-	1,070,659	-	1,070,659
-	1,053,327	-	-	-	2,540,666	-	2,540,666
-	48,359	-	-	-	698,185	-	698,185
-	8,620	-	-	-	8,620	-	8,620
23,231	1,198,571	2,928,749	10,071,566	199,998	27,100,015	55,917	27,155,932
18,063	694,335	(2,797,218)	(8,792,392)	2,256	(8,527,154)	(57,672)	(8,584,826)
-	16,572	3,002,420	9,193,770	-	12,765,212	-	12,765,212
-	(3,042,812)	(199,140)	(470,000)	-	(6,464,744)	-	(6,464,744)
-	(3,026,240)	2,803,280	8,723,770	-	6,300,468	-	6,300,468
18,063	(2,331,905)	6,062	(68,622)	2,256	(2,226,686)	(57,672)	(2,284,358)
549,010	9,918,701	962,043	4,798,547	2,597,847	24,881,558	926,681	25,808,239
\$ 567,073	\$ 7,586,796	\$ 968,105	\$ 4,729,925	\$ 2,600,103	\$ 22,654,872	\$ 869,009	\$ 23,523,881

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GAAP BASIS
 STATE STREET AID
 FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues:				
Taxes, assessments, interest & penalties	\$ 4,570,000	\$ 4,650,000	\$ 4,722,598	\$ 72,598
Other	3,600	3,600	2,113	(1,487)
Total revenues	<u>4,573,600</u>	<u>4,653,600</u>	<u>4,724,711</u>	<u>71,111</u>
Expenditures				
Current:				
Engineering	<u>3,985,000</u>	<u>4,065,000</u>	<u>4,064,976</u>	<u>24</u>
Total expenditures	<u>3,985,000</u>	<u>4,065,000</u>	<u>4,064,976</u>	<u>24</u>
Excess (deficiency) of revenues over (under) expenditures	<u>588,600</u>	<u>588,600</u>	<u>659,735</u>	<u>71,135</u>
Other financing sources (uses)				
Transfers out	<u>(588,600)</u>	<u>(588,600)</u>	<u>(588,600)</u>	<u>-</u>
Total other financing sources (uses)	<u>(588,600)</u>	<u>(588,600)</u>	<u>(588,600)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	71,135	<u>\$ 71,135</u>
Fund balance - beginning			<u>2,975,919</u>	
Fund balance - ending			<u>\$ 3,047,054</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GAAP BASIS
 COMMUNITY DEVELOPMENT BLOCK GRANTS
 FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Intergovernmental	\$ 1,410,670	\$ 1,810,670	\$ 1,665,491	\$ (145,179)
Other	150,000	161,877	300,506	138,629
Total revenues	<u>1,560,670</u>	<u>1,972,547</u>	<u>1,965,997</u>	<u>(6,550)</u>
Expenditures:				
Current:				
Community Development	<u>1,560,670</u>	<u>1,972,547</u>	<u>1,964,336</u>	<u>8,211</u>
Total expenditures	<u>1,560,670</u>	<u>1,972,547</u>	<u>1,964,336</u>	<u>8,211</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>1,661</u>	<u>1,661</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>1,661</u>	<u>\$ 1,661</u>
Fund balances - beginning			<u>29,925</u>	
Fund balances - ending			<u>\$ 31,586</u>	

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

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, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues:				
Charges for services:	\$ 460,000	\$ 460,000	\$ 434,998	\$ (25,002)
Other	419,260	419,260	276,036	(143,224)
Total revenues	<u>879,260</u>	<u>879,260</u>	<u>711,034</u>	<u>(168,226)</u>
Expenditures				
Current:				
Engineering	879,260	879,260	846,695	32,565
Total expenditures	<u>879,260</u>	<u>879,260</u>	<u>846,695</u>	<u>32,565</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(135,661)</u>	<u>(135,661)</u>
Other financing sources (uses)				
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(135,661)</u>	<u>\$ (135,661)</u>
Fund balance - beginning			<u>1,449,340</u>	
Fund balance - ending			<u>\$ 1,313,679</u>	

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

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, 2015

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses, permits & inspection charges	\$ 1,711,330	\$ 1,711,330	\$ 1,924,209	\$ 212,879
Other	450	450	1,139	689
Total revenues	<u>1,711,780</u>	<u>1,711,780</u>	<u>1,925,348</u>	<u>213,568</u>
Expenditures				
Current:				
Public Services	<u>2,534,230</u>	<u>2,531,380</u>	<u>2,467,136</u>	<u>64,244</u>
Total expenditures	<u>2,534,230</u>	<u>2,531,380</u>	<u>2,467,136</u>	<u>64,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(822,450)</u>	<u>(819,600)</u>	<u>(541,788)</u>	<u>277,812</u>
Other financing sources (uses)				
Transfers in	822,450	822,450	552,450	(270,000)
Transfers out	<u>-</u>	<u>(2,850)</u>	<u>(2,842)</u>	<u>8</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	7,820	<u>\$ 7,812</u>
Fund balance - beginning			<u>417,456</u>	
Fund balance - ending			<u>\$ 425,276</u>	

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

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, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenue				
Taxes, assessments, interest & penalties	\$ 475,000	\$ 475,000	\$ 504,426	\$ 29,426
Charges for services	1,552,540	1,552,540	1,676,301	123,761
Fines & forfeitures	1,119,230	1,119,230	1,239,784	120,554
Other	21,080	107,771	22,020	(85,751)
Total revenues	<u>3,167,850</u>	<u>3,254,541</u>	<u>3,442,531</u>	<u>187,990</u>
Expenditures				
Current:				
Law	1,006,500	1,093,191	1,070,659	22,532
Total expenditures	<u>1,006,500</u>	<u>1,093,191</u>	<u>1,070,659</u>	<u>22,532</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,161,350</u>	<u>2,161,350</u>	<u>2,371,872</u>	<u>210,522</u>
Other financing sources (uses)				
Transfers out	<u>(2,161,350)</u>	<u>(2,161,350)</u>	<u>(2,161,350)</u>	<u>-</u>
Total other financing sources (uses)	<u>(2,161,350)</u>	<u>(2,161,350)</u>	<u>(2,161,350)</u>	<u>-</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	210,522	<u>\$ 210,522</u>
Fund balance - beginning			<u>1,052,759</u>	
Fund balance - ending			<u>\$ 1,263,281</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GAAP BASIS
 ANIMAL CONTROL
 FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Charges for services	\$ 38,000	\$ 38,000	\$ 40,810	\$ 2,810
Other	700	700	484	(216)
Total revenues	<u>38,700</u>	<u>38,700</u>	<u>41,294</u>	<u>2,594</u>
Expenditures				
Current:				
Public services	<u>38,700</u>	<u>38,700</u>	<u>23,231</u>	<u>15,469</u>
Total expenditures	<u>38,700</u>	<u>38,700</u>	<u>23,231</u>	<u>15,469</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>18,063</u>	<u>18,063</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>18,063</u>	<u>\$ 18,063</u>
Fund balances - beginning			<u>549,010</u>	
Fund balances - ending			<u>\$ 567,073</u>	

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

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, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Intergovernmental	\$ 75,000	\$ 75,000	\$ 72,387	\$ (2,613)
Charges for services	388,400	365,820	262,539	(103,281)
Fines & forfeitures	1,646,000	1,744,459	1,360,007	(384,452)
Other	2,587,580	2,785,583	213,556	(2,572,027)
Total revenues	<u>4,696,980</u>	<u>4,970,862</u>	<u>1,908,489</u>	<u>(3,062,373)</u>
Expenditures				
Current:				
Administration	-	5,000	4,986	14
Public services	86,910	86,910	83,279	3,631
Police	1,502,340	1,664,802	1,053,327	611,475
Fire	15,000	52,580	48,359	4,221
Legislative	10,000	10,000	8,620	1,380
Total expenditures	<u>1,614,250</u>	<u>1,819,292</u>	<u>1,198,571</u>	<u>620,721</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,082,730</u>	<u>3,151,570</u>	<u>709,918</u>	<u>(2,441,652)</u>
Other financing sources (uses)				
Transfers in	-	1,000	989	(11)
Transfers out	<u>(3,082,730)</u>	<u>(3,152,570)</u>	<u>(3,042,812)</u>	<u>109,758</u>
Total other financing sources (uses)	<u>(3,082,730)</u>	<u>(3,151,570)</u>	<u>(3,041,823)</u>	<u>109,747</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(2,331,905)</u>	<u>\$ (2,331,905)</u>
Fund balances - beginning			<u>9,918,701</u>	
Fund balances - ending			<u>\$ 7,586,796</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GAAP
 STORM WATER
 FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Charges for services	\$ 122,000	\$ 122,000	\$ 130,680	\$ 8,680
Other	5,980	21,349	851	(20,498)
Total revenues	<u>127,980</u>	<u>143,349</u>	<u>131,531</u>	<u>(11,818)</u>
Expenditures				
Current:				
Engineering	<u>3,302,900</u>	<u>3,106,629</u>	<u>2,928,749</u>	<u>177,880</u>
Total expenditures	<u>3,302,900</u>	<u>3,106,629</u>	<u>2,928,749</u>	<u>177,880</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,174,920)</u>	<u>(2,963,280)</u>	<u>(2,797,218)</u>	<u>166,062</u>
Other financing sources (uses)				
Transfers in	3,174,920	3,162,420	3,002,420	(160,000)
Transfers out	<u>-</u>	<u>(199,140)</u>	<u>(199,140)</u>	<u>-</u>
Total other financing sources (uses)	<u>3,174,920</u>	<u>2,963,280</u>	<u>2,803,280</u>	<u>(160,000)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	6,062	<u>\$ 6,062</u>
Fund balance - beginning			<u>962,043</u>	
Fund balance - ending			<u>\$ 968,105</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GAAP
 SOLID WASTE
 FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Charges for services	\$ 1,010,000	\$ 1,010,000	\$ 1,132,132	\$ 122,132
Other	728,000	746,500	147,042	(599,458)
Total revenues	<u>1,738,000</u>	<u>1,756,500</u>	<u>1,279,174</u>	<u>(477,326)</u>
Expenditures				
Current:				
Public Services	<u>10,641,770</u>	<u>10,660,270</u>	<u>10,071,566</u>	<u>588,704</u>
Total expenditures	<u>10,641,770</u>	<u>10,660,270</u>	<u>10,071,566</u>	<u>588,704</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,903,770)</u>	<u>(8,903,770)</u>	<u>(8,792,392)</u>	<u>111,378</u>
Other financing sources (uses)				
Transfers in	9,373,770	9,373,770	9,193,770	(180,000)
Transfers out	<u>(470,000)</u>	<u>(470,000)</u>	<u>(470,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>8,903,770</u>	<u>8,903,770</u>	<u>8,723,770</u>	<u>(180,000)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(68,622)</u>	<u>\$ (68,622)</u>
Fund balance - beginning			<u>4,798,547</u>	
Fund balance - ending			<u>\$ 4,729,925</u>	

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

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CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2015

Assets

Cash & cash equivalents	\$ 24,229
Investments	56,053,154
Accounts receivable	248,299
Taxes receivable	25,460,616
Notes receivable	<u>759,100</u>
Total assets	<u>\$ 82,545,398</u>

Liabilities

Due to other funds	\$ 7,000,000
Total liabilities	<u>7,000,000</u>

Deferred inflows of resources

Unavailable revenue - property taxes	<u>25,293,148</u>
Total deferred inflows of resources	<u>25,293,148</u>

Fund balances

Restricted	<u>50,252,250</u>
Total fund balance	<u>50,252,250</u>

Total liabilities, deferred inflows of resources and fund balance	<u>\$ 82,545,398</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GAAP
 DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Taxes, assessments, interest & penalties	\$ 24,111,880	\$ 24,111,880	\$ 24,054,868	\$ (57,012)
Other	386,560	386,560	550,523	163,963
Total revenues	<u>24,498,440</u>	<u>24,498,440</u>	<u>24,605,391</u>	<u>106,951</u>
Expenditures				
Current:				
Debt service:				
Principal retirement	6,662,720	5,410,350	5,382,720	27,630
Interest payments on bonds & notes	2,315,220	3,398,090	2,136,008	1,262,082
Bond issuance costs	-	169,500	169,500	-
Total expenditures	<u>8,977,940</u>	<u>8,977,940</u>	<u>7,688,228</u>	<u>1,289,712</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,520,500</u>	<u>15,520,500</u>	<u>16,917,163</u>	<u>1,396,663</u>
Other financing sources (uses)				
Transfers out	<u>(15,520,500)</u>	<u>(15,520,500)</u>	<u>(15,520,500)</u>	-
Total other financing sources (uses)	<u>(15,520,500)</u>	<u>(15,520,500)</u>	<u>(15,520,500)</u>	-
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	1,396,663	<u>\$ 1,396,663</u>
Fund balance - beginning			<u>48,855,587</u>	
Fund balance - ending			<u>\$ 50,252,250</u>	

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2015

Assets

Cash & cash equivalents	\$ 3,664,907
Investments	114,515,837
Accounts receivable	3,701,102
Inventory	401,758
Due from other funds	<u>2,000,000</u>
Total assets	<u>\$ 124,283,604</u>

Liabilities

Accounts payable	\$ 7,493,069
Accrued liabilities	886,573
Due to other governmental agencies	<u>35,756</u>
Total liabilities	<u>8,415,398</u>

Deferred inflows of resources

Unavailable revenue - other	<u>2,570,142</u>
Total deferred inflows of resources	<u>2,570,142</u>

Fund balance

Nonspendable	401,758
Restricted	22,000,772
Committed	<u>90,895,534</u>
Total fund balance	<u>113,298,064</u>

Total liabilities, deferred inflows of resources and fund balance	<u>\$ 124,283,604</u>
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The accompanying notes are an integral part of the financial statements.

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, 2015

	<u>Actual</u>		<u>Total to Date</u>	<u>Project Authorization</u>	<u>Variance With Final Budget</u>
	<u>Prior Years</u>	<u>Current Year</u>			
Revenues					
Intergovernmental	\$ 9,246,914	\$ 3,890,177	\$ 13,137,091	\$ 48,623,562	\$ (35,486,471)
Other	15,475,184	2,342,411	17,817,595	10,460,319	7,357,276
Total revenues	<u>24,722,098</u>	<u>6,232,588</u>	<u>30,954,686</u>	<u>59,083,881</u>	<u>(28,129,195)</u>
Expenditures					
Current:					
Capital & grant projects	141,832,405	36,162,676	177,995,081	270,784,940	(92,789,859)
Total expenditures	<u>141,832,405</u>	<u>36,162,676</u>	<u>177,995,081</u>	<u>270,784,940</u>	<u>(92,789,859)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(117,110,307)</u>	<u>(29,930,088)</u>	<u>(147,040,395)</u>	<u>(211,701,059)</u>	<u>64,660,664</u>
Other financing sources (uses)					
Bonds proceeds	-	31,080,000	31,080,000	44,607,660	(13,527,660)
Debt issue premium	-	527,039	527,039	-	527,039
Transfer in	130,763,375	30,776,171	161,539,546	167,093,399	(5,553,853)
Transfers out	(3,399,358)	(400,566)	(3,799,924)	-	(3,799,924)
Total other financing sources (uses)	<u>127,364,017</u>	<u>61,982,644</u>	<u>189,346,661</u>	<u>211,701,059</u>	<u>(22,354,398)</u>
Net changes in fund balance	<u>\$ 10,253,710</u>	<u>32,052,556</u>	<u>\$ 42,306,266</u>	<u>\$ -</u>	<u>\$ 42,306,266</u>
Fund balance - beginning		<u>81,245,508</u>			
Fund balance - ending		<u>\$ 113,298,064</u>			

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

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Nonmajor Enterprise Funds

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

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2015

Assets	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Current assets				
Cash & temporary investments	\$ 106,456	\$ 197,372	\$ 760,062	\$ 1,063,890
Investments	3,685,247	7,723,709	171,491	11,580,447
Accounts receivable	194,415	23,526	14,951	232,892
Due from other funds	-	1,000,000	-	1,000,000
Inventories	-	-	32,715	32,715
Prepaid items	-	-	15,860	15,860
Total current assets	<u>3,986,118</u>	<u>8,944,607</u>	<u>995,079</u>	<u>13,925,804</u>
Noncurrent assets				
Land & site improvements	2,079,796	1,831,368	473,119	4,384,283
Building & building improvements	28,495,338	21,633,211	1,014,584	51,143,133
Equipment	4,450	2,469,025	553,712	3,027,187
Construction in progress	577,907	-	-	577,907
Less: accumulated depreciation	<u>(14,348,567)</u>	<u>(17,967,684)</u>	<u>(495,261)</u>	<u>(32,811,512)</u>
Total capital assets (net of accumulated depreciation)	16,808,924	7,965,920	1,546,154	26,320,998
Equity interest in joint venture	591,118	-	-	591,118
Total noncurrent assets	<u>17,400,042</u>	<u>7,965,920</u>	<u>1,546,154</u>	<u>26,912,116</u>
Total assets	<u>21,386,160</u>	<u>16,910,527</u>	<u>2,541,233</u>	<u>40,837,920</u>
Deferred outflows of resources				
Pensions	-	239,536	-	239,536
Total deferred outflows of resources	<u>-</u>	<u>239,536</u>	<u>-</u>	<u>239,536</u>
Liabilities				
Current liabilities				
Accounts payable	18,227	98,780	700,543	817,550
Accrued liabilities	-	48,102	-	48,102
Customer deposits	-	166,901	-	166,901
Unearned revenue	-	-	9,670	9,670
Due to other funds	135,000	-	-	135,000
Compensated absences	-	183,950	-	183,950
Net pension liability	-	1,525,516	-	1,525,516
Long-term debt due within one year	-	-	-	-
Total current liabilities	<u>153,227</u>	<u>2,023,249</u>	<u>710,213</u>	<u>2,886,689</u>
Total liabilities	<u>153,227</u>	<u>2,023,249</u>	<u>710,213</u>	<u>2,886,689</u>
Deferred inflows of resources				
Pensions	-	402,743	-	402,743
Total deferred inflows of resources	<u>-</u>	<u>402,743</u>	<u>-</u>	<u>402,743</u>
Net position				
Net investment in capital assets	16,808,924	7,965,920	1,546,154	26,320,998
Unrestricted	4,424,009	6,758,151	284,866	11,467,026
Total net position	<u>\$ 21,232,933</u>	<u>\$ 14,724,071</u>	<u>\$ 1,831,020</u>	<u>\$ 37,788,024</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	\$ 1,802,515	\$ 1,781,804	\$1,081,883	\$ 4,666,202
Total operating revenues	<u>1,802,515</u>	<u>1,781,804</u>	<u>1,081,883</u>	<u>4,666,202</u>
Operating expenses				
Personal services	154,344	2,118,658	-	2,273,002
Materials & supplies	-	132,687	-	132,687
Maintenance	-	899,085	-	899,085
Depreciation & amortization	1,023,665	565,873	6,500	1,596,038
Other services & charges	964,954	847,125	1,449,970	3,262,049
Total operating expenses	<u>2,142,963</u>	<u>4,563,428</u>	<u>1,456,470</u>	<u>8,162,861</u>
Operating income (loss)	<u>(340,448)</u>	<u>(2,781,624)</u>	<u>(374,587)</u>	<u>(3,496,659)</u>
Nonoperating revenue (expense)				
Interest income	5,046	12,700	269	18,015
Intergovernmental revenue	-	389,737	-	389,737
Other revenues	53	4,381	-	4,434
Interest expense	-	-	-	-
Total nonoperating revenue (expense)	<u>5,099</u>	<u>406,818</u>	<u>269</u>	<u>412,186</u>
Income (loss) before transfers and capital contributions	<u>(335,349)</u>	<u>(2,374,806)</u>	<u>(374,318)</u>	<u>(3,084,473)</u>
Transfers in	500,000	2,492,140	1,335,680	4,327,820
Transfers out	-	(5,766)	-	(5,766)
Change in net position	164,651	111,568	961,362	1,237,581
Fund balances - as restated, beginning	<u>21,068,282</u>	<u>14,612,503</u>	<u>869,658</u>	<u>36,550,443</u>
Fund balances - ending	<u>\$ 21,232,933</u>	<u>\$ 14,724,071</u>	<u>\$ 1,831,020</u>	<u>\$ 37,788,024</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Metro Parking</u>	<u>Public Assembly Facilities</u>	<u>Municipal Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating activities				
Cash received from customers and users	\$ 1,836,188	\$ 1,830,221	\$ 1,083,562	\$ 4,749,971
Cash paid to suppliers	(960,218)	(1,937,677)	(829,033)	(3,726,928)
Cash paid to employees	(154,344)	(2,214,028)	-	(2,368,372)
Net cash provided by (used in) operating activities	<u>721,626</u>	<u>(2,321,484)</u>	<u>254,529</u>	<u>(1,345,329)</u>
Noncapital financing activities				
Transfers from other funds	1,035,000	1,492,140	1,335,680	3,862,820
Transfers to other funds	-	(655,766)	-	(655,766)
Tax and intergovernmental revenues	53	394,118	-	394,171
Net cash provided by (used in) noncapital financing activities	<u>1,035,053</u>	<u>1,230,492</u>	<u>1,335,680</u>	<u>3,601,225</u>
Capital and related financing activities				
Principal paid on general obligation bond maturities	-	-	-	-
Interest paid	-	-	-	-
Acquisition and construction of capital assets	(577,907)	(389,738)	(1,003,573)	(1,971,218)
Net cash provided by (used in) capital and related financing activities	<u>(577,907)</u>	<u>(389,738)</u>	<u>(1,003,573)</u>	<u>(1,971,218)</u>
Investing activities				
Sales/(purchases) of investments, net	(2,002,944)	1,477,653	(171,491)	(696,782)
Investment earnings	5,046	12,700	269	18,015
Land sold for redevelopment	-	-	-	-
Net change in equity investment in joint venture	139,448	-	-	139,448
Net cash provided by (used in) investing activities	<u>(1,858,450)</u>	<u>1,490,353</u>	<u>(171,222)</u>	<u>(539,319)</u>
Net increase (decrease) in cash and cash equivalents	<u>(679,678)</u>	<u>9,623</u>	<u>415,414</u>	<u>(254,641)</u>
Cash and cash equivalents				
Beginning of year	<u>786,134</u>	<u>187,749</u>	<u>344,648</u>	<u>1,318,531</u>
End of year	<u>\$ 106,456</u>	<u>\$ 197,372</u>	<u>\$ 760,062</u>	<u>\$ 1,063,890</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS - Continued
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Metro Parking</u>	<u>Public Assembly Facilities</u>	<u>Municipal Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of operating income (loss)				
to net cash provided by				
(used in) operating activities				
Operating income (loss)	\$ (340,448)	\$ (2,781,624)	\$ (374,587)	\$ (3,496,659)
Adjustments to reconcile operating income (loss)				
to net cash provided by (used in) operating				
activities:				
Depreciation	1,023,665	565,873	6,500	1,596,038
Pension expense (income)	-	(120,620)	-	(120,620)
Change in assets and liabilities				
(Increase) decrease in receivables	33,673	(15,019)	(7,991)	10,663
(Increase) decrease in prepayments	-	-	7,197	7,197
(Increase) decrease in inventories	-	-	2,527	2,527
Increase (decrease) in accounts payable	4,736	(58,780)	611,213	557,169
Increase (decrease) in accrued expenses	-	10,400	-	10,400
Increase (decrease) in compensated absences	-	14,850	-	14,850
Increase (decrease) in deferred revenue	-	-	9,670	9,670
Increase (decrease) in customer deposits	-	63,436	-	63,436
Total adjustments	<u>1,062,074</u>	<u>460,140</u>	<u>629,116</u>	<u>2,151,330</u>
Net cash provided by (used in) operating activities	<u>\$ 721,626</u>	<u>\$ (2,321,484)</u>	<u>\$ 254,529</u>	<u>\$ (1,345,329)</u>

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

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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 POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2015

Assets	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Current assets						
Cash & temporary investments	\$ 602,601	\$ 5,829	\$ 8,087	\$ 450,720	\$ 910,300	\$ 1,977,537
Investments	39,281,443	33,905,607	16,653,022	17,298,236	-	107,138,308
Accounts receivable	33,480	5,000	59,148	3,313	67,899	168,840
Due from other funds	2,402,000	-	-	-	-	2,402,000
Due from component unit	-	-	-	-	-	-
Prepays	-	-	-	44,699	-	44,699
Inventories	948,409	-	-	-	-	948,409
Total current assets	<u>43,267,933</u>	<u>33,916,436</u>	<u>16,720,257</u>	<u>17,796,968</u>	<u>978,199</u>	<u>112,679,793</u>
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	61,174,829	19,995	-	19,419,758	-	80,614,582
Construction in progress	693,371	-	-	-	-	693,371
Less: accumulated depreciation	<u>(42,538,929)</u>	<u>-</u>	<u>-</u>	<u>(14,280,031)</u>	<u>-</u>	<u>(56,818,960)</u>
Total capital assets (net of accumulated depreciation)	19,586,662	19,995	-	5,139,727	-	24,746,384
Equity interest in joint venture	-	-	-	-	2,141,194	2,141,194
Total noncurrent assets	<u>19,586,662</u>	<u>19,995</u>	<u>-</u>	<u>5,139,727</u>	<u>2,141,194</u>	<u>26,887,578</u>
Total assets	<u>62,854,595</u>	<u>33,936,431</u>	<u>16,720,257</u>	<u>22,936,695</u>	<u>3,119,393</u>	<u>139,567,371</u>
Deferred outflows of resources						
Pensions	325,025	73,936	41,063	-	-	440,024
Total deferred outflows of resources	<u>325,025</u>	<u>73,936</u>	<u>41,063</u>	<u>-</u>	<u>-</u>	<u>440,024</u>
Liabilities						
Current liabilities						
Accounts payable	566,946	229,662	404,877	1,990,484	5,099	3,197,068
Accrued liabilities	55,626	12,991	2,508,691	-	-	2,577,308
Due to other funds	-	1,660,000	675,000	-	67,000	2,402,000
Compensated absences	88,448	46,203	6,598	-	-	141,249
Net pension liability	2,069,962	470,870	261,517	-	-	2,802,349
Estimated claims liability	-	5,100,000	-	-	-	5,100,000
Total current liabilities	<u>2,780,982</u>	<u>7,519,726</u>	<u>3,856,683</u>	<u>1,990,484</u>	<u>72,099</u>	<u>16,219,974</u>
Noncurrent liabilities						
Estimated claims liability	-	12,500,000	-	-	-	12,500,000
Total noncurrent liabilities	<u>-</u>	<u>12,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,500,000</u>
Total liabilities	<u>2,780,982</u>	<u>20,019,726</u>	<u>3,856,683</u>	<u>1,990,484</u>	<u>72,099</u>	<u>28,719,974</u>
Deferred inflows of resources						
Pensions	546,479	124,312	69,042	-	-	739,833
Total deferred inflows of resources	<u>546,479</u>	<u>124,312</u>	<u>69,042</u>	<u>-</u>	<u>-</u>	<u>739,833</u>
Net position						
Net investment in capital assets	19,586,662	19,995	-	5,139,727	-	24,746,384
Unrestricted	40,265,497	13,846,334	12,835,595	15,806,484	3,047,294	85,801,204
Total net position	<u>\$ 59,852,159</u>	<u>\$ 13,866,329</u>	<u>\$ 12,835,595</u>	<u>\$ 20,946,211</u>	<u>\$ 3,047,294</u>	<u>\$ 110,547,588</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Operating revenues						
Charges for services	\$ 16,104,255	\$ 7,127,880	\$17,645,201	\$ 1,780,950	\$ 942,420	\$ 43,600,706
Total operating revenues	<u>16,104,255</u>	<u>7,127,880</u>	<u>17,645,201</u>	<u>1,780,950</u>	<u>942,420</u>	<u>43,600,706</u>
Operating expenses						
Personal services	2,195,088	831,871	423,442	-	-	3,450,401
Materials & supplies	1,987,453	22,168	1,754	31,518	-	2,042,893
Maintenance	483,597	12,119	2,681	-	-	498,397
Depreciation & amortization	4,612,216	-	658	1,386,083	-	5,998,957
Other services & charges	2,844,446	5,041,793	16,566,449	-	1,391,104	25,843,792
Total operating expenses	<u>12,122,800</u>	<u>5,907,951</u>	<u>16,994,984</u>	<u>1,417,601</u>	<u>1,391,104</u>	<u>37,834,440</u>
Operating income (loss)	<u>3,981,455</u>	<u>1,219,929</u>	<u>650,217</u>	<u>363,349</u>	<u>(448,684)</u>	<u>5,766,266</u>
Nonoperating revenue (expense)						
Investment income (loss)	107,559	(9,715)	13,574	14,675	23	126,116
Intergovernmental revenue	-	-	-	-	-	-
Other revenues	1,419	977,596	17,133	2,843	(958)	998,033
Gain (loss) on disposal of capital assets	106,326	-	(10,849)	(41,795)	-	53,682
Total nonoperating revenue (expense)	<u>215,304</u>	<u>967,881</u>	<u>19,858</u>	<u>(24,277)</u>	<u>(935)</u>	<u>1,177,831</u>
Income (loss) before transfers and capital contributions	<u>4,196,759</u>	<u>2,187,810</u>	<u>670,075</u>	<u>339,072</u>	<u>(449,619)</u>	<u>6,944,097</u>
Transfers in	459,543	613,900	1,316,650	89,338	-	2,479,431
Transfers out	(120,000)	(1,653,841)	-	-	-	(1,773,841)
Capital contributions	375,962	-	-	118,977	-	494,939
Change in net position	<u>4,912,264</u>	<u>1,147,869</u>	<u>1,986,725</u>	<u>547,387</u>	<u>(449,619)</u>	<u>8,144,626</u>
Total net position, as restated - beginning	<u>54,939,895</u>	<u>12,718,460</u>	<u>10,848,870</u>	<u>20,398,824</u>	<u>3,496,913</u>	<u>102,402,962</u>
Total net position - ending	<u>\$ 59,852,159</u>	<u>\$ 13,866,329</u>	<u>\$12,835,595</u>	<u>\$ 20,946,211</u>	<u>\$ 3,047,294</u>	<u>\$ 110,547,588</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Operating activities						
Receipts from interfund services provided	\$ 16,094,302	\$ 7,127,838	\$ 17,586,053	\$ 3,697,244	\$ 874,521	\$ 45,379,958
Cash paid to suppliers	(4,717,374)	(34,287)	(25,627)	(75,068)	-	(4,852,356)
Cash paid to employees	(2,386,415)	(871,410)	(443,031)	-	-	(3,700,856)
Cash paid for interfund services used	(302,706)	-	-	-	(1,386,005)	(1,688,711)
Payments of claims and insurance	-	(5,181,605)	(16,564,887)	-	-	(21,746,492)
Net cash provided by (used in) operating activities	<u>8,687,807</u>	<u>1,040,536</u>	<u>552,508</u>	<u>3,622,176</u>	<u>(511,484)</u>	<u>13,391,543</u>
Noncapital financing activities						
Transfers from other funds	-	2,132,059	1,810,650	89,338	67,000	4,099,047
Transfers to other funds	(2,062,457)	-	-	-	-	(2,062,457)
Tax and intergovernmental revenues	<u>1,419</u>	<u>977,596</u>	<u>17,133</u>	<u>2,843</u>	<u>-</u>	<u>998,991</u>
Net cash provided by (used in) noncapital financing activities	<u>(2,061,038)</u>	<u>3,109,655</u>	<u>1,827,783</u>	<u>92,181</u>	<u>67,000</u>	<u>3,035,581</u>
Capital and related financing activities						
Acquisition and construction of capital assets	(4,786,354)	(19,995)	-	(3,511,342)	-	(8,317,691)
Proceeds from sale of capital assets	106,326	-	-	620	-	106,946
Capital contributions	<u>375,962</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,962</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,304,066)</u>	<u>(19,995)</u>	<u>-</u>	<u>(3,510,722)</u>	<u>-</u>	<u>(7,834,783)</u>
Investing activities						
Sales/(purchases) of investments, net	(2,101,071)	(4,116,318)	(2,386,631)	(292,697)	-	(8,896,717)
Investment earnings	107,559	(9,715)	13,574	14,675	(935)	125,158
Net change in equity investment in joint venture	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,366</u>	<u>180,366</u>
Net cash provided by (used in) investing activities	<u>(1,993,512)</u>	<u>(4,126,033)</u>	<u>(2,373,057)</u>	<u>(278,022)</u>	<u>179,431</u>	<u>(8,591,193)</u>
Net increase (decrease) in cash and cash equivalents	<u>329,191</u>	<u>4,163</u>	<u>7,234</u>	<u>(74,387)</u>	<u>(265,053)</u>	<u>1,148</u>
Cash and cash equivalents						
Beginning of year	<u>273,410</u>	<u>1,666</u>	<u>853</u>	<u>525,107</u>	<u>1,175,353</u>	<u>1,976,389</u>
End of year	<u>\$ 602,601</u>	<u>\$ 5,829</u>	<u>\$ 8,087</u>	<u>\$ 450,720</u>	<u>\$ 910,300</u>	<u>\$ 1,977,537</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Reconciliation of operating income (loss)						
to net cash provided by						
(used in) operating activities						
Operating income (loss)	\$ 3,981,455	\$ 1,219,929	\$ 650,217	\$ 363,349	\$ (448,684)	\$ 5,766,266
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating						
activities:						
Depreciation	4,612,216	-	658	1,386,083	-	5,998,957
Pension expense (income)	(163,669)	(37,231)	(20,677)	-	-	(221,577)
Change in assets and liabilities						
(Increase) decrease in receivables	(9,953)	(42)	(59,148)	(37)	(67,899)	(137,079)
(Increase) decrease in inventories	114,525	-	-	-	-	114,525
(Increase) decrease in prepaids	-	-	-	(43,550)	-	(43,550)
Increase (decrease) in accounts payable	180,891	(139,812)	(21,192)	1,916,331	5,099	1,941,317
Increase (decrease) in accrued expenses	(1,733)	1,895	1,562	-	-	1,724
Increase (decrease) in compensated absences	(25,925)	(4,203)	1,088	-	-	(29,040)
Increase (decrease) in estimated liability for litigation and						
claims	-	-	-	-	-	-
Total adjustments	<u>4,706,352</u>	<u>(179,393)</u>	<u>(97,709)</u>	<u>3,258,827</u>	<u>(62,800)</u>	<u>7,625,277</u>
Net cash provided by (used in) operating activities	<u>\$ 8,687,807</u>	<u>\$ 1,040,536</u>	<u>\$ 552,508</u>	<u>\$ 3,622,176</u>	<u>\$ (511,484)</u>	<u>\$ 13,391,543</u>

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

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Fiduciary Funds

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

Agency Funds

City Choice Plus Fund

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.

Employee Health Savings

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, 2015

	<u>City Choice Plus</u>	<u>Employee Health Savings Fund</u>	<u>Total</u>
Assets			
Cash	\$ 2,252	\$ 931,096	\$ 933,348
State & municipal government securities	480,801	-	480,801
Accounts receivable	1,947	-	1,947
Total current assets	<u>\$ 485,000</u>	<u>\$ 931,096</u>	<u>\$ 1,416,096</u>
Liabilities			
Health care claims liability	\$ -	\$ 931,096	\$ 931,096
Due to other funds	485,000	-	485,000
Total liabilities	<u>\$ 485,000</u>	<u>\$ 931,096</u>	<u>\$ 1,416,096</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
<u>City Choice Fund</u>				
Assets				
Cash	\$ 176	\$ 573,072	\$ 570,996	\$ 2,252
State & municipal government securities	17,671	463,130	-	480,801
Accounts receivable	13,322	570,988	582,363	1,947
Total assets	<u>\$ 31,169</u>	<u>\$ 1,607,190</u>	<u>\$ 1,153,359</u>	<u>\$ 485,000</u>
Liabilities				
Accounts payable	\$ 5,169	\$ 565,827	\$ 570,996	\$ -
Due to other funds	26,000	485,000	26,000	485,000
Total liabilities	<u>\$ 31,169</u>	<u>\$ 1,050,827</u>	<u>\$ 596,996</u>	<u>\$ 485,000</u>
<u>Employee Health Savings Fund</u>				
Assets				
Cash	\$ 816,419	\$ 931,096	\$ 816,419	\$ 931,096
Due from other funds	26,000	-	26,000	-
Total assets	<u>\$ 842,419</u>	<u>\$ 931,096</u>	<u>\$ 842,419</u>	<u>\$ 931,096</u>
Liabilities				
Health care claims liability	\$ 842,419	\$ 931,096	\$ 842,419	\$ 931,096
Total liabilities	<u>\$ 842,419</u>	<u>\$ 931,096</u>	<u>\$ 842,419</u>	<u>\$ 931,096</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 816,595	\$ 1,504,168	\$ 1,387,415	\$ 933,348
State & municipal government securities	17,671	463,130	-	480,801
Accounts receivable	13,322	570,988	582,363	1,947
Due from other funds	26,000	-	26,000	-
Total assets	<u>\$ 873,588</u>	<u>\$ 2,538,286</u>	<u>\$ 1,995,778</u>	<u>\$ 1,416,096</u>
Liabilities				
Accounts payable	\$ 5,169	\$ 565,827	\$ 570,996	\$ -
Health care claims liability	842,419	931,096	842,419	931,096
Due to other funds	26,000	485,000.00	26,000	485,000
Total liabilities	<u>\$ 873,588</u>	<u>\$ 1,981,923</u>	<u>\$ 1,439,415</u>	<u>\$ 1,416,096</u>

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

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COMPONENT UNIT

CITY OF KNOXVILLE, TENNESSEE
STATEMENT OF NET POSITION
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
JUNE 30, 2015

Assets

Current assets:

Cash & temporary investments	\$	120,698
Investments		5,356
Accounts receivable		6,095,089
Inventories		1,419,873
Total current assets		7,641,016

Noncurrent assets:

Land & site improvements		2,162,812
Building & building improvements		32,637,878
Equipment		30,380,598
Less: accumulated depreciation		(22,641,479)
Total capital assets (net of accumulated depreciation)		42,539,809
Total assets		50,180,825

Liabilities

Current liabilities:

Accounts payable		385,812
Accrued liabilities		507,799
Due to primary government		793,946
Total liabilities		1,687,557

Deferred inflows of resources

Unavailable revenue - other		1,526,309
Total deferred inflows of resources		1,526,309

Net position

Net investment in capital assets		42,539,809
Unrestricted		4,427,150
Total net position	\$	46,966,959

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

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2015**

Operating revenues	
Charges for services	\$ 2,312,207
Total operating revenues	2,312,207
 Operating expenses	
Personal services	13,715,442
Materials & supplies	4,106,185
Maintenance	260,503
Depreciation & amortization	3,461,332
Other services and charges	6,916,835
Total expenses	28,460,297
 Operating income (loss)	 (26,148,090)
 Nonoperating revenue (expense)	
Interest income	1
Intergovernmental revenue	24,454,002
Other revenues	16,634
Gain on disposal of capital assets	6,432
Total nonoperating revenue (expense)	24,477,069
 Change in net position	 (1,671,021)
 Total net position - beginning	 48,637,980
 Total net position - ending	 \$ 46,966,959

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2015

Operating activities	
Cash received from customers and users	\$ 2,312,207
Cash paid to suppliers	(11,403,627)
Cash paid to employees	<u>(13,665,167)</u>
Net cash provided by (used in) operating activities	<u>(22,756,587)</u>
Noncapital financing activities	
Transfers to primary government	(5,173,054)
Tax and intergovernmental revenues	<u>27,889,653</u>
Net cash provided by (used in) noncapital financing activities	<u>22,716,599</u>
Capital and related financing activities	
Acquisition of capital assets	(192,431)
Proceeds from sale of capital assets	<u>6,432</u>
Net cash provided by (used in) capital and related financing activities	<u>(185,999)</u>
Investing activities	
Sales/(purchases) of investments, net	(5,356)
Investment earnings	1
Net change in equity interest in joint venture	<u>-</u>
Net cash provided by (used in) investing activities	<u>(5,355)</u>
Net increase (decrease) in cash and cash equivalents	<u>(231,342)</u>
Cash and cash equivalents	
Beginning of year	<u>352,040</u>
End of year	<u>\$ 120,698</u>

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

CITY OF KNOXVILLE, TENNESSEE
STATEMENT OF CASH FLOWS - Continued
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2015

**Reconciliation of operating income (loss)
to net cash provided by
(used in) operating activities**

Operating income (loss)	\$ (26,148,090)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	3,461,332
Change in assets and liabilities	
(Increase) decrease in inventories	(223,204)
Increase (decrease) in accounts payable	103,100
Increase (decrease) in accrued expenses	50,275
Total adjustments	<u>3,391,503</u>
Net cash provided by (used in) operating activities	<u>\$ (22,756,587)</u>

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

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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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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 POSITION BY COMPONENT
LAST TEN YEARS
(accrual basis of accounting)
(unaudited - amounts expressed in thousands)

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental Activities										
Net investment in capital assets	\$ 139,547	\$ 162,108	\$ 186,466	\$ 205,877	\$ 213,568	\$ 220,028	\$ 220,585	\$ 223,777	\$ 231,666	\$ 225,581
Restricted	32,847	35,779	37,487	38,911	39,449	43,399	46,675	61,997	49,782	22,870
Unrestricted	114,881	157,067	179,868	192,241	218,176	233,442	237,088	243,367	260,379	162,267
Total Governmental Activities Net Position	\$ 287,275	\$ 354,954	\$ 403,821	\$ 437,029	\$ 471,193	\$ 496,869	\$ 504,348	\$ 529,141	\$ 541,827	\$ 410,718
Business-type Activities										
Net investment in capital assets	\$ 32,217	\$ 31,546	\$ 30,268	\$ 28,212	\$ 26,344	\$ 26,075	\$ 24,881	\$ 28,494	\$ 29,159	\$ 30,011
Unrestricted	9,350	12,266	16,682	17,782	24,590	33,712	38,728	39,323	40,223	42,012
Total Business-type Activities Net Position	\$ 41,567	\$ 43,812	\$ 46,950	\$ 45,994	\$ 50,934	\$ 59,787	\$ 63,609	\$ 67,817	\$ 69,382	\$ 72,023
Primary Government										
Net investment in capital assets	\$ 171,764	\$ 193,654	\$ 216,734	\$ 234,089	\$ 239,912	\$ 246,103	\$ 245,466	\$ 252,271	\$ 260,825	\$ 277,593
Restricted	32,847	35,779	37,487	38,911	39,449	43,399	46,675	61,997	49,782	15,533
Unrestricted	124,231	169,333	196,550	210,023	242,766	267,154	275,816	282,690	300,602	189,616
Total Primary Government Net Position	\$ 328,842	\$ 398,766	\$ 450,771	\$ 483,023	\$ 522,127	\$ 556,656	\$ 567,957	\$ 596,958	\$ 611,209	\$ 482,742

CITY OF KNOXVILLE, TENNESSEE
CHANGES IN NET POSITION
LAST TEN YEARS
(accrual basis of accounting)
(unaudited - amounts expressed in thousands)

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental Activities:										
General government	\$ 15,015	\$ 11,671	\$ 9,630	\$ 8,833	\$ 13,348	\$ 13,495	\$ 34,882	\$ 23,591	\$ 32,702	\$ 16,347
Public safety	69,949	60,882	78,172	80,936	81,637	83,059	85,416	88,381	89,816	91,659
Physical environment	70,289	40,686	42,048	44,421	45,244	46,977	48,046	49,230	51,368	49,559
Transportation	5,728	7,783	9,614	12,131	9,647	10,467	11,201	11,970	11,048	10,866
Economic Development	8,070	8,314	8,732	10,686	16,441	11,878	8,460	8,120	8,752	10,550
Parks & Recreation	10,760	10,068	11,634	11,893	12,858	12,308	11,827	10,195	10,345	10,723
Health & Sanitation	9,740	9,498	9,833	10,094	10,430	10,361	11,111	10,388	10,688	10,274
Interest on long-term debt	4,005	3,585	3,138	2,754	2,398	2,152	1,989	1,718	1,827	2,196
Other	1,683	-	-	-	-	-	-	-	-	-
Total governmental activities expenses	<u>195,239</u>	<u>152,487</u>	<u>172,801</u>	<u>181,748</u>	<u>192,003</u>	<u>190,697</u>	<u>212,932</u>	<u>203,593</u>	<u>216,546</u>	<u>202,174</u>
Business-type Activities:										
Metro parking	819	1,264	1,464	1,565	1,364	1,610	1,625	1,184	5,689	2,721
Public assembly facilities	3,718	3,902	4,174	4,356	4,847	6,539	4,535	5,212	5,751	4,563
Knoxville Convention Center	20,848	20,734	21,246	20,452	19,393	19,395	19,013	17,081	16,716	17,530
Municipal Golf Courses	-	306	886	1,390	1,368	1,811	1,440	1,413	1,427	1,457
Total business-type activities	<u>25,385</u>	<u>26,206</u>	<u>27,770</u>	<u>27,763</u>	<u>26,972</u>	<u>29,355</u>	<u>26,613</u>	<u>24,890</u>	<u>29,583</u>	<u>26,271</u>
Total primary government	<u>\$ 220,624</u>	<u>\$ 178,693</u>	<u>\$ 200,571</u>	<u>\$ 209,511</u>	<u>\$ 218,975</u>	<u>\$ 220,052</u>	<u>\$ 239,545</u>	<u>\$ 228,483</u>	<u>\$ 246,129</u>	<u>\$ 228,445</u>
Program Revenues										
Governmental Activities:										
Charges for Services:										
General government	\$ 519	\$ 697	\$ 629	\$ 540	\$ 651	\$ 757	\$ 817	\$ 860	\$ 2,339	\$ 1,923
Public safety	7,473	9,016	9,233	9,191	9,436	8,945	6,971	7,185	6,114	6,263
Physical environment	866	924	1,135	717	1,026	985	1,539	1,561	1,583	761
Transportation	665	830	857	688	760	955	640	551	635	729
Economic Development	-	78	-	-	955	665	428	260	355	578
Parks & recreation	634	666	801	694	689	537	531	494	583	630
Health & sanitation	30	48	43	47	54	49	40	38	36	41
Operating grants and contributions	13,662	9,656	9,804	10,387	15,758	14,811	10,088	7,517	8,409	7,710
Capital grants and contributions	9,693	4,558	5,753	5,161	4,724	3,777	3,318	3,556	4,693	6,658
Total governmental activities program revenues	<u>33,532</u>	<u>26,473</u>	<u>28,255</u>	<u>27,425</u>	<u>34,053</u>	<u>31,481</u>	<u>24,372</u>	<u>22,022</u>	<u>24,747</u>	<u>25,293</u>
Business-type Activities:										
Charges for Services:										
Metro parking	698	1,308	1,716	2,188	1,690	1,565	1,418	1,685	1,546	1,539
Public assembly facilities	1,994	2,210	2,863	1,812	1,400	1,855	2,090	1,954	1,952	1,786
Knoxville Convention Center	4,814	5,975	6,409	5,396	5,797	5,171	4,962	5,386	4,755	4,438
Municipal Golf Courses	-	211	776	1,105	1,121	1,195	1,332	1,193	1,317	1,082
Operating grants and contributions	-	-	-	1,430	1,435	1,500	1,750	1,562	1,500	1,500
Capital grants and contributions	-	80	-	-	-	-	-	-	-	-
Total business-type activities program revenues	<u>7,506</u>	<u>9,784</u>	<u>11,764</u>	<u>11,931</u>	<u>11,443</u>	<u>11,286</u>	<u>11,552</u>	<u>11,780</u>	<u>11,070</u>	<u>10,345</u>
Total primary government program revenues	<u>\$ 41,038</u>	<u>\$ 36,257</u>	<u>\$ 40,019</u>	<u>\$ 39,356</u>	<u>\$ 45,496</u>	<u>\$ 42,767</u>	<u>\$ 35,924</u>	<u>\$ 33,802</u>	<u>\$ 35,817</u>	<u>\$ 35,638</u>
Net expense:										
Governmental Activities	\$ 161,707	\$ 126,014	\$ 144,546	\$ 154,323	\$ 157,950	\$ 159,216	\$ 188,560	\$ 181,571	\$ 191,799	\$ 176,881
Business-type Activities	17,879	16,422	16,006	15,832	15,529	18,069	15,061	13,110	18,513	15,926
Total primary government net expense	<u>\$ 179,586</u>	<u>\$ 142,436</u>	<u>\$ 160,552</u>	<u>\$ 170,155</u>	<u>\$ 173,479</u>	<u>\$ 177,285</u>	<u>\$ 203,621</u>	<u>\$ 194,681</u>	<u>\$ 210,312</u>	<u>\$ 192,807</u>
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property taxes, interest and penalties	\$ 104,290	\$ 107,901	\$ 109,619	\$ 113,846	\$ 117,760	\$ 118,043	\$ 121,124	\$ 121,922	\$ 123,072	\$ 140,772
Intergovernmental revenues	56,902	64,449	65,482	58,776	61,625	61,221	60,798	68,337	65,910	67,588
Other taxes	16,392	17,259	17,883	17,908	17,955	18,525	19,968	20,763	20,053	20,844
Other revenue	10,845	11,454	10,670	6,562	2,733	3,669	2,296	4,465	4,062	3,941
Transfers	(9,535)	(10,261)	(11,010)	(9,561)	(10,900)	(16,352)	(8,148)	(9,123)	(8,612)	(9,653)
Total governmental activities	<u>178,894</u>	<u>190,802</u>	<u>192,644</u>	<u>187,531</u>	<u>189,173</u>	<u>185,106</u>	<u>196,038</u>	<u>206,364</u>	<u>204,485</u>	<u>223,492</u>
Business-type Activities:										
Other taxes	7,085	6,517	6,820	6,418	5,047	5,218	5,420	5,211	5,395	5,921
Intergovernmental revenues	155	1,296	671	375	4,283	4,539	4,689	3,198	4,888	3,451
Grants & contributions	-	-	-	-	-	-	-	-	-	-
Other revenue	15,120	594	643	676	240	599	627	570	1,182	1,352
Transfers	9,535	10,261	11,010	9,561	10,900	16,352	8,148	9,123	8,612	9,653
Total business-type activities	<u>31,895</u>	<u>18,668</u>	<u>19,144</u>	<u>17,030</u>	<u>20,470</u>	<u>26,708</u>	<u>18,884</u>	<u>18,102</u>	<u>20,077</u>	<u>20,377</u>
Total primary government	<u>210,789</u>	<u>209,470</u>	<u>211,788</u>	<u>204,561</u>	<u>209,643</u>	<u>211,814</u>	<u>214,922</u>	<u>224,466</u>	<u>224,562</u>	<u>243,869</u>
Changes in Net Position										
Governmental activities	\$ 17,187	\$ 64,788	\$ 48,098	\$ 33,208	\$ 31,223	\$ 25,890	\$ 7,478	\$ 24,793	\$ 12,686	\$ 46,611
Business-type activities	14,016	2,246	3,138	1,198	4,941	8,639	3,823	4,992	1,564	4,451
Prior period adjustment	-	-	-	-	-	-	-	-	-	-
Total primary government	<u>\$ 31,203</u>	<u>\$ 67,034</u>	<u>\$ 51,236</u>	<u>\$ 34,406</u>	<u>\$ 36,164</u>	<u>\$ 34,529</u>	<u>\$ 11,301</u>	<u>\$ 29,785</u>	<u>\$ 14,250</u>	<u>\$ 51,062</u>

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011*	2012	2013	2014	2015
General Fund										
Reserved	\$ 248	\$ 1,366	\$ 1,333	\$ 1,303	\$ 960	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	34,501	45,200	48,223	51,036	59,704	-	-	-	-	-
Nonspendable	-	-	-	-	-	425	385	300	324	443
Restricted	-	-	-	-	-	1,989	-	-	-	-
Committed	-	-	-	-	-	34,631	39,136	36,771	40,232	41,469
Assigned	-	-	-	-	-	231	311	2,648	2,482	3,353
Unassigned	-	-	-	-	-	27,987	19,892	30,436	27,958	30,508
Total general fund	<u>\$ 34,749</u>	<u>\$ 46,566</u>	<u>\$ 49,556</u>	<u>\$ 52,339</u>	<u>\$ 60,664</u>	<u>\$ 65,263</u>	<u>\$ 59,724</u>	<u>\$ 70,155</u>	<u>\$ 70,996</u>	<u>\$ 75,773</u>
All other governmental funds										
Nonspendable/Restricted (Reserved/Designated)	\$ 13,132	\$ 15,017	\$ 7,082	\$ 5,312	\$ 3,428	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special Revenue funds	8,583	11,527	22,903	24,138	26,055	-	-	-	-	-
Debt Service funds	30,571	32,941	34,623	36,259	36,907	-	-	-	-	-
Capital Projects funds	28,008	44,688	53,084	55,248	72,654	-	-	-	-	-
Nonspendable	-	-	-	-	-	656	739	737	673	1,076
Restricted	-	-	-	-	-	65,277	60,074	61,133	63,370	36,908
Committed	-	-	-	-	-	73,913	84,068	89,885	93,181	150,904
Total all other governmental funds	<u>\$ 80,294</u>	<u>\$ 104,173</u>	<u>\$ 117,692</u>	<u>\$ 120,957</u>	<u>\$ 139,044</u>	<u>\$ 139,846</u>	<u>\$ 144,881</u>	<u>\$ 151,755</u>	<u>\$ 157,224</u>	<u>\$ 188,888</u>

* In FY 2011 the City adopted GASB 54 which changed the definition of Reserved/Designated and Unreserved Fund Balances.

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
Taxes, assessments, interest & penalties	\$ 160,146	\$ 168,434	\$ 169,632	\$ 169,521	\$ 168,880	\$ 173,425	\$ 180,543	\$ 183,445	\$ 184,128	\$ 204,089
Licenses, permits & inspection charges	2,342	2,565	2,281	1,973	1,726	1,708	1,975	1,994	2,027	2,266
Intergovernmental revenue	36,907	34,185	34,986	31,540	40,729	37,081	30,040	37,359	34,586	36,125
Charges for services	5,405	6,030	6,323	6,021	6,997	6,859	6,502	6,528	6,263	7,089
Fines & forfeitures	3,127	4,231	4,953	5,397	5,924	5,536	3,637	4,010	3,256	3,247
Other	12,727	9,303	10,711	8,800	7,568	6,207	5,370	5,170	5,524	5,073
Total revenues	<u>220,654</u>	<u>224,748</u>	<u>228,886</u>	<u>223,252</u>	<u>231,824</u>	<u>230,816</u>	<u>228,067</u>	<u>238,506</u>	<u>235,784</u>	<u>257,889</u>
Expenditures										
Current:										
General government	12,974	12,461	16,914	14,310	13,958	14,267	15,983	15,701	16,242	17,000
Public safety	68,447	70,466	75,821	77,449	79,071	81,613	85,311	86,986	89,224	99,871
Physical environment	22,742	25,441	21,696	24,435	21,487	66,819	59,861	58,565	61,475	61,478
Solid waste	-	-	-	-	-	-	-	-	-	-
Parks & recreation	738	908	910	907	906	907	7,722	7,621	7,976	8,422
Economic development	41,325	41,810	48,007	51,701	60,222	13,790	23,043	12,961	11,896	11,994
Other	446	-	-	-	-	-	486	91	68	248
Capital Outlay	27,666	12,504	22,684	24,440	20,864	19,155	17,497	19,253	25,892	36,163
Debt Service:										
Principal	10,646	9,773	8,540	7,408	5,396	5,577	4,853	5,413	5,291	5,384
Interest	4,004	3,585	3,138	2,754	2,439	2,188	2,116	1,730	1,745	2,136
Total expenditures	<u>188,988</u>	<u>176,948</u>	<u>197,710</u>	<u>203,404</u>	<u>204,343</u>	<u>204,316</u>	<u>216,872</u>	<u>208,321</u>	<u>219,809</u>	<u>242,696</u>
Excess of revenues over expenditures	31,666	47,800	31,176	19,848	27,481	26,500	11,195	30,185	15,975	15,193
Other Financing Sources (Uses)										
Net proceeds from issuance of debt	-	-	-	-	13,471	-	411	-	-	31,607
Transfers in	29,474	47,722	45,175	40,845	42,809	39,727	35,497	36,787	41,982	45,703
Transfers out	(50,689)	(59,826)	(60,611)	(54,645)	(57,350)	(60,612)	(47,607)	(49,667)	(51,648)	(56,061)
Total other financing sources (uses)	<u>(21,215)</u>	<u>(12,104)</u>	<u>(15,436)</u>	<u>(13,800)</u>	<u>(1,070)</u>	<u>(20,885)</u>	<u>(11,699)</u>	<u>(12,880)</u>	<u>(9,666)</u>	<u>21,249</u>
Net changes in fund balances	<u>\$ 10,451</u>	<u>\$ 35,696</u>	<u>\$ 15,740</u>	<u>\$ 6,048</u>	<u>\$ 26,411</u>	<u>\$ 5,615</u>	<u>\$ (504)</u>	<u>\$ 17,305</u>	<u>\$ 6,309</u>	<u>\$ 36,442</u>
Debt service as a percentage of noncapital	9.1%	8.1%	6.7%	5.7%	4.3%	4.2%	3.5%	3.8%	3.5%	3.6%

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)				Personal Property (1)				Public Utilities (2)				Totals		Direct Tax Rate	Assessed Value as a Percentage of Actual Value
	Estimated Actual Value:				Assessed Taxable Value				Assessed Taxable Value				Estimated Actual Value	Assessed Taxable Value		
	Commercial	Industrial	Residential & Farm	Exempt Properties	Totals	Assessed Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	Taxable Value	Estimated Actual Value	Taxable Value				
2006	3,801,543	202,532	5,041,704	176,170	9,221,949	2,862,056	1,062,507	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%		
2010	4,887,267	204,716	6,601,700	358,028	12,051,711	3,687,218	1,115,939	334,782	304,404	167,422	13,472,054	4,189,422	2.46	31%		
2011	4,923,683	188,715	6,676,669	359,976	12,149,043	3,714,127	1,055,236	316,571	268,712	147,792	13,472,991	4,178,490	2.46	31%		
2012	5,067,449	185,806	6,677,256	365,691	12,296,202	3,770,616	1,071,108	321,529	286,778	157,728	13,654,088	4,249,873	2.46	31%		
2013	5,254,329	186,137	6,695,127	370,017	12,505,610	3,841,101	995,924	299,141	300,668	165,368	13,802,202	4,305,610	2.46	31%		
2014	5,657,886	215,437	6,679,425	465,822	13,018,570	4,002,458	1,155,830	346,877	283,414	155,878	14,457,814	4,505,213	2.73	31%		
2015	5,732,339	225,073	6,714,112	467,659	13,139,183	4,045,652	1,234,486	370,507	306,497	168,573	14,680,166	4,584,732	2.73	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

**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	Total	General Operations	Debt Service	School Construction	Total	
2006	1.89	0.81	2.70	1.24	0.22	1.23	2.69	5.39
2007	1.89	0.81	2.70	1.24	0.22	1.23	2.69	5.39
2008	1.89	0.81	2.70	1.13	0.33	1.23	2.69	5.39
2009	2.24	0.81	3.05	1.10	0.36	1.23	2.69	5.74
2010	2.06	0.75	2.81	0.97	0.31	1.08	2.36	5.17
2011	2.06	0.75	2.81	0.97	0.31	1.08	2.36	5.17
2012	1.80	0.66	2.46	0.97	0.31	1.08	2.36	4.82
2013	1.80	0.66	2.46	0.97	0.31	1.08	2.36	4.82
2014	1.86	0.60	2.46	0.97	0.31	1.08	2.36	4.82
2015	2.19	0.53	2.73	0.96	0.48	0.88	2.32	5.05

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

Taxpayer	Type of Business	2015			2006		
		Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value
AT&T/Bellsouth	Communications	136,141	1	3.37%	64,285	1	2.20%
Simon Property Group/West Town Mall	Retail	\$ 30,628	2	0.76%	30,628	2	1.05%
Wal-Mart Corporation	Retail	92,197	3	2.28%	22,648	4	0.78%
Dow Chemical	Chemical Corp.	99,106	4	2.45%			
Metro Knoxville HMA/Tennova	Medical Services	77,432	5	1.91%			
Pilot Corp.	Oil	89,866	6	2.22%			
Scripps Howard Broadcasting	Media	78,115	7	1.93%			
Fort Sanders Regional Medical Center	Medical Services	74,645	8	1.85%	14,779	6	0.51%
Kroger Company	Grocer	67,067	9	1.66%			
DDRTC Holdings Pool 3 LLC	Real Estate	58,535	10	1.45%			
Knoxville Center	Retail				27,118	3	0.93%
First American National Bank	Financial Services				20,551	5	0.70%
Goody's Family Clothing	Retail				12,928	7	0.44%
Target	Retail				12,769	8	0.44%
Atlantic Research Corp.	Automotive Parts				11,685	9	0.40%
Inland	Real Estate				11,366	10	0.39%
		<u>\$ 803,732</u>		<u>19.88%</u>	<u>\$ 228,757</u>		<u>7.84%</u>

⁽¹⁾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
2006	\$ 93,804	\$ 90,406	96.38%	\$ 3,041	\$ 93,447	99.62%
2007	95,423	91,412	95.80%	3,555	94,967	99.52%
2008	98,233	93,938	95.63%	3,792	97,730	99.49%
2009	101,436	96,548	95.18%	4,583	101,131	99.70%
2010	102,836	96,254	93.60%	5,206	101,460	98.66%
2011	103,350	97,167	94.02%	5,205	102,372	99.05%
2012	104,330	99,086	94.97%	4,297	103,383	99.09%
2013	105,918	102,045	96.34%	2,500	104,545	98.70%
2014	107,481	102,862	95.70%	2,575	105,437	98.10%
2015	124,620	119,457	95.86%	-	119,457	95.86%

**CITY OF KNOXVILLE, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN YEARS**

(unaudited - amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities				Business Type Activities			
	General Obligation Bonds	Notes Payable	Lease Purchase Agreement	Debt Participation Agreement	General Obligation Bonds	Total Primary Government ⁽¹⁾	% of Personal Income ⁽²⁾	Per Capita ⁽²⁾
2006	\$ 91,300	\$ -	\$ -	\$ 1,285	\$ 150,396	\$ 242,981	7.37%	\$ 1,361.24
2007	81,747	-	-	1,222	146,907	229,876	6.73%	1,287.10
2008	73,360	-	-	1,156	143,399	217,915	6.25%	1,219.45
2009	72,221	-	-	1,088	140,368	213,677	6.30%	1,195.06
2010	74,657	-	13,470	1,017	136,787	225,931	6.60%	1,263.07
2011	69,440	-	13,470	-	133,035	215,945	6.31%	1,207.25
2012	65,329	-	-	-	129,123	194,452	5.55%	1,075.74
2013	50,823	-	-	-	125,378	176,201	5.33%	974.77
2014	44,989	-	-	-	121,060	166,049	4.27%	906.03
2015	65,556	-	-	-	115,239	180,795	4.35%	986.50

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.

**CITY OF KNOXVILLE, TENNESSEE
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN YEARS
(unaudited - amounts expressed in thousands, except for per capita amounts)**

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Taxable Value of Property	Per Capita
2006	\$ 241,696	\$ 30,572	\$ 211,124	6.32%	\$ 1,182.77
2007	228,654	32,941	195,713	5.76%	1,095.82
2008	216,759	34,623	182,136	5.20%	1,019.23
2009	212,589	36,259	176,330	4.88%	986.19
2010	211,444	36,397	175,047	4.18%	978.61
2011	202,475	42,532	159,943	3.83%	894.17
2012	194,452	40,732	153,720	3.62%	850.40
2013	176,201	45,811	130,390	3.03%	721.34
2014	166,049	46,833	119,216	2.65%	650.49
2015	180,795	49,746	131,049	2.85%	715.06

**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
 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
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
2010	672,927	573,375	99,552	45,681	2.18
2011	724,318	620,009	104,309	47,009	2.22
2012	695,034	589,320	105,714	54,859	1.93
2013	744,281	628,079	116,202	55,257	2.10
2014	752,561	629,663	122,898	61,316	2.00
2015	764,621	630,919	133,702	62,541	2.14

**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
2006	\$ 25,743	\$ 13,615	\$ 12,128	\$ 7,345	1.65
2007	27,768	15,274	12,494	7,770	1.61
2008	29,233	16,100	13,133	8,778	1.50
2009	28,353	16,934	11,419	7,768	1.47
2010	26,885	16,500	10,385	6,561	1.58
2011	28,337	17,672	10,665	6,999	1.52
2012	29,263	18,588	10,675	6,862	1.56
2013	28,205	18,402	9,803	6,645	1.48
2014	30,080	18,785	11,295	6,378	1.77
2014	30,080	18,785	11,295	6,378	1.77
2015	31,620	19,612	12,008	6,367	1.89

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2015
(unaudited - amounts expressed in thousands)

Governmental Unit	Net Direct Outstanding Debt ⁽¹⁾	Percentage Applicable to Knoxville ⁽²⁾	Amount Applicable to Knoxville
Direct Debt:			
City of Knoxville	\$ 65,556	100.00%	\$ 65,556
Overlapping Debt:			
Knox County	253,882	41.34%	104,955
Knox County Schools	427,277	41.34%	176,636
Total Overlapping Debt	681,159		281,591
Total Direct and Overlapping Debt	\$ 746,715		\$ 347,147

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 taxable value that is within the City's boundaries and dividing it by the county's total assessed taxable value.

CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC & ECONOMIC STATISTICS
Last 10 Fiscal Years
(Unaudited)

Fiscal Year	Population ⁽¹⁾	Personal Income (In \$1,000) ⁽²⁾ (MSA)	Per Capita Income ⁽²⁾ (MSA)	Median Age ⁽¹⁾	Education Level - Population 25 & Over ⁽¹⁾				School Enrollment ⁽³⁾ (Knox County)	Average Unemployment Rate ⁽⁴⁾ (MSA)
					High School Graduate or higher	Some College or more	Bachelor's Degree or higher	Master's or Professional Degree		
2006	175,027	25,909,704	32,192	35.0	82.7%	51.1%	26.5%	12.0%	56,851	4.2%
2007	183,289	27,155,768	33,260	33.9	83.5%	55.0%	28.3%	10.9%	56,535	3.7%
2008	180,178	28,395,281	34,331	34.6	84.9%	55.7%	29.0%	9.7%	54,896	5.4%
2009	185,106	28,120,511	33,723	33.7	87.9%	60.2%	30.8%	10.4%	55,171	8.8%
2010	179,226	29,116,021	34,714	34.4	84.4%	58.8%	29.7%	10.4%	56,516	8.0%
2011	180,753	30,839,552	36,586	34.0	87.7%	59.7%	30.9%	12.9%	56,817	7.5%
2012	182,196	32,225,268	37,997	34.9	89.9%	62.4%	30.2%	11.2%	57,812	6.7%
2013	183,261	32,834,291	38,506	32.9	89.3%	60.9%	30.6%	11.7%	58,940	6.9%
2014	184,292	33,900,697	39,530	32.3	84.6%	54.4%	28.9%	10.4%	59,232	5.8%
2015 ⁽⁵⁾										

Data Sources

(1) U.S. Census Bureau - Fact Finder

(2) U.S. Department of Commerce; Bureau of Economic Analysis - Interactive Data - Regional (**Metropolitan Statistical Area**)

(3) Tennessee Department of Education - Report Card (**Knox County**)

(4) U.S. Bureau of Labor Statistics (**Metropolitan Statistical Area**)

(5) Data not yet available at this time

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

Employer's Name	2015			2006		
	Number of Employees (1)	Rank	Percentage of Total Area Employment	Number of Employees	Rank	Percentage of Total Area Employment
U.S. Department of Energy (Oak Ridge/Y-12)	11,637	1	3.07%	11,943	1	3.74%
Covenant Health	10,458	2	2.76%	8,664	2	2.71%
Knox County Schools	6,804	3	1.80%	7,860	4	2.46%
The University of Tennessee, Knoxville	6,660	4	1.76%	8,447	3	2.64%
Wal-Mart Stores, Inc.	6,006	5	1.59%	4,472	5	1.40%
University of Tennessee Medical Center	4,224	6	1.12%	3,367	9	1.05%
K-VA-T Food Stores (Food City)	4,078	7	1.08%	3,416	8	1.07%
Tennova Healthcare	4,067	8	1.07%	-	-	-
DENSO Manufacturing Tennessee, Inc.	3,500	9	0.92%	-	-	-
State of Tennessee - Regional Offices	3,226	10	0.85%	3,733	6	1.17%
St. Mary's Health System (acquired by Tennova)	-	-	-	3,529	7	1.10%
Knox County Government	-	-	-	2,974	10	0.93%
Total Knoxville MSA Laborforce (2)	378,589			319,558		

(1) Source: Knoxville Oak Ridge Innovation Valley, Major Employers in the Knoxville Area (**Metropolitan Statistical Area**)

(2) Source: U.S. Census Bureau, Employed workforce over 16 years of age (**Metropolitan Statistical Area**)

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

Department	Full-time Equivalent Employees as of June 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	24.5	24.5	25.0	26.5	26.5	26.0	30.5	30.5	30.5	31.5
Finance	56.5	54.5	52.5	52.5	51.0	51.0	51.5	48.5	49.0	49.0
Information Systems	29.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Public Works	-	-	-	-	-	-	2.0	2.0	1.0	1.0
Engineering	88.0	90.0	89.5	89.5	88.5	88.5	90.5	89.0	88.5	88.5
Fleet Services	57.0	57.0	56.0	56.0	55.0	55.0	54.0	54.0	54.0	54.0
Inspections	31.0	31.0	31.0	31.0	29.0	29.0	29.0	29.0	29.0	29.0
Public Services	309.0	307.0	307.0	305.0	305.0	305.0	305.0	305.0	305.0	305.0
Development Services	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0	6.0
Community Development	18.5	19.5	21.5	21.5	21.5	19.5	19.5	19.5	15.5	15.5
Recreation	60.5	59.0	58.0	57.5	55.0	55.0	53.0	53.0	51.5	51.5
Law	13.0	13.0	13.0	14.0	13.0	13.0	12.5	13.0	13.0	13.0
Police										
Sworn	414.0	414.0	416.0	416.0	416.0	416.0	416.0	416.0	416.0	416.0
Civilian	120.5	120.5	121.0	121.0	120.0	120.0	120.0	120.0	120.0	120.0
Emergency Management	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Subtotal	<u>537.5</u>	<u>537.5</u>	<u>540.0</u>	<u>540.0</u>	<u>539.0</u>	<u>539.0</u>	<u>539.0</u>	<u>539.0</u>	<u>539.0</u>	<u>539.0</u>
Fire										
Sworn	328.0	328.0	328.0	328.0	327.0	327.0	327.0	327.0	327.0	327.0
Civilian	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal	<u>339.0</u>	<u>338.0</u>	<u>338.0</u>	<u>338.0</u>	<u>337.0</u>	<u>337.0</u>	<u>337.0</u>	<u>337.0</u>	<u>337.0</u>	<u>337.0</u>
Legislative	7.5	7.5	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	14.5	14.5	14.5
Civil Service	14.0	14.5	13.0	13.0	12.0	12.0	12.0	10.0	10.0	10.0
Public Assembly Facilities	36.0	35.5	35.5	35.5	36.0	35.5	36.0	36.0	34.5	34.5
GRAND TOTAL	<u><u>1,637.5</u></u>	<u><u>1,636.0</u></u>	<u><u>1,635.0</u></u>	<u><u>1,635.0</u></u>	<u><u>1,623.5</u></u>	<u><u>1,620.5</u></u>	<u><u>1,626.5</u></u>	<u><u>1,621.5</u></u>	<u><u>1,614.5</u></u>	<u><u>1,616.5</u></u>

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

Department	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Public Safety										
Police										
Arrests	16,656	15,176	20,492	24,008	16,702	16,648	15,898	14,376	11,484	11,900
Citations	64,705	64,683	95,121	131,619	156,053	135,680	107,501	105,635	96,147	88,731
Fire										
Fire Inspections	4,057	4,957	3,742	4,051	3,481	3,692	3,518	4,547	4,144	3,968
Alarms Attended	18,603	19,432	20,174	21,131	20,214	20,463	20,688	21,227	21,644	20,788
First Responder Calls	9,869	9,146	10,272	11,349	10,032	10,442	10,954	10,816	10,546	9,214
Engineering										
Miles of Streets Resurfaced	42	9	84	44	38	42	48	55	46	43
Parks & Recreation										
Recreation Center Participants	314,836	338,510	372,110	537,486	596,748	620,469	551,101	527,224	495,231	472,613
Service										
Pothole Repairs (by tons of asphalt)	515	414	349	383	496	561	398	430	357	204

Sources: Various city departments

CITY OF KNOXVILLE, TENNESSEE
CAPITAL ASSET STATISTICS BY FUNCTION
Last 10 years
(Unaudited)

Department	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Public Safety										
Safety Building - Police	1	1	1	1	1	1	1	1	1	1
Fire Halls	18	18	18	18	18	18	18	19	19	19
Operations & Engineering										
Street Lights	29,436	29,440	29,506	29,801	29,649	29,569	29,711	30,145	30,211	30,232
Miles of Streets Maintained	1,264	1,264	1,274	1,274	1,277	1,277	1,277	1,278	1,178	1,179
Parks & Recreation										
Recreation Centers	14	14	13	79	13	12	12	12	12	12
Parks	79	79	81	81	80	81	81	82	82	81
Park Agerage	1,856	1,857	1,858	1,858	1,963	1,963	1,963	2,000	2,000	2,828
Swimming Pools	5	5	5	5	5	5	5	5	5	5
Tennis Courts	61	61	68	68	68	68	68	67	67	47
Miles of Greenway	40	42	42	43	44	66	66	85	86	86
Stormwater										
Storm Sewers (miles)	372	372	372	375	375	375	376	376	376	377

Sources: Various City Departments

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

COMPLIANCE SECTION

CITY OF KNOXVILLE, TENNESSEE
SINGLE AUDIT REPORT AND FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2015

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CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
 Year Ended June 30, 2015

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/14	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/15	
FEDERAL ASSISTANCE								
U.S. Department of Housing and Urban Development Direct assistance	Community Development Block Grant	14.218	B-08-MC-47-0005	\$ -	\$ 225	\$ -	\$ -	
	Community Development Block Grant	14.218	B-12-MC-47-0005	(19,893)	689,089	718,982	-	
	Community Development Block Grant	14.218	B-13-MC-47-0005	-	1,120,256	1,239,444	119,188	
			14.218		(19,893)	1,819,560	1,958,661	119,188
	Home Grant 2010	14.239	M10-MC-47-0201	50,080	221,121	171,041	-	
	Home Grant 2011	14.239	M11-MC-47-0201	-	341,009	341,009	-	
	Home Grant 2012	14.239	M12-MC-47-0201	-	523,103	523,103	-	
	Home Grant 2013	14.239	M13-MC-47-0201	-	158,797	158,797	-	
	Home Grant 2014	14.239	M14-MC-47-0201	-	788,452	1,018,903	230,451	
		14.239		50,080	2,032,482	2,212,853	230,451	
	Passed through from Tennessee Housing Development Agency	Sustainable Communities Regional Planning Grant	14.703	TNRIP0033-10	1,289,433	1,289,433	-	-
		Emergency Shelter (THDA)	14.231	ESG-14-08	-	8,366	23,152	14,786
		Emergency Shelter 2011	14.231	S-11-MC-47-005	40,788	46,518	5,730	-
		Emergency Shelter 2012	14.231	S-12-MC-47-005	20,394	25,644	5,250	-
		Emergency Shelter 2013	14.231	S-13-MC-47-005	8,850	9,244	4,890	4,496
		14.231		70,032	89,772	39,022	19,282	
	Lead Hazard Control Grant	14.900	TNLHB0564-13	178,586	475,407	649,162	352,321	
	Healthy Homes Grant	14.900	TNLHB0564-13(B)	-	663	663	-	
		14.900		178,586	475,407	649,825	352,984	
				1,568,218	5,706,874	4,860,361	721,905	
Total U.S. Department of Housing and Urban Development				32,784	18,022	63,955	78,717	
U.S. Department of Justice Direct assistance	Grants to Encourage Arrests 2012 (OVW-Arrest)	16.590	2012-WE-AX-0025	-	-	-	-	
	2011 Project Safe Neighborhoods	16.609	2011-GP-BX-0061	13,576	6,390	33,302	40,488	
Passed through from Department of Finance and Administration: Office of Juvenile Justice and Delinquency Prevention	2010 ICAC Continuation Program	16.543	2010-MC-CX-K016	140,647	137,860	285,891	288,678	
	2013 TN ICAC Task Force Grant	16.543	2013-MC-FX-K031	82,077	26,049	154,971	210,999	
				222,724	163,909	440,862	499,677	
Knoxville Victim's Services (VOCA) 3 Yr. Grant		16.575	Contract 18853	15,799	51,999	57,496	21,296	
2010 Byrne/Justice Assistance Grant Program	2010 Byrne/Justice Assistance Grant Program	16.579	2010-DJ-BX-0769	9,894	10,185	32,414	32,123	
2012 Byrne/Justice Assistance Grant Program	2012 Byrne/Justice Assistance Grant Program through Knox County	16.579	2011-H6094-TN-DJ	295	22,921	22,941	315	
2013 Byrne/Justice Assistance Grant Program	2013 Byrne/Justice Assistance Grant Program	16.579	2012-DJ-BX-0080	54,883	27,393	26,915	54,405	
2014 Byrne/Justice Assistance Grant Program	2014 Byrne/Justice Assistance Grant Program	16.579	2013-DJ-BX-0335	-	-	79,610	79,610	
		16.579	2014-DJ-BX-0564	-	-	78,360	78,360	
				65,072	60,499	240,240	244,813	
Anti-Bullying Training and Multi-Media Program		16.738	2012-DJ-BX-0280	31,200	39,382	41,080	32,898	
JAG Family Justice Center TA Provider		16.738	Edison 22561	13,634	47,377	54,709	20,966	
		16.738		44,834	86,759	95,789	53,864	
Total U.S. Department of Justice				394,789	387,578	931,644	938,855	
U.S. Department of Agriculture - Forest Service Passed through from Tennessee Dept. of Agriculture, Forestry Division	Community Outreach/Trees & Their Benefits	10.675	14-DG-11083147-001	-	-	936	936	
U.S. Department of Transportation Direct assistance	2010 STP Funding for the Transit Center	20.507	TN-95-X038	14,812	19,352	4,682	142	
	2011 Formula Grant	20.507	TN-90-X395	22,858	38,274	56,225	40,809	
	2012 Formula Grant	20.507	TN-90-0390-00	20,318	95,141	94,828	20,005	
	2012 CMAQ Grant	20.507	TN-95-X056	2,095,340	2,099,340	-	-	
	2013 Formula Grant	20.507	TN-90-X361-00	2,035,175	2,092,068	196,398	139,505	
	2014 Formula Grant	20.507	TN-90-X0381	3,747,411	4,976,300	1,228,900	11	
	2015 Formula Grant	20.507	TN-90-X2015	-	-	4,033,608	4,033,608	
		20.507		7,939,914	9,320,475	5,614,641	4,234,080	

See independent auditor's report.

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
 Year Ended June 30, 2015

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral)		Expenditures		Receivable (Deferral)	
				06/30/14	06/30/15	Cash Receipts	06/30/15	06/30/14	06/30/15
Passed through from									
Tennessee Department of Transportation	Jackson Avenue Ramps	20.205	BRZE-9109(103); Pin 106077.00	\$ 19,345	\$ 19,311	\$ 55,103	\$ 55,137		
Tennessee Department of Transportation	Cumberland Avenue Streetscapes & Pedestrian Improvements	20.205	STP-M-9109(115); Pin 110692.00	1,147,765	477,263	694,249	1,364,751		
Tennessee Department of Transportation	Upper Second Creek Greenway	20.205	State 060018; Pin 107380.00	20,662	33,486	88,147	75,323		
Tennessee Department of Transportation	South Waterfront Pedestrian Bridge to U.T.	20.205	Contract 090266; TCSP-91TN(2)	9,119	16,620	7,501	-		
Tennessee Department of Transportation	Access Improvements to I-275 Business Park	20.205	Contract 090266; Pin 110262.00	18,834	24,713	81,495	75,616		
Tennessee Department of Transportation	Holbrook Bridge over Fountain Road	20.205	BRZE-9109(122); Pin 107700.00	68,177	61,673	315,556	322,060		
Tennessee Department of Transportation	Knox-Blount Greenway Phase I	20.205	State 110043; Pin 115617.00	317,714	853,863	667,828	125,679		
Tennessee Department of Transportation	N. Central Street Streetscape Improvements	20.205	47LPLMF3-082; State 110195	21,957	29,541	78,397	70,813		
Tennessee Department of Transportation	Park City Sidewalk Network Completion	20.205	CM-9109(148); State 110045	56,485	-	37,376	93,861		
Tennessee Department of Transportation	Washington Pike and Millertown Pike Widening	20.205	STP-M-9109(64); State 1107099	37,276	44,171	264,923	248,287		
Tennessee Department of Transportation	Downtown Knoxville Wayfinding Project	20.205	STP-M-9109(151); State 110056	37,276	385,381	1,123,681	775,576		
Tennessee Department of Transportation	COK Greenway Corridor Feasibility & Assessment	20.205	STP-M-9109(162); State 120271	130,404	130,404	16,329	16,329		
Tennessee Department of Transportation	South Waterfront Enhancement Grant for the Riverwalk	20.205	STP-EN-9109(138); Pin 108784.02	18,677	-	-	-		
Tennessee Department of Transportation	Frist Creek Greenway	20.205	STP-EN-9109(143)	-	-	30,768	30,768		
Tennessee Department of Transportation	Advanced Traffic Management System - Traffic Control Upgrade	20.205	State 140161; PIN 120004.00	-	204	7,663	-		
Tennessee Department of Transportation	Widening of Pleasant Ridge Road, from City Limits to	20.205	STP-EN-9109(63)	66,220	95,835	32,260	4,344		
Tennessee Department of Transportation	Transportation Planning Grant through MPC	20.205	Edison ID: 38616	1,980,170	2,172,465	3,499,824	2,645		
Federal Motor Carrier Safety Administration	2014 CVE - Conducting High Visibility CMV Enforcement	20.218	FMMHP-0173-14-01-00	-	-	49,900	49,900		
Governor's Highway Safety	14/15 GHSO - Knoxville's FY2015 Pedestrian Safety Grant	20.600	Z-15-GHS188	-	-	19,983	19,983		
				36,628	98,595	61,967	-		
				-	43,128	77,361	34,235		
				36,628	141,721	139,328	34,235		
				-	-	3,400	3,400		
				9,936,712	11,634,661	9,327,076	7,629,127		
				2,080	12,628	10,548	-		
				112,127	141,614	29,587	100		
				114,207	154,242	40,135	100		
				-	16,000	16,000	-		
				176,230	-	-	176,230		
				38,487	-	-	38,487		
				214,717	-	-	214,717		
				-	150,000	150,000	-		
				98,882	98,882	-	-		
				13,342	14,239	897	-		
				-	-	13,635	13,635		
				112,224	113,121	14,532	13,635		
				326,941	279,121	180,532	228,352		
				\$ 12,340,867	\$ 18,162,276	\$ 15,340,684	\$ 9,519,275		

Total U.S. Department of Homeland Security

Total Federal Assistance

See independent auditor's report.

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
 Year Ended June 30, 2015

Grantor Agency	Program Title	CFDA #	Grant #	6/30/2014		6/30/2015	
				Receivable (Deferral)	Cash Receipts	Receivable (Deferral)	Expenditures
STATE ASSISTANCE							
Tennessee Department of Environment and Conservation	FY2013-2014 Household Hazardous Waste		GG-13-39508-00	\$ 10,208	\$ 10,208	\$ -	\$ -
	FY2014-2015 Household Hazardous Waste		Edison 41442	26,822	59,015	20,602	79,617
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm		FEIMA-1974-DR-TN	6,050	-	26,822	-
	Public Assistance/Disaster Grant for June 22, 2011 Storm		FEIMA-4005-DR-TN	-	-	6,050	-
Tennessee Department of Transportation Criminal Justice Program	2013-2014 State Operating Grant		47-UROP-S3-010	81,004	3,113,900	-	3,113,900
Tennessee Department of Transportation Criminal Justice Program	2014 East TN ICAC Task Force Program		Edison 35787	-	81,300	-	296
	2015 State ICAC Grant		31701-06184; Edison 40916	-	115,740	-	239,411
	Project Diabetes/Knox County Health Department (Service Dept.)		GG-13-34097-00	-	2,500	-	2,500
	Project Diabetes/Knox County Health Department (Health Benefits)		GG-13-34097-00	-	2,493	-	2,493
Tennessee Department of Transportation	FTA-TN-90-X335		47-5307-S3-022 (47-5307-S3-014)	25,219	22,330	9,917	7,028
Tennessee Department of Transportation	FTA-TN-90-X350-00			531,783	531,783	11,853	11,853
Tennessee Department of Transportation	FTA-TN-90-X361		GG-13-33857-00 (round one)	609,534	-	634,084	24,550
Tennessee Department of Transportation	FTA-TN-90-X381		475307-S3-018	468,427	-	624,069	153,642
Tennessee Department of Transportation	FTA-TN-90-X3		457307-S3021	-	-	504,202	-
Total State Assistance			Contract Pending	-	-	-	-
				\$ 1,759,047	\$ 3,839,269	\$ 1,959,270	\$ 4,139,492
Total Federal and State Assistance				\$ 14,099,914	\$ 22,101,545	\$ 11,478,545	\$ 19,480,176

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of the City of Knoxville, Tennessee (the "City") for the year ended June 30, 2015. The expenditures of federal and state awards relating to 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 are not included in the City's schedule of expenditures of federal and state awards. These component units are separately audited and reported on in accordance with OMB Circular A-133, where applicable.

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* and the State of Tennessee.

Expenditures reported on the schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Loans Outstanding

The City of Knoxville had the following loan funding balances and loan balances outstanding at June 30, 2015.

These 2015 loan funding balances are also included in the federal expenditures presented in the schedule.

<u>Cluster / Program Title</u>	<u>CFDA Number</u>	<u>FY 15 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grants	14.218	\$ 144,253	\$ 2,524,337
Empowerment Zone	14.244	-	998,493
HOME Investment Partnerships Program	14.239	<u>993,927</u>	<u>10,364,444</u>
Total Loans		<u>\$1,138,180</u>	<u>\$13,887,274</u>



Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated, December 9, 2015. Our report includes a reference to other auditors who 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 does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs and referenced as item 2015-1, that we consider to be a significant deficiency.



Compliance and Other Matters

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

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Crosslin & Associates, P.C.

Nashville, Tennessee
December 9, 2015



Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Knoxville, Tennessee's ("the City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority, which are reported as component units, and which received \$5,255,393 in federal awards which is not included in the schedule for the year ended June 30, 2015. Our audit, described below, did not include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority because these component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Knoxville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-2. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crosslin & Associates, P.C.
Nashville, Tennessee
December 9, 2015

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs for the City of Knoxville for the fiscal year ended June 30, 2015 are:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.900	Lead Hazard Control Grant/Healthy Homes Grant
20.500/20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$460,221

Auditee qualified as low-risk auditee? yes no

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2015**

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

Finding 2015-1: Cash Reconciliation Process

Criteria: The City's concentration bank account should be properly reconciled to the general ledger.

Condition: The reconciliation of the concentration bank account at June 30, 2015 to the general ledger was not fully completed and reviewed by the City on a timely basis. It was noted during the audit process that certain items remained unreconciled and the preliminary balance did not agree to the general ledger. Full reconciliation of the account was completed during the audit process by City personnel.

Context: The concentration account is the primary operating bank account for the City.

Effect: The account was fully reconciled by the City during the audit process.

Cause: The current reconciliation process for this account includes reconciling the Treasurer's report, an internally prepared management report, to the bank statement balance. The Treasurer's report is then reconciled to the general ledger, however there may be differences in certain balances and items between the Treasurer's report and the general ledger that are not always identified and adjusted on a timely basis.

Recommendation: The City should evaluate the current reconciliation process for the concentration account and consider and implement changes that would assure that a full and accurate reconciliation of the account to the general ledger is completed on a timely basis and supported by proper review.

Management's Response: The Treasurer's report is reconciled to the bank statement in a timely manner, generally within ten days or less. The delay results from issues between the General Ledger and the Treasurer's report. The City is changing the process to correct the reconciliation from a three step-process to a two step process. The format of the reconciliation will also be changed.

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2015**

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

Finding 2015-2: Match Reporting

Program: Lead-Based Paint Hazard Control Grant Program (CFDA #14.900)

Criteria: United States Department of Housing and Urban Development (HUD) requires that the recipients report in the quarterly SF 425 Federal Financial Report, include the total recipient share required, recipient share of expenditures and remaining recipient share to be provided.

Condition: During the audit, we noted that the City did not report match information for this program as required by HUD.

Questioned Cost: There are no questioned costs identified.

Context: The required reporting of match information was not included on the quarterly SF 425 Federal Financial Report.

Effect: The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Cause: Administrative oversight during the reporting process relating to recipient match information.

Recommendation: We recommend that procedures be established to assure the City report match information as required by HUD.

Management's Response: The City's Community Development Department and the Knoxville Knox County Community Action Committee (CAC) have been tracking the required match expenditures for the Lead Hazard. Control Grant since the beginning of the grant. Some of our match has been reported to HUD with the draws from LOCCS for program funds. We will report the current amount of match to HUD from day one of the grant to the end of this quarter (December 2015) on the next submission of the SF 425. The confusion regarding the reporting on this grant is that the match is a 'non-cash' match consisting of City and CAC employee and resource time contributions to the grant. We understood the form to be calling for only cash matches to be reported and therefore did not include the 'non-cash' items on our submissions. Going forward, we now understand that both cash and non-cash matches are to be reported on the form.

CITY OF KNOXVILLE, TENNESSEE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Finding 2014-1: Cash Reconciliation Process

Criteria: The City's concentration bank account should be properly reconciled to the general ledger.

Condition: The reconciliation of the concentration bank account at June 30, 2014 to the general ledger was not fully completed and reviewed by the City on a timely basis. It was noted during the audit process that certain items (wire transfers) remained unreconciled and the preliminary balance did not agree to the general ledger. Full reconciliation of the account was completed during the audit process by City personnel.

Context: The concentration account is the primary operating bank account for the City.

Effect: The account was fully reconciled by the City during the audit process.

Cause: The current reconciliation process for this account is a two part process that is completed by personnel in two different departments (Finance and Treasury). There appears to not have been adequate communication between the two departments during the reconciliation process at year end to properly and completely reconcile the account to the general ledger. Certain reconciling items were not investigated and adjusted by the City timely.

Recommendation: The City should evaluate the current reconciliation process for the concentration account and consider and implement changes that would assure that a full and accurate reconciliation of the account to the general ledger is completed on a timely basis and supported by proper review.

Current Status: This finding has been repeated in the current year as item 2015-1.

CITY OF KNOXVILLE, TENNESSEE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
YEAR ENDED JUNE 30, 2015**

Finding 2014-2:	Sub-Recipient Reporting
Program:	Community Development Block Grants/Entitlement Grants (CFDA #14.218) and Sustainable Communities Regional Planning Grants (CFDA #14.703).
Criteria:	Federal regulation 2 CFR 170 implemented the Federal Funding Accountability and Transparency Act (FFATA) and requires that recipients report, on the Federal web site, each action that obligates \$25,000 or more in Federal funds by the end of the month following the month in which the subaward was made.
Condition:	During the audit, we noted that the City did not report subaward information for these programs as required by FFATA.
Questioned Cost:	There are no questioned costs identified.
Context:	The required reporting of sub-recipient award information was not submitted to the Federal web side for sub-recipients awarded \$25,000 or more in federal funds.
Effect:	City grant information was not available or not timely available for public access through the Web site established to improve transparency of governmental spending. The federal grantor agency could issue sanctions or disallowances related to noncompliance.
Cause:	Administrative oversight during the subaward and sub-recipient monitoring processes.
Recommendation:	We recommend that procedures be established to assure the City report subaward information as required by FFATA.
Current Status:	This is no longer a grant requirement and was not a finding for the 2015 fiscal year.

Corrective Action Plan

Finding 2015-1: **Cash Reconciliation Process**

Name of contract person: Jim York, Finance Director

Corrective action: The Treasurer's report is reconciled to the bank statement in a timely manner, generally within ten days or less. The delay results from issues between the General Ledger and the Treasurer's report. The City is changing the process to correct the reconciliation from a three step-process to a two step process. The format of the reconciliation will also be changed.

**Anticipated
Completion Date:** December 31, 2015

Findings 2015-2: **Match Reporting**

Name of contact person: Jim York, Finance Director

Corrective action: The City's Community Development Department and the Knoxville Knox County Community Action Committee (CAC) have been tracking the required match expenditures for the Lead Hazard. Control Grant since the beginning of the grant. Some of our match has been reported to HUD with the draws from LOCCS for program funds. We will report the current amount of match to HUD from day one of the grant to the end of this quarter (December 2015) on the next submission of the SF 425. The confusion regarding the reporting on this grant is that the match is a 'non-cash' match consisting of City and CAC employee and resource time contributions to the grant. We understood the form to be calling for only cash matches to be reported and therefore did not include the 'non-cash' items on our submissions. Going forward, we now understand that both cash and non-cash matches are to be reported on the form.

**Anticipated
Completion Date:** December 31, 2015