



CITY OF KNOXVILLE
MADELINE ROGERO, MAYOR

INVESTING IN A GREAT CITY



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COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2017

KNOXVILLE, TENNESSEE

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF KNOXVILLE, TENNESSEE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

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COMPTROLLER**

CITY OF KNOXVILLE, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2017

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INTRODUCTORY SECTION



December 14, 2017

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, 2017. 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 the related requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The City's financial statements have been prepared by the Finance Department and audited by Crosslin, PLLC. 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 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 (MCAA), and Knoxville Area Transit (KAT). The financial statements of KUB, MCAA and KAT are included in the body of this report, noted as Component Units on the Government Wide Statements. The financial statements of the City Employees' Pension Trust Fund are included in the Fiduciary funds section along with two minor health-related benefit agency funds.

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 and can serve no more than two consecutive 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 186,239 (2016 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, with a strong public sector led by the University of Tennessee and the Tennessee Valley Authority, which provide employment stability. The Brookings Institution named Knoxville one of the first three cities in the United States to fully recover from the Recession of 2008-09.

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 \$1.056 billion in Knox County in 2016, an increase of 4.1 percent from 2015. Tourism generated a total of \$56.40 million in state and \$25.64 million in local tax revenues, increases of 5.9 percent and 4.7 percent, respectively. A total of 10,180 Knox County citizens 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.

Local Option Sales Tax Revenues
For the Fiscal Years Ended June 30
(In \$1,000's)

Year	Collections	% Change
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%
2016	\$40,743	9.56%
2017	\$40,787	0.11%

As shown above, the City, in FY17 only experienced a 0.11% increase in local sales tax. Unlike last year when there was an artificially high increase due to a redistribution of tax revenue between Knox County and the City of Knoxville which represented 4 to 5% of the increase, this year’s increase was possibly the result of the redistribution of tax revenues going the other way. We believe the real increase was in the 4% to 4.5% range.

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 June 2017, the Knoxville metro area’s civilian labor force (full and part-time, non-farm, wage and salary employees and self-employed persons) totaled 415,300 workers. Average unemployment rate in the metro area was 4.1 percent, a decline from 4.7 percent in June 2016. Knox County reported a 3.7 percent unemployment in June 2017, down from 4.6 percent in June 2016.

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 \$894 million budget and \$1.825 billion in net capital assets, it is the fourth largest customer of the Tennessee Valley Authority.

The McGhee Tyson Airport (MCAA) 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, and in 2017 was named the Outstanding Public Transportation System in North America by the American Public Transportation Association, in the category of small transit systems. 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, Big Ears 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 28,052 students for Fall 2016, including its teaching hospital and veterinary school. U.S. News and World Report ranks UTK in the top half, 46th of 119 national public universities. Six other colleges operate in Knoxville, with 30 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 selected Crosslin, PLLC to perform the fiscal year 2017 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 FY 2017 continued its efforts to encourage reinvestment in the urban core and in neighborhoods radiating out in all directions from downtown. The City continued 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 into a mixed-use complex of apartments, office space, restaurants and retail. That project is also benefiting from City and Knox County tax-increment financing, as well as a public-private partnership to relocate the headquarters of Regal Entertainment Corp. there.

Also on the South Waterfront, the new Suttree Landing Park opened, the City's first major new public park in a dozen years. The five-acre park provides 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 was also completed 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.

To the east of downtown, the Office of Redevelopment completed 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 is also funding residential weatherization.

The Office of Sustainability has also taken the lead in promoting urban agriculture and community gardens, through a set of proposed ordinances adopted 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 2016 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, 2016. This was the 31st 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, 2016. This marks the twenty-ninth 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, Savannah Maupin, the City's Internal Auditor, the City's independent auditors, Crosslin, PLLC, 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**

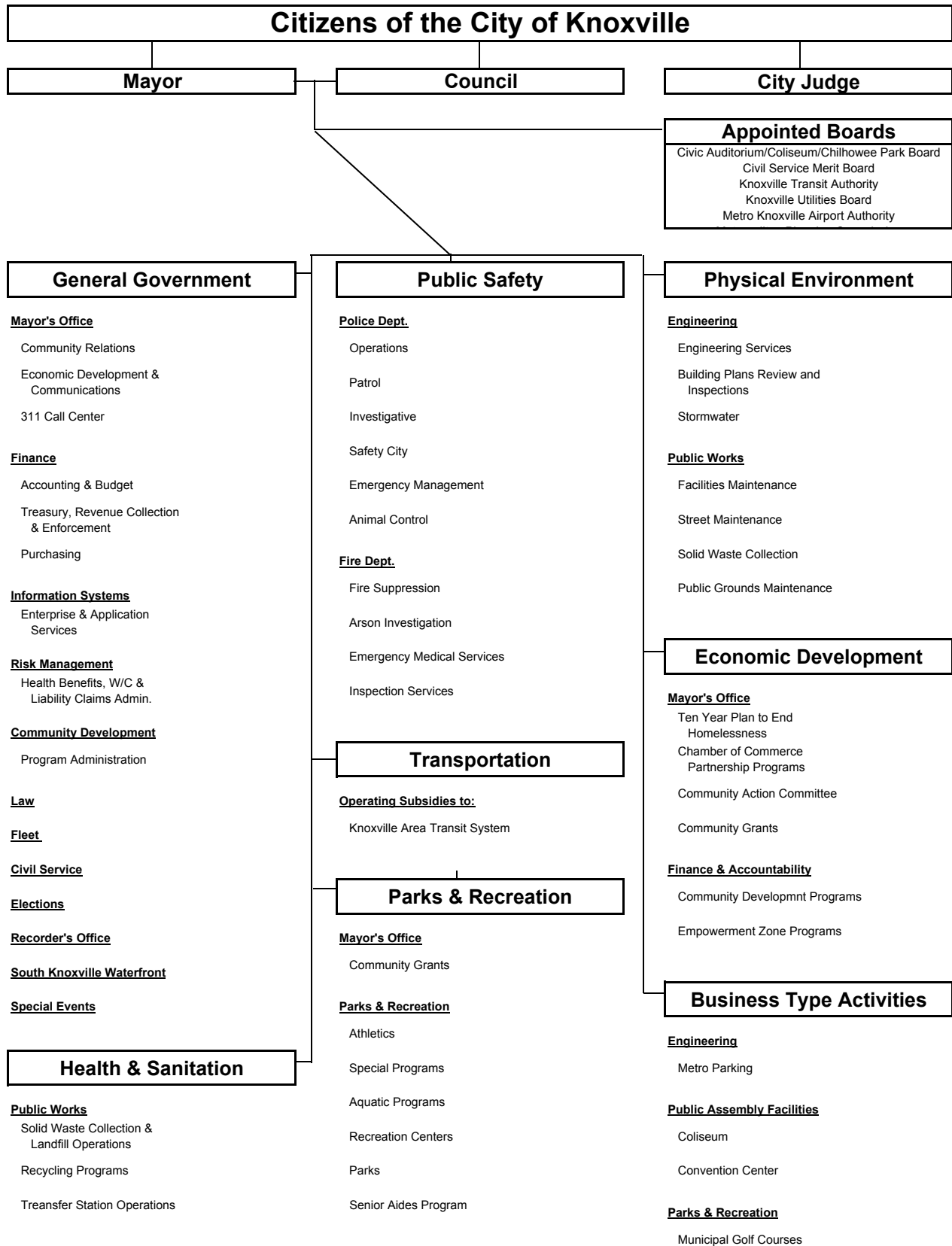
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

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
Airport – Bill Marrison, President
City Recorder – Will Johnson
Civil Service – Vicki Hatfield, Director
Communications – Jesse Mayshark, Director
Community Development – Becky Wade, Director
Community Relations – Avice Reid, Director
Engineering – James Hagerman, 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
Parks & Recreation – William Walsh, Director
Police – David B. Rausch, Chief
Public Works – David Brace, 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, 2017, 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 96% 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 opinion, 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, 2017, 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.

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 related ratios and schedule of employer contributions of the pension plan on pages 97 and 98, and the schedule of funding progress and schedule of employer contributions of the other postemployment benefit plan on page 99 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 100 to 130, 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 as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee is presented for purposes of additional analysis and is 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 14, 2017, 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, PLLC

Nashville, Tennessee
December 14, 2017

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, 2017.

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 \$601,860,553 (*net position*). Of this amount, \$254,920,925 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net position increased by \$57,313,539, a change of 10.52% when compared to FY2016. This gain stems from 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 \$260,140,114, a decrease of \$1,426,325 over the prior year. Of this total, \$232,382,805 or 89.33% is either non-spendable, restricted, committed, or assigned. The remaining balance of \$27,757,309 is available for other uses.
- The ending Fund Balance in the City's General Fund increased by \$10,829,594 or 12.66%. 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 \$352,536 is considered non-spendable and \$68,229,519 is assigned or committed. The remaining balance of \$27,757,309 is available for spending at the City's discretion.
- The City's total debt for the primary government decreased by \$8,080,000 from \$170,945,000 to \$162,865,000 during the current fiscal year as a result of normal debt service activity and the issuance of an additional \$2,075,000 of HUD Section 108 Promissory Notes.

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 liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 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, liabilities 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 (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 may do so in the Combining Statements section of this report.

The Governmental Funds 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 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 liabilities, 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 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 do not 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 position 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 position may serve over time as a useful indicator of a government's financial position. The following analysis focuses on the total primary government, which includes both governmental and business-type activities.

Statement of Net Position at June 30, 2017

A condensed version of the Statement of Net Position follows:

Condensed Financial Information						
Statement of Net Position						
Primary Government						
As of June 30						
(In \$1,000's)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Assets						
Cash and investments	\$ 369,639	\$ 357,221	\$ 52,349	\$ 42,610	\$ 421,988	\$ 399,831
Other assets	189,689	195,103	3,907	10,626	193,596	205,729
Capital assets	360,059	326,715	141,955	143,400	502,014	470,115
Total assets	<u>919,387</u>	<u>879,039</u>	<u>198,211</u>	<u>196,636</u>	<u>1,117,598</u>	<u>1,075,675</u>
Deferred Outflows	<u>68,670</u>	<u>51,577</u>	<u>589</u>	<u>1,721</u>	<u>69,259</u>	<u>53,298</u>
Liabilities						
Other liabilities	21,000	23,213	3,134	3,282	24,134	26,495
Noncurrent liabilities	<u>300,264</u>	<u>262,423</u>	<u>107,217</u>	<u>114,873</u>	<u>407,481</u>	<u>377,296</u>
Total liabilities	<u>321,264</u>	<u>285,636</u>	<u>110,351</u>	<u>118,155</u>	<u>431,615</u>	<u>403,791</u>
Deferred Inflows	<u>152,059</u>	<u>180,280</u>	<u>1,322</u>	<u>355</u>	<u>153,381</u>	<u>180,635</u>
Net position						
Net investment in capital assets	298,791	261,956	35,332	31,485	334,123	293,441
Restricted	12,817	15,759	-	-	12,817	15,759
Unrestricted	<u>203,126</u>	<u>186,985</u>	<u>51,795</u>	<u>48,362</u>	<u>254,921</u>	<u>235,347</u>
Total net position	<u>\$ 514,734</u>	<u>\$ 464,700</u>	<u>\$ 87,127</u>	<u>\$ 79,847</u>	<u>\$ 601,861</u>	<u>\$ 544,547</u>

Governmental Activities

Assets have increased by 4.59% and liabilities have increased by 12.47% when compared to FY2016 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. Noncurrent liabilities increased by \$37.8 million. The net pension liability rose by \$42.2 million, and is the result of additional benefits earned and investment performance during the measurement period. Declining principal balances due to annual debt service payments, offset in part by the addition of a \$2,075,000 Section 108 loan issued in FY2017 account for the balance of the change in noncurrent liabilities. The net result of these changes is an increase in total net position of 10.77%.

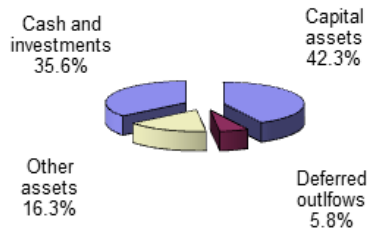
Business-Type Activities

Assets and liabilities changed by 0.80% and -6.60% respectively from FY2016 levels. The pension liability for business type activities (\$1.7 million in FY2016) was eliminated due to the transition of the operations and employees of the Knoxville Civic Coliseum/Auditorium and Chilhowee Park to a third party management firm. The interest rate swap liability, when compared to FY2016, declined by \$600,000 due to a reduction in the outstanding principal and an increase in interest rates. The balance of the decline in noncurrent liabilities is a function of long term debt for the Convention Center facility. The overall result of all of these changes is a 9.12% increase in net position.

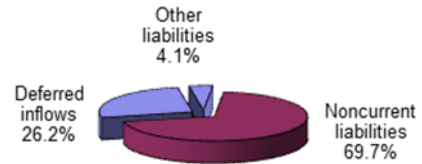
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure, and construction in progress account for 42.3% of \$1,186,857,411 in total assets and deferred outflows. Taxes and governmental receivables constitute 16.3%. Current liquidity comprised of cash and investments represents 35.6% and deferred outflows representing interest rate swaps and pension liabilities account for 5.8%.

Primary Government Assets & Deferred Outflows



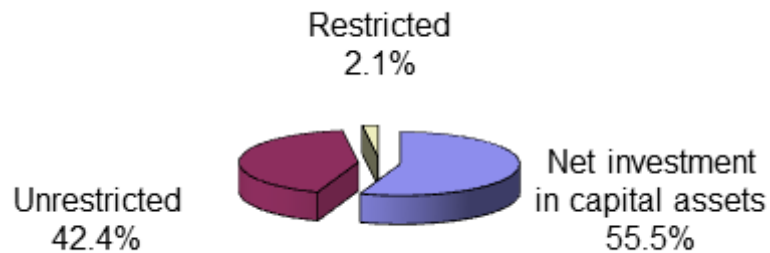
Primary Government Liabilities & Deferred Inflows



Of the total government liabilities, 69.7% are in long-term debt. Of the total long-term debt, approximately \$105.5 million, or 64.81% is related to debt issued to finance the convention center.

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 primary governmental activities represent 42.4% of total primary government net position.

Primary Government Total Net Position



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

A summary version of the Statement of Activities follows:

Condensed Financial Information						
Primary Government						
Statement of Activities						
For Fiscal Years Ending June 30						
(In \$1,000's)						
	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 11,529	\$ 10,724	\$ 12,154	\$ 9,125	\$ 23,683	\$ 19,849
Operating grants & contributions	9,102	7,892	1,500	1,500	10,602	9,392
Capital grants & contributions	14,262	11,573	-	-	14,262	11,573
General revenues:						
Taxes	242,037	242,977	13,739	13,945	255,776	256,922
Interest	2,575	1,459	341	219	2,916	1,678
Other	2,291	6,980	1,287	610	3,578	7,590
Total revenues	281,796	281,605	29,021	25,399	310,817	307,004
Expenses:						
General government	24,653	20,697	-	-	24,653	20,697
Public safety	100,752	95,864	-	-	100,752	95,864
Physical Environment	54,041	51,100	-	-	54,041	51,100
Transportation	11,016	10,589	-	-	11,016	10,589
Economic development	13,499	19,843	-	-	13,499	19,843
Parks and recreation	9,936	9,586	-	-	9,936	9,586
Health & Sanitation	9,738	10,414	-	-	9,738	10,414
Interest on long-term debt	1,998	2,339	-	-	1,998	2,339
Other	-	-	27,870	24,766	27,870	24,766
Total expenses	225,633	220,432	27,870	24,766	253,503	245,198
Increase (decrease) in net position before transfers	56,163	61,173	1,151	633	57,314	61,806
Transfers	(6,129)	(7,191)	6,129	7,191	-	-
Changes in net position	50,034	53,982	7,280	7,824	57,314	61,806
Beginning net position	464,700	410,718	79,847	72,023	544,547	482,741
Ending net position	\$ 514,734	\$ 464,700	\$ 87,127	\$ 79,847	\$ 601,861	\$ 544,547

Governmental Activities

Reflected in the Government-Wide Statement of Activities for the fiscal year ending June 30, 2017, only the General, Debt Service, and City Court Funds generated material revenues in excess of current operating expenditures. Excess revenue generated by the General Fund is used to support funds that are not self-sufficient and to maintain reserves necessary for the proper operation of the City. Property tax revenue remained constant; sales tax grew by a modest 2.41%. Although the volatile state income tax on investment earnings exceeded the budgeted amount by \$5,000,000, this still represents a decline of \$2.9 million when compared to FY2016. This state income tax on investments is being phased out, and will be completely eliminated in FY2021.

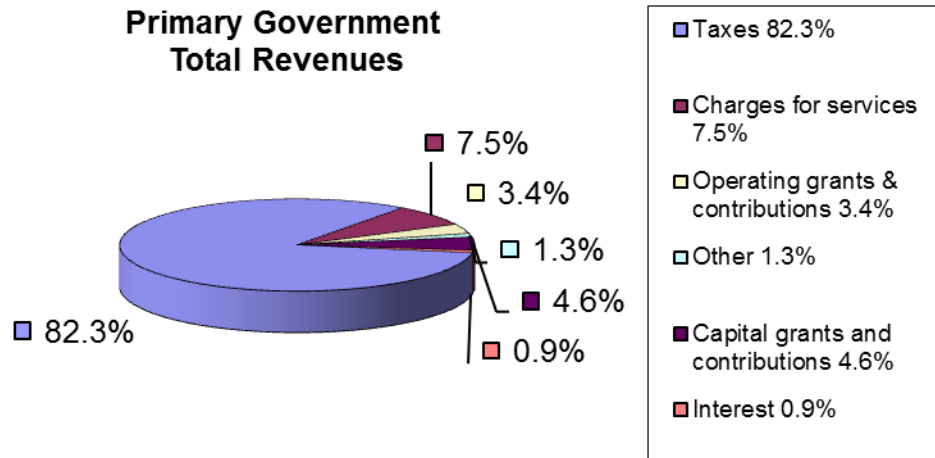
Surplus Debt Service fund revenues are generally utilized for one time expenditures, capital projects or to retire debt. Excess City Court revenues are transferred to the General Fund to finance general operations. Overall governmental expenses increased \$5.2 million primarily due to salary increases and expenses associated with capital projects. Public safety operations accounted for 44.65% of the City's total governmental operations of \$225.6 million. All other City of Knoxville sections and operations are financed by either local or state taxes, grants, or various shared revenues.

Business-type Activities

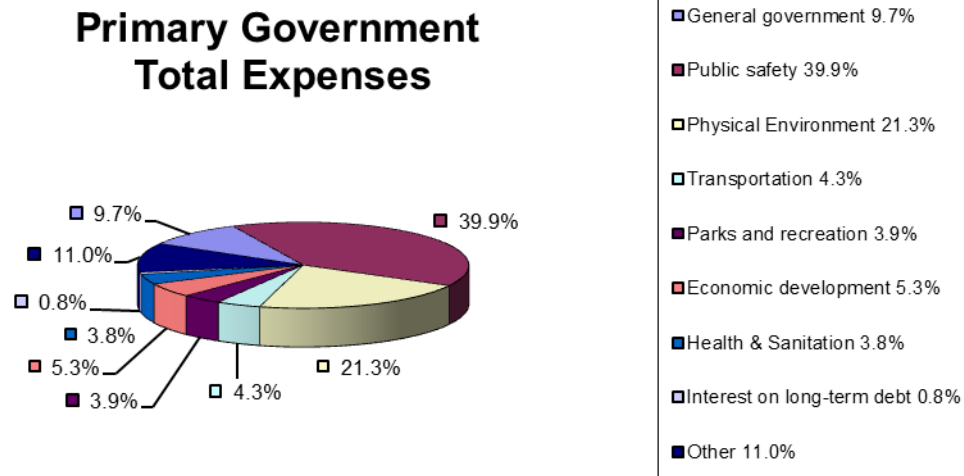
The City's business-type activities include metro parking, public assembly facilities and the municipal golf courses. The City also operates the Knoxville Convention Center and the Knoxville Civic Coliseum/Auditorium. Home of the University of Tennessee's main campus, Knoxville attracts thousands of visitors yearly for various sporting events. Neyland Stadium, the nation's fourth 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 \$310.8 million. The largest portion of these revenues (\$255.7 M – 82.3%) was from taxes.



Total primary government expenses totaled \$253.5 million, 39.9% of which was directed toward public safety.



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		Totals	
	2017	2016	2017	2016	2017	2016	2017	2016
Program Revenues	\$ 771,504	\$ 734,532	\$ 64,544	\$ 45,940	\$ 22,925	\$ 21,076	\$ 858,973	\$ 801,548
Program Expenses	(737,341)	(701,838)	(33,077)	(32,216)	(29,873)	(30,878)	(800,291)	(764,932)
Total General Revenues	1,928	1,277	1,062	1,299	9,412	9,142	12,402	11,718
Change in Net Position	36,091	33,971	32,529	15,023	2,464	(660)	71,084	48,334
Net Position at Year End	\$ 998,685	\$ 962,593	\$ 184,086	\$ 151,556	\$ 48,771	\$ 46,307	\$ 1,231,542	\$ 1,160,456

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2017

The total Governmental Funds balance as of June 30, 2017 is \$260.1 million of which the general fund's balance is approximately \$96.3 million, the debt service fund is \$50.7 million, capital projects funds comprise \$89.8 million, miscellaneous community development funds total \$1.6 million and the remaining \$21.6 million is distributed among the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances decreased by \$1.4 million when compared to the prior year. The change was spread among the various funds with the general fund up by 12.66%, the debt service fund down by 1.04%, capital projects fund down by 10.25%, special revenue funds up 6.38%, and other governmental funds are down 6.76%. 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, 2017

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, 2017, and the amount and percentage of increases and decreases in relation to prior year revenues.

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

Revenues	2017	2016	Percent of Total 2017	Change from Prior Year Increase (Decrease)	Percent Change
Taxes, assessments, interest & penalties	\$ 212,992	\$ 212,108	76.10%	\$ 884	0.42%
Licenses, permits and inspection charges	3,005	2,656	1.07%	349	13.15%
Intergovernmental revenue	45,811	48,074	16.37%	(2,263)	(4.71%)
Charges for services	6,728	6,118	2.40%	610	9.96%
Fines and forfeitures	3,010	3,147	1.08%	(137)	(4.34%)
Other	8,350	8,354	2.98%	(4)	(0.05%)
Totals	<u>\$ 279,896</u>	<u>\$ 280,457</u>	<u>100.00%</u>	<u>\$ (561)</u>	<u>(0.20%)</u>

A comparison of revenues between FY2016 and FY2017 shows total general government revenues were down by approximately \$561 thousand or .20%. Licenses, permits and inspection charges showed the largest growth, increasing 13.15%, which signifies an increase in new construction, due to the upturn in the economy. Intergovernmental revenue dropped by 4.71%, and is attributed to the decline in state income tax revenues on investments. Charges for Services are up 9.96% primarily because of a rate increase for landfill charges. The Hall Income Tax is currently 5 percent on investments, is being phased out beginning in FY2017 with the tax rate being reduced by 1 percent each year and eliminated in FY2021. Property Tax revenue and state shared sales tax growth are flat.

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, 2017, and the percentage of increases and decreases in relation to prior year amounts.

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

Expenditures	2017	2016	Percent of Total 2017	Change from Prior Year	
				Increase (Decrease)	Percent Change
Administration	\$ 4,263	\$ 3,969	1.58%	\$ 294	7.40%
Finance	4,019	4,125	1.49%	(106)	(2.57%)
Information Systems	4,144	4,158	1.54%	(14)	(0.33%)
Community Development	9,435	8,008	3.50%	1,427	17.82%
South Knoxville Waterfront	513	434	0.19%	79	18.13%
Parks & Recreation	7,470	7,442	2.77%	28	0.38%
Mass Transit	12,327	11,957	4.57%	370	3.10%
Engineering	15,012	14,265	5.56%	747	5.24%
Public Services	36,861	36,956	13.66%	(95)	(0.26%)
Law	2,785	2,792	1.03%	(7)	(0.27%)
Police	59,347	58,876	21.99%	471	0.80%
Fire	44,164	43,279	16.37%	885	2.05%
Legislative	908	1,004	0.34%	(96)	(9.61%)
City Elections	-	235	0.00%	(235)	(100.00%)
Civil Service	1,071	1,025	0.40%	46	4.51%
Knoxville Partnership	750	8,438	0.28%	(7,688)	(91.11%)
Metropolitan Planning Commission	1,054	1,205	0.39%	(151)	(12.54%)
Knoxville Zoological Park	1,251	1,210	0.46%	41	3.36%
Community Agency Grants	1,332	1,269	0.49%	63	5.00%
Community Action Committee	793	742	0.29%	51	6.89%
Tax Increment Payments	2,111	2,453	0.78%	(342)	(13.96%)
Capital and Grant Projects	53,188	51,710	19.71%	1,478	2.86%
Debt service:					
Principal retirement	4,998	6,141	1.85%	(1,143)	(18.62%)
Interest on bonds and notes	2,039	2,328	0.76%	(289)	(12.44%)
Total Expenditures	<u>\$ 269,834</u>	<u>\$ 274,021</u>	<u>100.00%</u>	<u>\$ (4,187)</u>	<u>(1.53%)</u>

Overall, general government expenditures in FY2017 declined by approximately \$4.2 million. Community Development expenditures decreased by approximately \$1.4 million. This drop is primarily due to the decline in the expenditures for the Lead Hazard Control and Healthy Homes Grants. City Elections occur bi-annually, and because FY2017 was not an election year, expenditures dropped by \$235,000. Expenditures for the Knoxville Partnership dropped by \$7.7 million due to the elimination of one time economic incentive provided to Regal Cinema Corporation in FY2016 for relocating their corporate headquarters to the South Waterfront location. Expenditures for Capital and Grant Projects rose by \$1.4 million. FY2017 signifies the completion of a number of major projects, such as the Cumberland Avenue improvements, the Public Works Complex, and Suttree Landing Park.

Proprietary Funds Statements

Statement of Net Position at June 30, 2017

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, Expenditures and Changes in Fund Net Position for the Year Ended June 30, 2017

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 \$20.5 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2017

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) finished the fiscal year with a positive cash flow, but operated at a loss after depreciation. At the end of FY2016, operating control of Public Assembly Facilities (Chilhowee Park and the Civic Auditorium and Coliseum) was turned over to a private management company in an effort to streamline and improve operations. The City's two golf courses continued to have a small operating loss which was partially covered with subsidies from the General Fund. 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 Years Ending June 30
(In \$1,000's)

Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2017	2016	2017	2016	2017	2016
I. Business-type Activities						
A. Knoxville Convention Center	\$ 20,629	\$ 20,464	\$ 17,734	\$ 16,879	\$ 3,398	\$ 3,963
B. Other (Non-major enterprise funds)						
1. Metro Parking	2,913	2,001	3,475	2,372	(28)	-
2. Public Assembly Facilities	3,204	1,738	5,405	3,888	2,477	2,912
3. Municipal Golf Courses	1,043	1,052	1,076	1,601	282	316
Total Business-type Activities	<u>27,789</u>	<u>25,255</u>	<u>27,690</u>	<u>24,740</u>	<u>6,129</u>	<u>7,191</u>
II. Government-Wide Activities						
A. Internal Service Funds						
1. Fleet Maintenance	16,742	15,758	12,826	12,080	345	529
2. Risk Management	7,039	7,041	5,975	6,345	-	(3)
3. Health Insurance	19,859	19,286	18,230	16,898	1,227	1,282
4. Equipment Replacement	2,026	1,989	1,615	1,767	3,788	531
5. City Buildings	1,502	1,406	1,552	1,390	-	-
Total Government-Wide Activities	<u>47,168</u>	<u>45,480</u>	<u>40,198</u>	<u>38,480</u>	<u>5,360</u>	<u>2,339</u>
Totals	<u>\$ 74,957</u>	<u>\$ 70,735</u>	<u>\$ 67,888</u>	<u>\$ 63,220</u>	<u>\$ 11,489</u>	<u>\$ 9,530</u>

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

Proprietary Funds	Capital Contributions		Change in Net Position		Net Position at Year End	
	2017	2016	2017	2016	2017	2016
I. Business-type Activities						
A. Knoxville Convention Center	\$ -	\$ -	\$ 6,293	\$ 7,548	\$ 48,076	\$ 41,783
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,052	118	462	(253)	21,442	20,980
2. Public Assembly Facilities	-	-	276	762	15,762	15,486
3. Municipal Golf Courses	-	-	249	(233)	1,847	1,598
Total Business-type Activities	<u>1,052</u>	<u>118</u>	<u>7,279</u>	<u>7,824</u>	<u>87,126</u>	<u>79,847</u>
II. Government-Wide Activities						
A. Internal Service Funds						
1. Fleet Maintenance	231	308	4,492	4,515	68,859	64,367
2. Risk Management	-	-	1,064	693	15,623	14,559
3. Health Insurance	-	-	2,856	3,670	19,362	16,506
4. Equipment Replacement	701	160	4,900	913	26,759	21,859
5. City Buildings	-	-	(50)	16	3,013	3,063
Total Government-Wide Activities	<u>932</u>	<u>468</u>	<u>13,262</u>	<u>9,807</u>	<u>133,616</u>	<u>120,354</u>
Totals	<u>\$ 1,984</u>	<u>\$ 586</u>	<u>\$ 20,541</u>	<u>\$ 17,631</u>	<u>\$ 220,742</u>	<u>\$ 200,201</u>

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

Condensed Financial Information
Pension Trust Fund Contribution Rates

	FY2017 Contribution Rates	FY2016 Contribution Rates	Estimated FY2018 Contribution Rates
General Government Employees	20.62%	20.34%	23.32%
Police and Fire Employees	44.11%	44.85%	47.29%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 73.62%. The City is currently amortizing the unfunded portion according to an actuarial determined schedule. The plan is to be fully funded in 21 years. In FY2012, 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 contributions in future years.

General Fund Budgetary Highlights

During the year there was approximately \$672 thousand 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, 2017

Department	Carry Forward of Prior Year Encumbrances	Other	Total Changes
Administration	\$ 42,278	\$ -	\$ 42,278
Finance	68	-	68
Information Systems	22,174	-	22,174
Community Development	33,417	-	33,417
Public Service	19,980	-	19,980
Engineering	120,787	-	120,787
Parks and Recreation	4	-	4
Law	25,606	-	25,606
Police	11,089	-	11,089
Fire	10,728	-	10,728
Civil Service	5,933	-	5,933
Nondepartmental:			
Knoxville Partnership	-	150,000	150,000
Agency Grants	230,926	-	230,926
Total General Fund	\$ 522,990	\$ 150,000	\$ 672,990

The largest change is due to the re-appropriation of prior year encumbrances (\$522,990) and is reflected in multiple city departments. Ancillary costs for the relocation of the Regal Entertainment Group Headquarters total \$150,000.

Capital Asset and Debt Administration

As of June 30, 2017, as reflected in the following table, the primary government of the City had net investments of \$502 million in capital assets. Construction in progress declined by \$14.5 million due to the completion of several major capital projects in FY2017 such as the Cumberland Avenue Improvement project, the Public Works Complex and Suttree Landing Park. 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.

Additional Section 108 debt was incurred under a conduit financing agreement. The developer will be repaying the principal (\$2,900,000) and the City will pass the funds to HUD. This represents an increase of \$2,075,000 in Section 108 debt when compared to FY2016.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2016	2015
Land and site improvements	\$ 84,201	\$ 83,759	\$ 7,336	\$ 7,336	\$ 91,537	\$ 91,095
Buildings and improvements	73,657	54,340	235,378	231,402	309,035	285,742
Equipment, furniture & fixtures	100,810	93,559	8,559	7,765	109,369	101,324
Infrastructure	379,086	343,698	1,004	1,004	380,090	344,702
Construction in progress	31,279	45,781	2,017	2,142	33,296	47,923
Less accumulated depreciation	(308,973)	(294,422)	(112,338)	(106,248)	(421,311)	(400,670)
Totals	<u>\$ 360,060</u>	<u>\$ 326,715</u>	<u>\$ 141,956</u>	<u>\$ 143,401</u>	<u>\$ 502,016</u>	<u>\$ 470,116</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.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Beginning balance	\$ 621,137	\$ 575,219	\$ 249,649	\$ 247,389	\$ 870,786	\$ 822,608
Additions	100,082	112,787	6,786	2,956	106,868	115,743
Deletions	(52,186)	(66,869)	(2,141)	(696)	(54,327)	(67,565)
Balance before depreciation	669,033	621,137	254,294	249,649	923,327	870,786
Accumulated depreciation	(308,973)	(294,422)	(112,338)	(106,248)	(421,311)	(400,670)
Balance after depreciation	<u>\$ 360,060</u>	<u>\$ 326,715</u>	<u>\$ 141,956</u>	<u>\$ 143,401</u>	<u>\$ 502,016</u>	<u>\$ 470,116</u>

As of the year-end, the City's Total Primary Government had \$162.8 million in general obligation debt outstanding.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current - Due in 1 year:						
General Obligation Bonds	\$ 4,742	\$ 4,998	\$ 5,358	\$ 5,157	\$ 10,100	\$ 10,155
Non Current - Due in more than 1 year:						
General Obligation Bonds	49,675	54,416	100,190	105,549	149,865	159,965
Section 108 Loan	2,900	825	-	-	2,900	825
Total Non Current	<u>52,575</u>	<u>55,241</u>	<u>100,190</u>	<u>105,549</u>	<u>152,765</u>	<u>160,790</u>
Subtotal	57,317	60,239	105,548	110,706	162,865	170,945
Unamortized Premiums, Discounts and Deferred Inflows	3,951	4,520	1,075	1,210	5,026	5,730
Total Long Term Debt	<u>\$ 61,268</u>	<u>\$ 64,759</u>	<u>\$ 106,623</u>	<u>\$ 111,916</u>	<u>\$ 167,891</u>	<u>\$ 176,675</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>2017</u>	<u>2016</u>
Moody'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 general fund revenue category represents \$183.2 million or 84.30% 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 FY2017 the taxable value of real property increased by 1.03% and the overall tax roll increased by 1.47%. This change is due to normal growth from new construction. Going forward we forecast slight growth in this source. We expect limited to no growth in the valuation of Public Utility property. Historically, the city has collected an average of 95.5% 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. The trend in personal property has been more volatile but has trended upward in the recent past.

Local option sales tax revenues represent approximately \$40.8 million or 18.8% of total General Fund revenues. This source tends to be somewhat more elastic than other taxes and is more cyclical in nature. Growth for FY2017 was flat, increasing by only 0.10% (\$42,740) when compared to FY2016. We attribute this, in part, to a reallocation of this revenue source between the City and Knox County. Recent changes in state legislation temper our expectation of future growth. Going forward we forecast moderate annual growth in the 2% to 3% range.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for \$29.8 million or 13.69% of total revenue. When compared to FY2016 this represents a decrease of approximately \$2.6 million or 8.11%. The majority of the decline in this category was due to the drop in receipts from the Hall Income Tax (an intangible tax on investments). This source has been extremely volatile revenue in recent years. To offset this volatility the revenue is budgeted very conservatively. Due to a recent change in the state law, the Hall Income tax will be phased out over the next five years, with incremental 20% reductions beginning in FY2017 until it is eliminated completely in FY2021.

Other revenue sources include fines and forfeitures. Miscellaneous revenue items remain constant.

In summary, 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.

Fund balance grew due to the effective management of expenditures and accurate forecasting of revenues. As discussed, earlier, projections are conservative in regards to the Hall Income Tax due to the volatile nature of this revenue. A state legislative change eliminates the Hall Income Tax by FY2021. In preparation for the loss of this recurring, though volatile revenue, proceeds from the Hall Income tax are earmarked as a source for non-recurring capital expenditures.

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 one years, and costs are expected to rise for another two years before leveling off. This increase is due to the change in the investment rate of return from 7.375% to 7.25%, as well as enacting new mortality table rates. Also, in 2012 the citizens approved a new pension plan for all employees hired after January 1, 2013. This change is expected to 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 leveling within the past few 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, 2017

	Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government		
Assets					
Cash and cash equivalents	\$ 13,378,972	\$ 5,265,355	\$ 18,644,327	\$ 97,317,803	\$ 115,962,130
Investments	356,260,283	47,083,733	403,344,016	153,351,805	556,695,821
Receivables (net of allowance for uncollectibles):					
Accounts	7,961,354	3,197,062	11,158,416	91,823,987	102,982,403
Taxes	154,932,067	-	154,932,067	-	154,932,067
Notes and leases	18,832,733	-	18,832,733	-	18,832,733
TVA conservation program	-	-	-	6,022,815	6,022,815
Other	651,871	37,762	689,633	136,879	826,512
Internal balances	(439,000)	439,000	-	-	-
Due from fiduciary fund	515,178	-	515,178	-	515,178
Due from component units	3,875,000	-	3,875,000	-	3,875,000
Inventories	1,550,320	132,403	1,682,723	19,755,732	21,438,455
Prepaid items	55,351	52,898	108,249	9,415,628	9,523,877
Equity interest in joint venture	1,754,097	47,718	1,801,815	-	1,801,815
Deferred charges	-	-	-	640,891	640,891
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	32,109,686	32,109,686
Receivables	-	-	-	680,000	680,000
Other	-	-	-	106,053	106,053
Other assets	-	-	-	19,055,967	19,055,967
Capital assets:					
Land and site improvements	84,201,049	7,336,303	91,537,352	159,187,071	250,724,423
Buildings and improvements	73,657,014	235,377,821	309,034,835	203,003,586	512,038,421
Utility plant in service	-	-	-	2,522,407,685	2,522,407,685
Equipment, furniture and fixtures	100,808,520	8,558,503	109,367,023	50,363,311	159,730,334
Infrastructure and site improvements	379,085,849	1,003,574	380,089,423	-	380,089,423
Construction in progress	31,279,224	2,017,060	33,296,284	193,100,176	226,396,460
Less accumulated depreciation	(308,973,084)	(112,338,301)	(421,311,385)	(1,068,307,669)	(1,489,619,054)
Total assets	919,386,798	198,210,891	1,117,597,689	2,490,171,406	3,607,769,095
Deferred outflows of resources					
Pensions	68,670,635	-	68,670,635	9,090,810	77,761,445
Interest rate swap	-	589,087	589,087	-	589,087
Unamortized bond refunding	-	-	-	25,778,793	25,778,793
Total deferred outflows of resources	68,670,635	589,087	69,259,722	34,869,603	104,129,325
Liabilities					
Accounts payable	12,568,717	1,758,659	14,327,376	66,990,269	81,317,645
Matured principal and interest on bonds	-	-	-	12,994,768	12,994,768
Accrued liabilities	6,733,054	612,790	7,345,844	22,215,693	29,561,537
Due to primary government	-	-	-	3,875,000	3,875,000
Due to other governmental agencies	862,140	-	862,140	-	862,140
Customer deposits, plus accrued interest	543,190	128,268	671,458	18,447,639	19,119,097
Accrued interest	293,134	317,004	610,138	42,677	652,815
Unearned revenue	-	317,565	317,565	-	317,565
Other current liabilities	-	-	-	22,687,985	22,687,985
Noncurrent liabilities:					
Long-term debt due within one year	5,311,126	5,493,737	10,804,863	39,180,000	49,984,863
Long-term debt due in more than one year	55,956,461	101,129,688	157,086,149	1,065,840,000	1,222,926,149
Other noncurrent liabilities due within one year	13,234,559	4,743	13,239,302	34,177,284	47,416,586
Other noncurrent liabilities due in more than one year	12,682,892	-	12,682,892	-	12,682,892
Net pension liability	212,563,619	-	212,563,619	61,136	212,624,755
Net other postemployment benefits obligation	515,503	-	515,503	-	515,503
Derivative instruments - interest rate swaps	-	589,087	589,087	1,191,256	1,780,343
Total liabilities	321,264,395	110,351,541	431,615,936	1,287,703,707	1,719,319,643
Deferred inflows of resources					
Assessed and unlevied property taxes	127,729,075	-	127,729,075	-	127,729,075
Pensions	4,097,547	1,321,923	5,419,470	5,267,517	10,686,987
Deferred revenue	20,232,377	-	20,232,377	528,303	20,760,680
Total deferred inflows of resources	152,058,999	1,321,923	153,380,922	5,795,820	159,176,742
Net position					
Net investment in capital assets	298,790,985	35,331,535	334,122,520	952,307,614	1,286,430,134
Restricted for:					
Debt service	-	-	-	17,870,197	17,870,197
Park maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	303,972	-	303,972	-	303,972
Other	11,889,071	-	11,889,071	2,030,774	13,919,845
Unrestricted	203,125,946	51,794,979	254,920,925	259,332,897	514,253,822
Total net position	\$ 514,734,039	\$ 87,126,514	\$ 601,860,553	\$ 1,231,541,482	\$ 1,833,402,035

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General Government	\$ 24,652,787	\$ 1,259,414	\$ 1,145,053	\$ -
Public Safety	100,752,465	7,224,266	775,711	750,579
Physical Environment	54,041,133	1,522,706	117,697	4,837,588
Transportation	11,016,490	405,982	-	-
Economic Development	13,499,120	408,155	7,063,917	8,583,649
Parks & Recreation	9,935,553	668,225	-	-
Health & Sanitation	9,737,762	40,360	-	90,215
Interest on long-term debt	1,997,549	-	-	-
Total governmental activities	<u>225,632,859</u>	<u>11,529,108</u>	<u>9,102,378</u>	<u>14,262,031</u>
Business-type activities:				
Metro Parking	3,474,577	2,886,820	-	-
Public Assembly Facilities	5,584,001	2,813,453	-	-
Knoxville Convention Center	17,735,268	5,410,398	1,500,000	-
Municipal Golf Courses	1,076,295	1,042,640	-	-
Total business-type activities	<u>27,870,141</u>	<u>12,153,311</u>	<u>1,500,000</u>	<u>-</u>
Total primary government	<u>\$ 253,503,000</u>	<u>\$ 23,682,419</u>	<u>\$ 10,602,378</u>	<u>\$ 14,262,031</u>
Combined discretely presented component units	<u>\$ 800,290,792</u>	<u>\$ 804,445,733</u>	<u>\$ 8,477,984</u>	<u>\$ 46,049,237</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 - 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		
\$ (22,248,320)	\$ -	\$ (22,248,320)	\$ -	\$ (22,248,320)
(92,001,909)	-	(92,001,909)	-	(92,001,909)
(47,563,142)	-	(47,563,142)	-	(47,563,142)
(10,610,508)	-	(10,610,508)	-	(10,610,508)
2,556,601	-	2,556,601	-	2,556,601
(9,267,328)	-	(9,267,328)	-	(9,267,328)
(9,607,187)	-	(9,607,187)	-	(9,607,187)
(1,997,549)	-	(1,997,549)	-	(1,997,549)
<u>(190,739,342)</u>	<u>-</u>	<u>(190,739,342)</u>	<u>-</u>	<u>(190,739,342)</u>
-	(587,757)	(587,757)	-	(587,757)
-	(2,770,548)	(2,770,548)	-	(2,770,548)
-	(10,824,870)	(10,824,870)	-	(10,824,870)
-	(33,655)	(33,655)	-	(33,655)
-	<u>(14,216,830)</u>	<u>(14,216,830)</u>	-	<u>(14,216,830)</u>
<u>(190,739,342)</u>	<u>(14,216,830)</u>	<u>(204,956,172)</u>	<u>-</u>	<u>(204,956,172)</u>
-	-	-	<u>58,682,162</u>	<u>58,682,162</u>
145,721,400	-	145,721,400	-	145,721,400
74,156,738	6,983,488	81,140,226	9,503,030	90,643,256
-	2,139,312	2,139,312	-	2,139,312
-	4,616,230	4,616,230	-	4,616,230
757,195	-	757,195	-	757,195
12,026,062	-	12,026,062	-	12,026,062
7,468,082	-	7,468,082	-	7,468,082
1,907,340	-	1,907,340	-	1,907,340
1,926,965	1,286,594	3,213,559	(303,232)	2,910,327
2,575,325	341,378	2,916,703	3,201,545	6,118,248
363,602	-	363,602	-	363,602
<u>(6,128,969)</u>	<u>6,128,969</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>240,773,740</u>	<u>21,495,971</u>	<u>262,269,711</u>	<u>12,401,343</u>	<u>274,671,054</u>
50,034,398	7,279,141	57,313,539	71,083,505	128,397,044
<u>464,699,641</u>	<u>79,847,373</u>	<u>544,547,014</u>	<u>1,160,457,977</u>	<u>1,705,004,991</u>
<u>\$ 514,734,039</u>	<u>\$ 87,126,514</u>	<u>\$ 601,860,553</u>	<u>\$ 1,231,541,482</u>	<u>\$ 1,833,402,035</u>

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Special Revenue Fund Miscellaneous Community Development Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 2,805,055	\$ 136,068	\$ 4,749,819	\$ 298,687	\$ 1,916,454	\$ 9,906,083
Investments	70,017,885	50,127,391	89,299,878	1,453,466	23,132,841	234,031,461
Accounts receivable	1,222,836	173,133	4,619,237	28,295	2,346,780	8,390,281
Taxes receivable	128,827,758	26,104,309	-	-	-	154,932,067
Notes receivable	1,207,267	117,648	-	12,339,587	5,168,231	18,832,733
Due from other funds	2,906,222	-	-	15,000	165,000	3,086,222
Due from fiduciary funds	-	-	-	485,000	-	485,000
Due from component unit	3,875,000	-	-	-	-	3,875,000
Inventories	297,185	-	184,528	-	47,857	529,570
Prepaid items	55,351	-	-	-	-	55,351
Total assets	<u>\$ 211,214,559</u>	<u>\$ 76,658,549</u>	<u>\$ 98,853,462</u>	<u>\$ 14,620,035</u>	<u>\$ 32,777,163</u>	<u>\$ 434,123,768</u>
Liabilities						
Accounts payable	\$ 3,080,727	\$ -	\$ 5,050,974	\$ 63,940	\$ 2,246,078	\$ 10,441,719
Accrued liabilities	2,045,435	-	1,736,398	5,049	327,108	4,113,990
Customer deposits	-	-	-	-	543,190	543,190
Due to other funds	110,620	-	-	62,000	2,847,102	3,019,722
Due to other governmental agencies	819,323	-	36,016	-	6,801	862,140
Total liabilities	<u>6,056,105</u>	<u>-</u>	<u>6,823,388</u>	<u>130,989</u>	<u>5,970,279</u>	<u>18,980,761</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	108,819,090	25,951,426	-	-	-	134,770,516
Unavailable revenue - other	-	-	2,230,792	12,833,354	5,168,231	20,232,377
Total deferred inflows of resources	<u>108,819,090</u>	<u>25,951,426</u>	<u>2,230,792</u>	<u>12,833,354</u>	<u>5,168,231</u>	<u>155,002,893</u>
Fund Balances						
Non-spendable	352,536	-	184,528	-	671,922	1,208,986
Restricted	-	-	-	1,643,078	10,549,965	12,193,043
Committed	48,086,455	50,707,123	73,661,098	3,469	9,496,393	181,954,538
Assigned	20,143,064	-	15,953,656	9,145	920,373	37,026,238
Unassigned	27,757,309	-	-	-	-	27,757,309
Total fund balances	<u>96,339,364</u>	<u>50,707,123</u>	<u>89,799,282</u>	<u>1,655,692</u>	<u>21,638,653</u>	<u>260,140,114</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 211,214,559</u>	<u>\$ 76,658,549</u>	<u>\$ 98,853,462</u>	<u>\$ 14,620,035</u>	<u>\$ 32,777,163</u>	<u>\$ 434,123,768</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, 2017**

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

Fund balance - governmental funds	\$260,140,114
Capital assets used in governmental activities are not financial resources and therefore are not reported in the balance sheets of the governmental funds.	329,340,656
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.	7,041,441
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.	133,615,691
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.	(293,134)
Pension and other postemployment benefit obligation amounts not reported in the funds:	
Net pension liability (asset)	(208,555,025)
Net other postemployment benefits obligation	(515,503)
Deferred outflows of resources related to pensions	67,400,552
Deferred inflows of resources related to pensions	(4,020,274)
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	(57,316,640)
Discounts and premiums (net)	(3,950,947)
Compensated absences	(8,152,892)
	(69,420,479)
Net position - governmental activities	<u>\$ 514,734,039</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, 2017

	General Fund	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes, assessments, interest & penalties	\$ 183,226,854	\$ 24,337,838	\$ -	\$ -	\$ 5,426,840	\$ 212,991,532
Licenses, permits & inspection charges	334,082	-	-	-	2,671,206	3,005,288
Intergovernmental	29,762,282	-	8,583,649	1,179,452	6,285,652	45,811,035
Charge for services	1,910,321	-	-	727,111	4,090,182	6,727,614
Fines & forfeitures	635,049	-	-	-	2,375,380	3,010,429
Other	1,471,169	528,522	5,121,589	11,788	1,217,077	8,350,145
Total revenues	<u>217,339,757</u>	<u>24,866,360</u>	<u>13,705,238</u>	<u>1,918,351</u>	<u>22,066,337</u>	<u>279,896,043</u>
Expenditures:						
Current:						
Administration	4,192,505	-	-	-	70,169	4,262,674
Finance	3,818,975	-	-	-	199,998	4,018,973
Information Systems	4,144,270	-	-	-	-	4,144,270
Community Development	2,749,090	-	-	1,818,993	4,866,992	9,435,075
South Knoxville Waterfront	512,702	-	-	-	-	512,702
Parks & Recreation	7,401,117	-	-	-	69,099	7,470,216
Mass Transit	12,327,153	-	-	-	-	12,327,153
Engineering	6,362,125	-	-	-	8,650,266	15,012,391
Public Services	24,636,260	-	-	-	12,225,215	36,861,475
Law	1,814,771	-	-	-	969,796	2,784,567
Police	56,325,992	-	-	-	2,573,292	58,899,284
Emergency Management	362,361	-	-	-	85,285	447,646
Fire	44,153,517	-	-	-	10,663	44,164,180
Legislative	904,538	-	-	-	3,027	907,565
Civil Service	1,071,265	-	-	-	-	1,071,265
Knoxville Partnership	750,157	-	-	-	-	750,157
Metropolitan Planning Commission	1,053,950	-	-	-	-	1,053,950
Knoxville Zoological Park	1,250,640	-	-	-	-	1,250,640
Community Agency Grants	1,332,477	-	-	-	-	1,332,477
Community Action Committee	793,140	-	-	-	-	793,140
Tax Increment Payments	2,110,635	-	-	-	-	2,110,635
Capital & grant projects	-	-	53,187,540	-	-	53,187,540
Debt service:						
Principal retirement	-	4,997,760	-	-	-	4,997,760
Interest payments on bonds & notes	-	2,038,503	-	-	-	2,038,503
Total expenditures	<u>178,067,640</u>	<u>7,036,263</u>	<u>53,187,540</u>	<u>1,818,993</u>	<u>29,723,802</u>	<u>269,834,238</u>
Excess (deficiency) of revenues over (under) expenditures	39,272,117	17,830,097	(39,482,302)	99,358	(7,657,465)	10,061,805
Other financing sources (uses)						
Transfers in	2,180,160	-	29,391,000	-	12,629,190	44,200,350
Transfers out	(30,622,683)	(18,365,000)	(160,347)	-	(6,540,450)	(55,688,480)
Total other financing sources (uses)	<u>(28,442,523)</u>	<u>(18,365,000)</u>	<u>29,230,653</u>	<u>-</u>	<u>6,088,740</u>	<u>(11,488,130)</u>
Net change in fund balances	10,829,594	(534,903)	(10,251,649)	99,358	(1,568,725)	(1,426,325)
Fund balances - beginning	<u>85,509,770</u>	<u>51,242,026</u>	<u>100,050,931</u>	<u>1,556,334</u>	<u>23,207,378</u>	<u>261,566,439</u>
Fund balances - ending	<u>\$ 96,339,364</u>	<u>\$ 50,707,123</u>	<u>\$ 89,799,282</u>	<u>\$ 1,655,692</u>	<u>\$ 21,638,653</u>	<u>\$ 260,140,114</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, 2017**

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

Net change in fund balances - total governmental funds	\$ (1,426,325)
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 (\$41,085,193) exceeds depreciation expenses (\$14,590,535).	26,494,658
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,336,277
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	4,997,760
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.	40,954
Negative pension expense not reported in the funds	4,846,740
Other postemployment benefit expense not reported in the funds	(515,503)
The internal service fund is used by management to charge the costs of fleet maintenance.	4,491,756
The internal service fund is used by management to charge the costs of risk management.	1,063,603
The internal service fund is used by management to charge the costs of employee health insurance.	2,855,946
The internal service fund is used by management to charge the costs of equipment replacement.	4,899,317
The internal service fund is used by management to charge the costs of City buildings.	<u>(50,785)</u>
Change in net position - governmental activities	<u>\$ 50,034,398</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, 2017

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Revenues						
Property taxes -						
Current	\$ 97,452,610	\$ 97,452,610	\$ 97,737,167	\$ -	\$ 97,737,167	\$ 284,557
Prior years	4,843,340	4,843,340	4,300,946	-	4,300,946	(542,394)
Business taxes	6,722,460	6,722,460	7,467,849	-	7,467,849	745,389
Local shared sales tax	39,547,580	39,547,580	40,786,564	-	40,786,564	1,238,984
Alcoholic beverage taxes	12,028,350	12,028,350	12,025,062	-	12,025,062	(3,288)
Payments in lieu of taxes	18,561,170	18,561,170	19,001,926	-	19,001,926	440,756
Franchise fees	1,946,160	1,946,160	1,907,340	-	1,907,340	(38,820)
Intergovernmental -						
Federal	1,092,670	1,092,670	978,825	-	978,825	(113,845)
State -						
Sales tax	14,836,610	14,836,610	14,824,757	-	14,824,757	(11,853)
Income tax	4,900,000	4,900,000	9,988,003	-	9,988,003	5,088,003
Other	3,720,440	3,720,440	3,888,769	-	3,888,769	168,329
Local	75,000	75,000	81,928	-	81,928	6,928
Licenses and permits	317,450	317,450	334,082	-	334,082	16,632
Fines & forfeits	585,460	35,460	635,049	-	635,049	599,589
Charges for services	1,673,190	1,673,190	1,910,321	-	1,910,321	237,131
Other -						
Interest	276,150	276,150	512,245	-	512,245	236,095
Rents & concessions	80,420	80,420	95,428	-	95,428	15,008
Miscellaneous	572,420	1,095,911	863,496	-	863,496	(232,415)
Appropriated fund balance	2,164,500	2,314,500	-	-	-	(2,314,500)
Total revenues	<u>211,395,980</u>	<u>211,519,471</u>	<u>217,339,757</u>	<u>-</u>	<u>217,339,757</u>	<u>5,820,286</u>
Expenditures						
Current -						
Administration	4,893,590	4,456,568	4,192,505	8,459	4,200,964	255,604
Finance	4,320,120	4,320,188	3,818,975	12,381	3,831,356	488,832
Information systems	4,621,220	4,639,614	4,144,270	40,917	4,185,187	454,427
Community development	2,386,740	2,920,157	2,749,090	103,671	2,852,761	67,396
South Knoxville Waterfront	506,980	512,980	512,702	-	512,702	278
Parks & recreation	7,442,190	7,438,604	7,401,117	10,982	7,412,099	26,505
Mass transit	14,462,160	14,462,160	12,327,153	-	12,327,153	2,135,007
Public services	24,395,550	24,364,801	24,636,260	51,405	24,687,665	(322,864)
Engineering	6,375,550	6,471,267	6,362,125	78,145	6,440,270	30,997
Law	1,997,150	2,021,486	1,814,771	30,290	1,845,061	176,425
Police	57,522,320	57,068,050	56,325,992	453,284	56,779,276	288,774
Emergency management	390,340	388,550	362,361	-	362,361	26,189
Fire	44,555,800	44,164,707	44,153,517	5,648	44,159,165	5,542
Legislative	957,170	957,170	904,538	8,862	913,400	43,770
Civil service	1,130,950	1,136,883	1,071,265	5,758	1,077,023	59,860
Nondepartmental -						
City elections	10,000	10,000	-	-	-	10,000
Knoxville partnership	636,520	786,520	750,157	-	750,157	36,363
Metropolitan planning commission	1,053,950	1,053,950	1,053,950	-	1,053,950	-
Knoxville zoological gardens	1,250,640	1,250,640	1,250,640	-	1,250,640	-
Community agency grants	1,200,000	1,494,926	1,332,477	162,261	1,494,738	188
Community action committee	793,140	793,140	793,140	-	793,140	-
Tax increment payments	2,126,090	2,126,090	2,110,635	-	2,110,635	15,455
Total expenditures	<u>183,028,170</u>	<u>182,838,451</u>	<u>178,067,640</u>	<u>972,063</u>	<u>179,039,703</u>	<u>3,798,748</u>
Excess (deficiency) of revenues over (under) expenditures	<u>28,367,810</u>	<u>28,681,020</u>	<u>39,272,117</u>	<u>(972,063)</u>	<u>38,300,054</u>	<u>9,619,034</u>
Other Financing Sources (Uses)						
Transfers in	1,630,160	2,180,160	2,180,160	-	2,180,160	-
Transfers out	(29,997,970)	(30,861,180)	(30,622,683)	-	(30,622,683)	238,497
Total other financing sources (uses)	<u>(28,367,810)</u>	<u>(28,681,020)</u>	<u>(28,442,523)</u>	<u>-</u>	<u>(28,442,523)</u>	<u>(238,497)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>10,829,594</u>	<u>(972,063)</u>	<u>9,857,531</u>	<u>\$ 9,857,531</u>
Fund balance - beginning			<u>85,509,770</u>	<u>(1,225,530)</u>	<u>84,284,240</u>	
Fund balance - ending			<u>\$ 96,339,364</u>	<u>\$ (2,197,593)</u>	<u>\$ 94,141,771</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, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Intergovernmental	\$ 1,429,350	\$ 1,429,350	\$ 1,179,452	\$ (249,898)
Charges for services	540,000	540,000	727,111	187,111
Other	-	2,047	11,788	9,741
Total revenues	<u>1,969,350</u>	<u>1,971,397</u>	<u>1,918,351</u>	<u>(53,046)</u>
Expenditures				
Current:				
Community Development	<u>1,969,350</u>	<u>1,971,397</u>	<u>1,818,993</u>	<u>(152,404)</u>
Total expenditures	<u>1,969,350</u>	<u>1,971,397</u>	<u>1,818,993</u>	<u>(152,404)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>99,358</u>	<u>99,358</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>99,358</u>	<u>\$ 99,358</u>
Fund balances - beginning			<u>1,556,334</u>	
Fund balances - ending			<u>\$ 1,655,692</u>	

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Assets				
Current assets:				
Cash & temporary investments	\$ 2,525,927	\$ 2,739,428	\$ 5,265,355	\$ 3,472,889
Investments	32,615,909	14,467,824	47,083,733	122,228,822
Accounts receivable	2,762,261	472,563	3,234,824	222,944
Due from other funds	1,180,000	1,045,000	2,225,000	-
Due from fiduciary fund	-	-	-	30,178
Inventories	108,874	23,529	132,403	1,020,750
Prepaid items	37,790	15,108	52,898	-
Total current assets	<u>39,230,761</u>	<u>18,763,452</u>	<u>57,994,213</u>	<u>126,975,583</u>
Noncurrent assets:				
Land & site improvements	2,952,020	4,384,283	7,336,303	61,627
Building, building improvements and infrastructure	183,725,409	52,655,986	236,381,395	195,764
Equipment	5,352,812	3,205,691	8,558,503	89,419,044
Construction in progress	1,450,023	567,037	2,017,060	-
Less: accumulated depreciation	<u>(76,208,171)</u>	<u>(36,130,130)</u>	<u>(112,338,301)</u>	<u>(58,958,519)</u>
Total capital assets (net of accumulated depreciation):	117,272,093	24,682,867	141,954,960	30,717,916
Equity interest in joint venture	20,579	27,139	47,718	1,754,097
Total noncurrent assets	<u>117,292,672</u>	<u>24,710,006</u>	<u>142,002,678</u>	<u>32,472,013</u>
Total assets	<u>156,523,433</u>	<u>43,473,458</u>	<u>199,996,891</u>	<u>159,447,596</u>
Deferred outflows of resources				
Pensions	-	-	-	1,270,083
Interest rate swap	589,087	-	589,087	-
Total deferred outflows of resources	<u>589,087</u>	<u>-</u>	<u>589,087</u>	<u>1,270,083</u>
Liabilities				
Current liabilities:				
Accounts payable	1,149,657	609,002	1,758,659	2,126,998
Accrued liabilities	317,004	612,790	929,794	2,619,064
Customer deposits	128,268	-	128,268	-
Unearned revenue	115,000	202,565	317,565	-
Due to other funds	115,000	1,671,000	1,786,000	505,500
Compensated absences	-	4,743	4,743	164,559
Net pension liability	-	-	-	4,008,594
Long-term debt due within one year	5,493,737	-	5,493,737	-
Estimated claims liability	-	-	-	5,100,000
Total current liabilities	<u>7,318,666</u>	<u>3,100,100</u>	<u>10,418,766</u>	<u>14,524,715</u>
Noncurrent liabilities:				
Long-term debt due in more than one year	101,129,688	-	101,129,688	-
Estimated claims liability	-	-	-	12,500,000
Derivative instrument - interest rate swap	589,087	-	589,087	-
Total noncurrent liabilities	<u>101,718,775</u>	<u>-</u>	<u>101,718,775</u>	<u>12,500,000</u>
Total liabilities	<u>109,037,441</u>	<u>3,100,100</u>	<u>112,137,541</u>	<u>27,024,715</u>
Deferred inflows of resources				
Pensions	-	1,321,923	1,321,923	77,273
Total deferred inflows of resources	<u>-</u>	<u>1,321,923</u>	<u>1,321,923</u>	<u>77,273</u>
NET POSITION				
Net investment in capital assets	10,648,668	24,682,867	35,331,535	30,717,916
Unrestricted	<u>37,426,411</u>	<u>14,368,568</u>	<u>51,794,979</u>	<u>102,897,775</u>
Total net position	<u>\$ 48,075,079</u>	<u>\$ 39,051,435</u>	<u>\$ 87,126,514</u>	<u>\$ 133,615,691</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, 2017**

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating revenues				
Charges for services	\$ 5,410,398	\$ 6,742,913	\$ 12,153,311	\$ 45,836,950
Total operating revenues	<u>5,410,398</u>	<u>6,742,913</u>	<u>12,153,311</u>	<u>45,836,950</u>
Operating expenses				
Personal services	-	200,282	200,282	4,383,814
Materials & supplies	49,469	-	49,469	2,422,201
Maintenance	325,767	293,528	619,295	717,263
Depreciation & amortization	4,189,868	1,724,349	5,914,217	6,200,526
Other services and charges	10,682,631	7,916,714	18,599,345	26,475,699
Total operating expenses	<u>15,247,735</u>	<u>10,134,873</u>	<u>25,382,608</u>	<u>40,199,503</u>
Operating income (loss)	<u>(9,837,337)</u>	<u>(3,391,960)</u>	<u>(13,229,297)</u>	<u>5,637,447</u>
Nonoperating revenues (expense)				
Interest income	270,382	70,996	341,378	563,179
Intergovernmental revenue	14,892,472	346,558	15,239,030	164,392
Other revenues (expenses)	55,850	179,213	235,063	268,459
Gain (loss) on disposal of capital assets	-	-	-	335,000
Interest expense	(2,487,533)	-	(2,487,533)	-
Total nonoperating revenues (expenses)	<u>12,731,171</u>	<u>596,767</u>	<u>13,327,938</u>	<u>1,331,030</u>
Income (loss) before transfers and capital contributions	2,893,834	(2,795,193)	98,641	6,968,477
Transfers in	3,412,562	2,758,720	6,171,282	5,413,391
Transfers out	(13,915)	(28,398)	(42,313)	(54,230)
Capital contributions	-	1,051,531	1,051,531	932,199
Change in net position	6,292,481	986,660	7,279,141	13,259,837
Net position, beginning of year	<u>41,782,598</u>	<u>38,064,775</u>	<u>79,847,373</u>	<u>120,355,854</u>
Net position, end of year	<u>\$ 48,075,079</u>	<u>\$ 39,051,435</u>	<u>\$ 87,126,514</u>	<u>\$ 133,615,691</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, 2017

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating activities				
Cash received from customers and users	\$ 5,387,276	\$ 6,579,238	\$ 11,966,514	\$ -
Receipts from interfund services provided	-	-	-	45,646,433
Cash paid to suppliers	(11,281,656)	(8,358,241)	(19,639,897)	(9,550,703)
Cash paid to employees	-	(197,474)	(197,474)	(4,473,030)
Cash paid for interfund services used	(325,767)	-	(325,767)	(1,496,582)
Payments of claims and insurance	-	-	-	(17,771,947)
Net cash provided by (used in) operating activities	<u>(6,220,147)</u>	<u>(1,976,477)</u>	<u>(8,196,624)</u>	<u>12,354,171</u>
Noncapital financing activities				
Transfers from other funds	4,350,138	6,291,278	10,641,416	6,252,460
Transfers to component units	1,825,265	-	1,825,265	674,000
Transfers to other funds	(13,915)	(667,398)	(681,313)	(25,000)
Tax and intergovernmental revenues	14,948,322	179,213	15,127,535	432,851
Net cash provided by (used in) noncapital financing activities	<u>21,109,810</u>	<u>5,803,093</u>	<u>26,912,903</u>	<u>7,334,311</u>
Capital and related financing activities				
Principal paid on general obligation bond maturities	(5,293,157)	-	(5,293,157)	-
Interest paid	(2,487,533)	-	(2,487,533)	-
Acquisition and construction of capital assets	(3,141,576)	(1,326,409)	(4,467,985)	(13,070,788)
Proceeds from sale of capital assets	-	-	-	331,318
Capital contributions	-	1,051,531	1,051,531	932,199
Net cash provided by (used in) capital and related financing activities	<u>(10,922,266)</u>	<u>(274,878)</u>	<u>(11,197,144)</u>	<u>(11,807,271)</u>
Investing activities				
Sales/(purchases) of investments, net	(4,208,978)	(1,787,591)	(5,996,569)	(6,612,476)
Investment earnings	270,382	70,996	341,378	563,179
Net change in equity investment in joint venture	1,391,228	487,809	1,879,037	214,981
Net cash provided by (used in) investing activities	<u>(2,547,368)</u>	<u>(1,228,786)</u>	<u>(3,776,154)</u>	<u>(5,834,316)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,420,029</u>	<u>2,322,952</u>	<u>3,742,981</u>	<u>2,046,895</u>
Cash and cash equivalents				
Beginning of year	<u>1,105,898</u>	<u>416,476</u>	<u>1,522,374</u>	<u>1,425,994</u>
End of year	<u>\$ 2,525,927</u>	<u>\$ 2,739,428</u>	<u>\$ 5,265,355</u>	<u>\$ 3,472,889</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, 2017

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (9,837,337)	\$ (3,391,960)	\$ (13,229,297)	\$ 5,637,447
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,189,868	1,724,349	5,914,217	6,200,526
Pension expense (negative expense)	-	(264,384)	(264,384)	(98,238)
Change in assets and liabilities				
(Increase) decrease in receivables	(137,781)	(335,784)	(473,565)	(190,517)
(Increase) decrease in prepayments	(6,551)	(4,214)	(10,765)	-
(Increase) decrease in inventories	8,097	6,056	14,153	22,567
Increase (decrease) in accounts payable	(558,230)	(408,387)	(966,617)	773,700
Increase (decrease) in accrued expenses	7,128	520,303	527,431	8,686
Increase (decrease) in compensated absences	-	338	338	-
Increase (decrease) in deferred revenue	115,000	177,206	292,206	-
Increase (decrease) in customer deposits	(341)	-	(341)	-
Total adjustments	<u>3,617,190</u>	<u>1,415,483</u>	<u>5,032,673</u>	<u>6,716,724</u>
Net cash provided by (used in) operating activities	<u>\$ (6,220,147)</u>	<u>\$ (1,976,477)</u>	<u>\$ (8,196,624)</u>	<u>\$ 12,354,171</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, 2017

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	\$ 1,163	\$ 1,113,047
Cash equivalents	11,841,427	-
United States government securities	48,441,831	-
State & municipal government securities	1,126,103	519,399
International securities	184,945,776	-
Corporate bond & indentures	61,352,072	-
Real estate investment trusts	84,806,252	-
Domestic equity securities	128,064,436	-
Alternative assets	50,430,624	-
Pending sales proceeds	562,822	-
Other receivables	2,751	263,408
Accrued interest & dividends	1,399,857	-
Equipment, furniture & fixtures	33,804	-
Accumulated depreciation	(27,749)	-
Total assets	<u>\$ 572,981,169</u>	<u>\$ 1,895,854</u>
Liabilities		
Accounts payable	583,419	-
Investment purchases pending	1,100,888	-
Health care claims liability	-	1,380,676
Due to other funds	-	515,178
Total liabilities	<u>\$ 1,684,307</u>	<u>\$ 1,895,854</u>
Net Position Restricted for Pensions	<u>\$ 571,296,862</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, 2017**

	City Employees' Pension Trust Fund
Additions	
Employee contributions	\$ 4,417,803
Employer contributions	23,791,166
Total contributions	<u>28,208,969</u>
Investment earnings:	
Interest and dividends	9,090,765
Net appreciation/(depreciation) in the fair value of investments	57,925,150
Other income	165,107
Total investment earnings (loss)	<u>67,181,022</u>
Less investment expense	<u>(3,769,542)</u>
Net investment earnings (loss)	<u>63,411,480</u>
Total additions (net)	<u>91,620,449</u>
Deductions	
Benefits paid	45,379,447
Refunds	844,031
Administration expenses	721,541
Total deductions	<u>46,945,019</u>
Change in net position	44,675,430
Total net position - beginning	<u>526,621,432</u>
Total net position - ending	<u>\$ 571,296,862</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, 2017

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Assets				
Cash and cash equivalents	\$ 78,955,536	\$ 14,985,568	\$ 3,376,699	\$ 97,317,803
Investments	113,449,938	38,902,166	999,701	153,351,805
Receivables (net of allowance for uncollectibles):				
Accounts	74,433,839	7,244,031	10,146,117	91,823,987
TVA conservation program	6,022,815	-	-	6,022,815
Other	78,019	58,860	-	136,879
Inventories	18,475,991	-	1,279,741	19,755,732
Prepaid items	8,753,059	662,569	-	9,415,628
Deferred charges	-	640,891	-	640,891
Restricted assets:				
Temporarily restricted:				
Bond funds	30,864,965	1,244,721	-	32,109,686
Receivables	-	680,000	-	680,000
Other	106,053	-	-	106,053
Other assets	19,055,967	-	-	19,055,967
Capital assets:				
Land and site improvements	-	156,429,921	2,757,150	159,187,071
Buildings and improvements	-	170,365,708	32,637,878	203,003,586
Utility plant in service	2,522,407,685	-	-	2,522,407,685
Equipment, furniture and fixtures	-	14,993,557	35,369,754	50,363,311
Construction in progress	141,763,046	51,337,130	-	193,100,176
Less accumulated depreciation	(838,877,792)	(201,034,189)	(28,395,688)	(1,068,307,669)
Total assets	<u>2,175,489,121</u>	<u>256,510,933</u>	<u>58,171,352</u>	<u>2,490,171,406</u>
Deferred outflows of resources				
Pensions	9,090,810	-	-	9,090,810
Unamortized bond refundings	24,403,793	1,375,000	-	25,778,793
Total deferred outflows of resources	<u>33,494,603</u>	<u>1,375,000</u>	<u>-</u>	<u>34,869,603</u>
Liabilities				
Accounts payable	58,452,870	3,732,915	4,804,484	66,990,269
Matured principal & interest on bonds	12,994,768	-	-	12,994,768
Accrued liabilities	20,709,745	1,313,231	192,717	22,215,693
Due to primary government	-	-	3,875,000	3,875,000
Customer deposits, plus accrued interest	18,447,639	-	-	18,447,639
Accrued interest	-	42,677	-	42,677
Other liabilities	22,687,985	-	-	22,687,985
Noncurrent liabilities:				
Long-term debt due within one year	34,055,000	5,125,000	-	39,180,000
Long-term debt due in more than one year	1,003,445,000	62,395,000	-	1,065,840,000
Unamortized premiums/discounts	34,177,284	-	-	34,177,284
Net pension liability	61,136	-	-	61,136
Derivative instruments - interest rate swaps	-	1,191,256	-	1,191,256
Total liabilities	<u>1,205,031,427</u>	<u>73,800,079</u>	<u>8,872,201</u>	<u>1,287,703,707</u>
Deferred inflows of resources				
Pensions	5,267,517	-	-	5,267,517
Deferred revenue	-	-	528,303	528,303
Total deferred inflows of resources	<u>5,267,517</u>	<u>-</u>	<u>528,303</u>	<u>5,795,820</u>
Net position				
Net investment in capital assets	786,361,325	123,577,195	42,369,094	952,307,614
Restricted for:				
Debt service	17,870,197	-	-	17,870,197
Other	106,053	1,924,721	-	2,030,774
Unrestricted	194,347,205	58,583,938	6,401,754	259,332,897
Total net position	<u>\$ 998,684,780</u>	<u>\$ 184,085,854</u>	<u>\$ 48,770,848</u>	<u>\$ 1,231,541,482</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, 2017

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	\$ 737,340,732	\$ 769,495,780	\$ -	\$ 2,007,985	\$ 34,163,033	\$ -	\$ -	\$ 34,163,033
Metropolitan Knoxville Airport Authority	33,077,173	32,858,662	-	31,685,691	-	31,467,180	-	31,467,180
Knoxville Area Transit	29,872,887	2,091,291	8,477,984	12,355,561	-	-	(6,948,051)	(6,948,051)
Total component units	<u>\$ 800,290,792</u>	<u>\$ 804,445,733</u>	<u>\$ 8,477,984</u>	<u>\$ 46,049,237</u>	<u>\$ 34,163,033</u>	<u>\$ 31,467,180</u>	<u>\$ (6,948,051)</u>	<u>\$ 58,682,162</u>
General revenues:								
					-	-	9,503,030	9,503,030
					(211,826)	-	(91,406)	(303,232)
					2,139,753	1,061,792	-	3,201,545
					<u>1,927,927</u>	<u>1,061,792</u>	<u>9,411,624</u>	<u>12,401,343</u>
					36,090,960	32,528,972	2,463,573	71,083,505
					<u>962,593,820</u>	<u>151,556,882</u>	<u>46,307,275</u>	<u>1,160,457,977</u>
					<u>\$ 998,684,780</u>	<u>\$ 184,085,854</u>	<u>\$ 48,770,848</u>	<u>\$ 1,231,541,482</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, 2017

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) 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, 2017

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, 2017

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, 2017

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, 2017**

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 acquisition 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 \$2,487,533 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 25 years
Infrastructure	25 to 30 years
Equipment	3 to 15 years
Sewer lines	30 years

The original cost of KUB utility plants 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, 2017

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.

Derivative financial instruments - Derivative financial instruments consist of interest rate swap agreements and are accounted for at fair value in accordance with GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The City analyzes its derivative financial instruments into hedging derivative instruments and investment derivative instruments. If a derivative is classified as a hedging derivative instrument, changes in its fair value are deferred on the Statement of Net Position as either deferred inflows or deferred outflows. If a derivative is classified as an investment derivative instrument, changes in its fair value are reported on the Statement of Activities in the period in which they occur.

Arbitrage rebates - For the governmental funds arbitrage rebates due to the federal government under the internal Revenue Code of 1986, as amended, for excess earnings on invested proceeds of tax-exempt securities are reported as a liability in the Statements of Net Position and Activities and as a commitment of fund balance in the Balance Sheet - Governmental Funds. For proprietary funds (including component units) any such rebates are reflected as liabilities in the appropriate individual proprietary funds.

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 *deferred revenue* arises from amounts equal to loans receivable and other awards that are subject to grant time 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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Passenger Facility Charges - The collection of Passenger Facility Charges ("PFCs") has been approved to be used for qualifying capital improvement projects. PFCs, along with related interest earnings, are recorded as 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.

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, giving the Mayor power to resolve any issues at hand. Utilization of these funds must be reported to the City Council at the next Council meeting. In the event that the balance drops below the established minimum level, the City Council will develop a plan to replenish the Financial Stabilization Account balance to the established minimum level within four years, as established by Charter and the City's Administrative Rules. For the current fiscal year ending June 30, 2017, 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Note 19. 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.

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. 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).

The City adopted 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. See Note 22.

The City adopted GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, required for fiscal periods beginning after December 15, 2015, in fiscal 2017. This Statement amends the scope and applicability of Statement No. 68 regarding pensions provided to employees of state and local government employers through certain cost-sharing multiple-employees of state and local government employers through certain cost-sharing multiple-employer defined benefit pension plans.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City adopted GASB Statement No. 79, Certain External Investment Pools and Pool Participants, required for fiscal periods beginning after June 15, 2015, except for certain provisions effective for fiscal periods beginning after December 15, 2015, in fiscal 2016 and 2017. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants.

The City adopted GASB Statement No. 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14, required for fiscal periods beginning after June 15, 2016, in fiscal 2017. This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

The City plans to adopt GASB Statement No. 81, Irrevocable Split-Interest Agreements, required for fiscal periods beginning after December 15, 2016, in fiscal 2018. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

The City adopted GASB Statement No. 82, Pension Issues, required for fiscal periods beginning after June 15, 2016 in fiscal 2017, except for certain provisions effective for fiscal periods beginning after June 15, 2017, which the City plans to adopt in fiscal 2018. This Statement improves financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues.

The City plans to adopt GASB Statement No. 83, Certain Asset Retirement Obligations, required for fiscal periods beginning after June 15, 2018, in fiscal 2019. This Statement enhances comparability of financial statements among governments by establishing uniform criteria for recognizing and measuring certain asset retirement obligations (ARO's) and enhances the usefulness of information by requiring disclosures related to ARO's.

The City plans to adopt GASB Statement No. 84, Fiduciary Activities, required for fiscal periods beginning after December 15, 2018, in fiscal 2020. This Statement enhances consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

The City plans to adopt GASB Statement No. 85, Omnibus 2017, required for fiscal periods beginning after June 15, 2017, in fiscal 2019. This Statement enhances consistency in the application of accounting and financial reporting requirements.

The City plans to adopt GASB Statement No. 86, Certain Debt Extinguishment Issues, required for fiscal periods beginning after June 15, 2017, in fiscal 2019. This Statement enhances consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, enhances consistency in financial reporting of prepaid insurance related to extinguished debt, and enhances the usefulness of information in notes to financial statements regarded defeased debt.

The City plans to adopt GASB Statement No. 87, Leases, required for fiscal periods beginning after December 15, 2019, in fiscal 2021. This Statement increases the usefulness of financial statement by requiring reporting of certain lease liabilities that currently are not reported, enhances comparability by requiring lessees and lessors to report leases under a single model, and enhances the usefulness of information by requiring notes to the financial statements regarding leasing arrangements.

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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

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

Reconciliations between the governmental fund balance sheet and the government-wide statement of net 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.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City is required by its charter to adopt annual budgets for those operating funds that are under the direct control of City Council. This includes all governmental funds except the Miscellaneous Grants Fund, 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 2017.

General Fund	\$673,991
Special Revenue Funds	3,320,042
Enterprise Funds	7,483,169
Internal Service Funds	80,039

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, 2017**

NOTE 3 - 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	\$ 22,173,636	\$ 24,041,664	\$ 1,868,028	\$ 22,173,636	\$ 17,749,183	\$ 4,424,453
Metro Parking	4,612,720	3,964,447	(648,273)	4,612,720	3,502,975	1,109,745
Public Assembly Facilities	6,751,481	5,860,086	(891,395)	6,751,481	5,584,000	1,167,481
City Golf Courses	1,336,010	1,325,398	(10,612)	1,336,010	1,076,293	259,717
<i>Knoxville Area Transit (Component Unit)</i>						
	23,288,375	32,427,866	9,139,491	23,288,375	29,964,293	(6,675,918)
<i>Internal Service Funds</i>						
Fleet Maintenance	15,504,669	17,370,791	1,866,122	15,504,669	12,879,035	2,625,634
Risk Management	7,035,361	7,038,941	3,580	7,035,361	5,975,338	1,060,023
Employee Health Insurance	21,151,542	21,087,194	(64,348)	21,151,542	18,231,248	2,920,294
Equipment Replacement	5,329,560	6,514,410	1,184,850	5,329,560	1,615,093	3,714,467
City Buildings	1,619,650	1,502,234	(117,416)	1,619,650	1,553,019	66,631

NOTE 4 - 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 (Tennessee Local Government Investment Pool), prime commercial paper, bankers' acceptance notes and certificates of deposit. The state treasurer's investment pool (LGIP) is not registered with the Securities and Exchange Commission (SEC) but does operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. Accordingly, the City's investments in the pool have been based on the pool's share price. The City's amounts included in the pool are reported at the fair value of its position in the pool, which approximates the value of the shares of amortized cost.

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, 2017

NOTE 4 - 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 four years. As of June 30, 2017, the average weighted maturity of the City's portfolio was 183 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, 2017, the City held securities in various municipal bonds of \$37 million or approximately 9% 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - Continued

As of June 30, 2017, 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)	\$ 17,946,380	\$ 6,496,585	\$ 6,500,025	\$ 4,949,770
Private Equity Funding Corporation (PEFCO)	6,105,858	2,541,693	1,548,284	2,015,881
Federal Farm Credit Bureau (FFCB)	18,986,340	2,750,273	4,984,430	11,251,637
Federal Home Loan Mortgage Corporation (FHLMC)	4,985,750		1,995,120	2,990,630
Financing Corporation (FICO) STRIPS	1,525,120	1,525,120		
Tennessee Valley Authority	8,541,465	1,023,360	7,035,700	482,405
Other Governmental Bonds	51,253,633	15,782,310	14,471,343	20,999,980
Certificates of Deposit	13,566,431	6,444,736	5,369,447	1,752,248
Bankers Acceptance	5,206,666	5,206,666		
Corporate Equities	248,791	248,791	-	-
Tennessee Local Government Investment Pool	<u>274,977,582</u>	<u>274,977,582</u>	<u>-</u>	<u>-</u>
	<u>\$ 403,344,016</u>	<u>\$ 316,997,116</u>	<u>\$ 41,904,349</u>	<u>\$ 44,442,551</u>
Fiduciary Activities:				
Tennessee Local Government				
Investment Pool	<u>\$ 519,399</u>	<u>\$ 519,399</u>	<u>\$ -</u>	<u>\$ -</u>

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

Deposits and investments of component units 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:

Deposits:	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City Employees' Pension Trust Fund</u>
Bank balances	\$ 94,704,301	\$ 16,230,289	\$ 3,376,699	\$ 1,163
Carrying amounts:				
Deposits (net of outstanding checks) in financial institutions	\$ 78,995,536	\$ 16,230,289	\$ 3,376,699	\$ 1,163
Certificates of deposit	15,708,765	-	-	-
Total deposits - carrying value	<u>\$ 94,704,301</u>	<u>\$ 16,230,289</u>	<u>\$ 3,376,699</u>	<u>\$ 1,163</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 4 - DEPOSITS AND INVESTMENTS - Continued

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	\$ -	\$ -	\$ -	\$ 11,841,427	\$ 11,841,427	\$ 11,841,427
United States government securities	126,746,224	38,902,166	-	48,441,831	214,090,221	214,090,221
Domestic equity securities	-	-	-	128,064,436	128,064,436	128,064,436
Corporate bonds	-	-	-	61,352,072	61,352,072	61,352,072
State and municipal government securities	-	-	-	1,126,103	1,126,103	1,126,103
Real estate investment trusts	-	-	-	84,806,252	84,806,252	84,806,252
Alternative assets	-	-	-	50,430,624	50,430,624	50,430,624
International securities	-	-	-	184,945,776	184,945,776	184,945,776
Total classified investments	126,746,224	38,902,166	-	571,008,521	736,656,911	736,656,911
Investments not categorized:						
Investments in state treasurer's investment pool	1,501,570	-	999,701	-	2,501,271	2,501,271
Total investments	\$ 128,247,794	\$ 38,902,166	\$ 999,701	\$ 571,008,521	\$ 739,158,182	\$ 739,158,182
Total deposits and investments	\$ 222,952,095	\$ 55,132,455	\$ 4,376,400	\$ 571,009,684		

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	\$ 78,955,536	\$ 14,985,568	\$ 3,376,699	\$ 1,163
Investments	113,449,938	38,902,166	999,701	571,008,521
Unused bond proceeds	-	1,244,721	-	-
Bond funds	30,864,965	-	-	-
Other temporarily restricted assets	31,434	-	-	-
	223,301,873	55,132,455	4,376,400	571,009,684
Less accrued interest	(349,778)	-	-	-
Total deposits and investments	<u>\$ 222,952,095</u>	<u>\$ 55,132,455</u>	<u>\$ 4,376,400</u>	<u>\$ 571,009,684</u>

GASB Statement No. 72, Fair Value Measurement and Application, categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs are inputs - other than quoted prices included in Level 1 - that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability.

The input levels are not applicable to the City's investment in the Tennessee Local Government Investment Pool (LGIP) as investments are reported at amortized cost.

The remaining investments of the primary government which are comprised of investments in U.S. Government Agencies, other government bonds, certificates of deposit and corporate equities, are valued by the City as Level 1 inputs. Similarly, these investments can be valued from quoted prices (unadjusted) to identical assets or liabilities in active markets that a government can access at the measurement date. The City's investment in certain municipal bonds are valued as Level 2 inputs. Investments are made on behalf of the respective departments of the City.

Additional investment disclosures for the Pension System can be found in its separate financial statements.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - FAIR VALUE MEASUREMENT

As discussed in Note 1, the City of Knoxville Pension System (System) is included in the City's CAFR as a pension trust fund, which is a fiduciary fund of the City. The System holds a significant amount of investments that are measured at fair value on a recurring basis.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Descriptions of the valuation methodologies used for each category of investment measured at fair value are listed below as they appear in the fair value table.

The City has the following recurring fair value measurements as of June 30, 2017:

	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary Government:				
Investments by Fair Value Level				
Debt Securities:				
U.S. Government Agencies	\$ 58,090,913	\$ 58,090,913	\$ -	\$ -
State and Municipal Bonds	51,253,633	14,005,910	37,247,723	-
Bankers Acceptance	5,206,666	5,206,666	-	-
Equity Securities	248,791	248,791	-	-
Certificates of Deposit	13,566,431	13,566,431	-	-
	<u>\$ 128,366,434</u>	<u>\$ 91,118,711</u>	<u>\$ 37,247,723</u>	<u>\$ -</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - FAIR VALUE MEASUREMENT - Continued

	Fair Value Measurements Using			
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Fiduciary Activities:</u>				
Investments by Fair Value Level				
Debt Securities:				
U.S. Treasury Securities	\$ 28,052,771	\$ 28,052,771	\$ -	\$ -
U.S. Government Backed Securities	2,174,734	2,174,734	-	-
Commercial Mortgage-Backed Securities	2,920,695	-	2,920,695	-
Asset Backed Securities	2,568,412	-	2,568,412	-
Residential Mortgage-Backed Securities	8,564,032	-	8,564,032	-
Corporate Bonds	62,120,803	34,236,406	27,884,397	-
Municipal Bonds	1,175,666	1,175,666	-	-
TIPS	12,597,263	12,597,263	-	-
Mutual Funds:				
Global Fixed Income	15,787,288	-	15,787,288	-
Total Debt Securities	135,961,664	78,236,840	57,724,824	-
Equity Securities:				
Consumer Discretionary	15,286,551	15,286,551	-	-
Consumer Staples	2,790,954	2,790,954	-	-
Energy	3,577,963	3,577,963	-	-
Financials	19,745,197	19,745,197	-	-
Healthcare	6,067,051	6,067,051	-	-
Industrials	3,486,088	3,486,088	-	-
Information Technology	15,519,058	15,519,058	-	-
Materials	2,857,444	2,857,444	-	-
Reit Financials	1,718,511	1,718,511	-	-
Telecommunications Services	798,693	798,693	-	-
Utilities	827,306	827,306	-	-
Mutual Funds:				
Large Cap Growth	43,366,213	43,366,213	-	-
Total Equity Securities	\$ 116,041,029	\$ 116,041,029	\$ -	\$ -

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - FAIR VALUE MEASUREMENT - Continued

	June 30, 2017	Fair Value Measurements Using (Continued)		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Private Equity:				
Debt	\$ 4,321,213	\$ -	\$ -	\$ 4,321,213
Diversified	3,303,047	-	-	3,303,047
Energy	11,598,873	-	-	11,598,873
International	1,920,850	-	-	1,920,850
Secondary Markets	3,921,011	-	-	3,921,011
Venture Capital	4,023,827	-	-	4,023,827
Total Private Equity	<u>\$ 29,088,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,088,821</u>
Total Investments by fair value level	<u>\$ 281,091,314</u>	<u>\$ 194,277,869</u>	<u>\$ 57,724,824</u>	<u>\$ 29,088,821</u>
Investments measured at the net asset value (NAV)				
Multi-strategy Hedge Fund	13,618,670			
Real Estate Funds	45,284,634			
International Equities	132,702,091			
Master Limited Partnerships	26,454,149			
Risk Parity	36,812,129			
International - Emerging Market Debt	<u>24,599,332</u>			
Total investment measured at the NAV	<u>279,471,005</u>			
Total investments measured at fair value	560,562,319			
Cash held by money managers	11,307,993			
Total Investment Assets	<u>\$ 571,870,312</u>	(1)		

(1) - Total investment assets presented in the fair value table include pending items and accruals

Debt Securities - Actively traded debt instruments such as those securities issued by the U.S. Treasury, Federal Agencies and most corporate issuers are reported at fair value as of the close of the trading date. Fair values in irregular traded debt securities are obtained from pricing vendors who employ modeling techniques in determining security values. Inputs typically employed by pricing vendors include cash flows, maturity and credit rating. Corporate bonds, mortgage-backed securities and asset-backed securities classified as Level 2 are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Mutual Funds - Equities mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the System are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value and to transact at the price. These mutual funds are deemed to be actively traded.

Equities - Equities held by the System consist of domestic, international and global securities, including those traded in emerging markets and are actively traded on major security exchanges or over-the-counter. Fair value for exchange traded securities is determined as of the close of the trading date in the primary market or agreed upon exchange. The last known price is used for listed securities that did not trade on a particular date. Fair value is obtained from third party pricing sources for securities trade over-the-counter.

Private Equities - The fair value of the System's various private equities depends upon the nature of the investment and the underlying business. Typically, the alternative investments are less liquid and subject to redemption restrictions which will further in the next section. Fair value is determined either quarterly with valuations conducted by general partners, management and valuation specialists. Valuation techniques vary by investment type and involve expert judgment.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - FAIR VALUE MEASUREMENT - Continued

Investments Measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Multi-strategy Hedge Fund	\$ 13,618,670	\$ -	Semi-annual	95 days
Real Estate Funds	45,284,634	-	Quarterly, Daily	45 days, 1 day
International Equities	132,702,091	-	Monthly	10 - 30 days
Master Limited Partnerships	26,454,149	-	Daily	3 days
Risk Parity	36,812,129	-	Monthly	3 days
International - Emerging Market Debt	24,599,332	-	Monthly	3 days
Total investment measured at the NAV	<u>\$ 279,471,005</u>	<u>\$ -</u>		
Private Equity:				
Debt	\$ 4,321,213	\$ 5,350,000		
Diversified	3,303,047	554,200		
Energy	11,598,673	1,861,196		
International	1,920,850	3,208,083		
Secondary Markets	3,921,011	7,835,000		
Venture Capital	4,023,827	906,807		
Total Private Equity	<u>\$ 29,088,621</u>	<u>\$ 19,715,286</u>		

Multi-Strategy Hedge Fund - The System has one manager which is a fund of smaller funds that invests in several dozen hedge fund strategies where each underlying hedge fund strategy can have varying focus or investment style. Fair values of the portfolios, determined using the NAV per share and are adjusted monthly, but fully reevaluated semi-annually. Proceeds from the fund can only be drawn at the semi-annual valuation. The goal of this investment is to provide growth to the portfolio that is uncorrelated to traditional stock and bond investing.

Real Estate - This type includes two managers that invest in commercial real estate properties all across the United States. The System's investment managers will look to buy entire properties in hopes of improving their overall offering, increasing both its rental income and ultimate selling price. Depending on the particular investment fund, fair values of the portfolios are determined either daily or quarterly and proceeds are only able to be added or withdrawn at this time. The fair value of real estate investments, principally rental property subject to long-term leases has been estimated on the basis of future rental receipts and estimated residual values discounted at interest rates commensurate with the risks involved. The goal of these investments is to provide a high degree of yield from rental incomes and some growth from capital appreciation.

International equities - This type of investment consists of three managers that invest in non-U.S. publicly-traded companies. Each investment manager will have its own individual restrictions on countries and industry sectors they are allowed to invest in as well as permissible size of each investment. Fair values of the portfolios are determined each month using the NAV per share of the investment, and proceeds are only able to be added or withdrawn at this time. The goal of these investments is to provide growth for the portfolio as well as diversification away from the United States.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 5 - FAIR VALUE MEASUREMENT - Continued

Master Limited Partnerships - This investment type consists of one manager that invests in publicly-traded companies that own infrastructure that is used to transport various energy products across the U.S. These companies set long-term contracts with energy producers/extractors and charge based on volume of energy that passes through their infrastructure. Fair value of this portfolio is determined daily using the NAV per share of the investment subject to long-term contract values as estimated on the basis of future expected production and estimated residual values discounted at interest rates commensurate with the risks involved. Proceeds are only able to be added or withdrawn on a monthly basis. The goal of these investments is to provide growth and a diversification away from many aspects of the traditional economic cycle.

Risk Parity - This investment type consists of one manager and is broken down into three components- stocks, bonds, and inflation. It invests in different securities for each segment and sizes each security in a way that the manager believes will give the overall portfolio approximately equal exposure to each segment. The key is not an equal allocation weight to each segment but an allocation where each segment's performance should have an equal effect on overall portfolio performance. Fair values of the portfolios are determined each month using the NAV per share (or its equivalent) of the investment, and proceeds are only able to be added or withdrawn at this time. The goal of this investment is to provide growth to the portfolio by diversification from the traditional stock and bond investing.

Emerging Market Debt – This type of investment consists of one manager who invests in both government and corporate bonds issued in emerging market countries. These issues tend to have lower credit quality than their counterparts in the U.S. and developed world, so these securities typically offer a higher premium and interest rate. The System also has exposure to the emerging market country currencies through these investments. Fair values of the portfolios are determined each month using the NAV per share (or its equivalent) of the investment, and proceeds are only able to be added or withdrawn at this time. The goal of these investments is to provide growth from higher yields for the portfolio as well as diversification away from the United States.

Fair value levels for the City's component units can be found in their respective individual financial statements.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2017, 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	\$ 793,522	\$ 262,521	\$ 10,134	\$ 156,647	\$ 12	\$ -	\$ 1,222,836
Debt service fund	-	173,133	-	-	-	-	173,133
Capital projects fund	-	486,033	4,133,204	-	-	-	4,619,237
Special revenue funds:							
Miscellaneous community development funds	-	-	28,295	-	-	-	28,295
Other governmental funds	870,331	1,365	1,440,093	14,732	20,259	-	2,346,780
Knoxville Convention Center	1,641,323	37,762	-	-	1,083,176	-	2,762,261
Other enterprise funds	-	-	305,379	167,184	-	-	472,563
Internal service funds	-	106,594	-	116,350	-	-	222,944
Total primary government	3,305,176	1,067,408	5,917,105	454,913	1,103,447	-	11,848,049
Component units:							
Knoxville Utilities Board	6,022,815	78,019	-	70,879,874	4,206,592	(652,627)	80,534,673
Metropolitan Knoxville Airport Authority	-	58,860	6,185,775	1,738,256	-	-	7,982,891
Knoxville Area Transit	-	-	10,146,117	-	-	-	10,146,117
Total reporting entity	<u>\$ 9,327,991</u>	<u>\$ 1,204,287</u>	<u>\$ 22,248,997</u>	<u>\$ 73,073,043</u>	<u>\$ 5,310,039</u>	<u>\$ (652,627)</u>	<u>\$ 110,511,730</u>
Fiduciary Activities:							
City Employees' Pension Trust Fund	\$ -	\$ 1,399,857	\$ -	\$ -	\$ 2,751	\$ -	\$ 1,402,608
Combined Agency Funds	-	-	263,408	-	-	-	263,408
Total fiduciary activities	<u>\$ -</u>	<u>\$ 1,399,857</u>	<u>\$ 263,408</u>	<u>\$ -</u>	<u>\$ 2,751</u>	<u>\$ -</u>	<u>\$ 1,666,016</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 7 - NOTES AND LEASES RECEIVABLE

Notes and leases receivable consisted of the following:

Governmental Funds:	
Notes Receivable	
General Fund	\$ 1,207,267
Debt Service Fund	117,648
Special Revenue Fund - Miscellaneous Community Development Funds	12,339,587
Other Governmental Funds -	
Community Development Block Grant Funds	2,268,231
Miscellaneous Special Revenue Funds	<u>2,900,000</u>
 Total Notes Receivable	 <u>\$ 18,832,733</u>

The \$117,648 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 \$12,339,587 due to the Miscellaneous to Community Development Funds and the \$5,168,231 due to the Other Governmental Funds are notes due to the City that were funded by Federal Community Development grant programs. The combined amount of \$17,507,818 is included in deferred inflows of resources.

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2052. As of June 30, 2017, minimum future base rentals to be received on noncancellable leases are as follows:

<u>Year Ended June 30,</u>	
2018	\$ 9,932,557
2019	5,552,721
2020	2,020,669
2021	1,346,450
2022	861,212
Thereafter	<u>13,566,845</u>
 Total	 <u>\$33,280,454</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 \$573,000 are included in other noncurrent assets in the accompanying statement of net position as of June 30, 2017. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$2,697,925 for the year ended June 30, 2017.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Primary Government				
Governmental activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 83,759,454	\$ 441,595	\$ -	\$ 84,201,049
Artwork	-	37,819	-	37,819
Construction in progress	45,781,398	23,295,413	(37,797,587)	31,279,224
Total nondepreciable capital assets	<u>129,540,852</u>	<u>23,774,827</u>	<u>(37,797,587)</u>	<u>115,518,092</u>
<i>Depreciable:</i>				
Buildings and building improvements	54,340,207	19,316,807	-	73,657,014
Equipment, furniture and fixtures	93,558,328	13,618,531	(6,406,158)	100,770,701
Infrastructure and site improvements	343,698,260	35,387,589	-	379,085,849
Total depreciable capital assets	<u>491,596,795</u>	<u>68,322,927</u>	<u>(6,406,158)</u>	<u>553,513,564</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(35,609,865)	(2,110,809)	-	(37,720,674)
Equipment, furniture and fixtures	(66,794,519)	(6,895,666)	6,240,188	(67,449,997)
Infrastructure and site improvements	(192,017,827)	(11,784,586)	-	(203,802,413)
Total accumulated depreciation	<u>(294,422,211)</u>	<u>(20,791,061)</u>	<u>6,240,188</u>	<u>(308,973,084)</u>
Total depreciable capital assets, net	<u>197,174,584</u>	<u>47,531,866</u>	<u>(165,970)</u>	<u>244,540,480</u>
Governmental activities capital assets, net	<u>\$ 326,715,436</u>	<u>\$ 71,306,693</u>	<u>\$ (37,963,557)</u>	<u>\$ 360,058,572</u>
Business-type activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 7,336,303	\$ -	\$ -	\$ 7,336,303
Artwork	764,875	-	-	764,875
Construction in progress	2,141,783	2,567,841	(2,692,564)	2,017,060
Total nondepreciable capital assets	<u>10,242,961</u>	<u>2,567,841</u>	<u>(2,692,564)</u>	<u>10,118,238</u>
<i>Depreciable:</i>				
Buildings and building improvements	231,402,425	3,975,396	-	235,377,821
Equipment, furniture and fixtures	7,000,504	793,124	-	7,793,628
Infrastructure and site improvements	1,003,574	-	-	1,003,574
Total depreciable capital assets	<u>239,406,503</u>	<u>4,768,520</u>	<u>-</u>	<u>244,175,023</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(100,969,835)	(5,732,875)	-	(106,702,710)
Equipment, furniture and fixtures	(5,278,437)	(306,242)	-	(5,584,679)
Infrastructure and site improvements	-	(50,912)	-	(50,912)
Total accumulated depreciation	<u>(106,248,272)</u>	<u>(6,090,029)</u>	<u>-</u>	<u>(112,338,301)</u>
Total depreciable capital assets, net	<u>133,158,231</u>	<u>(1,321,509)</u>	<u>-</u>	<u>131,836,722</u>
Business-type activities capital assets, net	<u>\$ 143,401,192</u>	<u>\$ 1,246,332</u>	<u>\$ (2,692,564)</u>	<u>\$ 141,954,960</u>
Fiduciary activities:				
Knoxville Employees' Pension Plan				
<i>Depreciable: Equipment, furniture and fixtures</i>	\$ 32,673	\$ 1,131	\$ -	\$ 33,804
<i>Accumulated Depreciation</i>	(24,394)	(3,355)	-	(27,749)
Total Knoxville Employees' Pension Plan	<u>\$ 8,279</u>	<u>\$ (2,224)</u>	<u>\$ -</u>	<u>\$ 6,055</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 8 - CAPITAL ASSETS - Continued

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

Governmental Activities

General	\$ 2,537,981
Public Safety	5,819,384
Physical Environment	11,945,864
Economic Development	39,123
Parks and Recreation	243,719
Health and Sanitation	<u>204,990</u>
	<u>\$20,791,061</u>

Business-type Activities

Knoxville Convention Center	\$4,189,868
Metro Parking	1,099,423
Public Assembly Facilities	568,248
Municipal Golf Courses	<u>56,678</u>
	<u>\$5,914,217</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 8 - CAPITAL ASSETS - Continued

Capital asset activity for component units for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Component Units				
Knoxville Utilities Board				
<i>Nondepreciable: Construction in Progress</i>	\$ 143,206,489	\$ 154,828,582	\$ (156,272,025)	\$ 141,763,046
<i>Depreciable:</i>				
Pumping and treatment plant	298,716,387	10,152,622	(2,923,971)	305,945,038
Distribution & collection plant	1,930,094,548	131,777,255	(24,015,244)	2,037,856,559
General plant	168,612,148	14,760,666	(4,766,726)	178,606,088
Total depreciable assets	2,397,423,083	156,690,543	(31,705,941)	2,522,407,685
Accumulated depreciation	(797,524,421)	(74,213,237)	32,859,866	(838,877,792)
Total depreciable capital assets, net	1,599,898,662	82,477,306	1,153,925	1,683,529,893
Total Knoxville Utilities Board	\$ 1,743,105,151	\$ 237,305,888	\$ (155,118,100)	\$ 1,825,292,939
Metropolitan Knoxville Airport Authority				
<i>Nondepreciable:</i>				
Land	\$ 38,515,825	\$ 342,575	\$ -	\$ 38,858,400
Construction in progress	19,608,181	35,386,104	(3,657,155)	51,337,130
Total nondepreciable capital assets	58,124,006	35,728,679	(3,657,155)	90,195,530
<i>Depreciable:</i>				
Land improvements	117,514,091	57,430	-	117,571,521
Buildings and building improvements	167,985,132	3,094,259	(713,683)	170,365,708
Equipment, furniture and fixtures	13,884,247	1,556,019	(446,709)	14,993,557
Total depreciable capital assets	299,383,470	4,707,708	(1,160,392)	302,930,786
<i>Accumulated depreciation:</i>				
Land improvements	(85,959,918)	(2,958,368)	-	(88,918,286)
Buildings and building improvements	(97,241,264)	(5,890,515)	713,683	(102,418,096)
Equipment, furniture and fixtures	(9,448,418)	(669,194)	419,805	(9,697,807)
Total accumulated depreciation	(192,649,600)	(9,518,077)	1,133,488	(201,034,189)
Total depreciable capital assets, net	106,733,870	(4,810,369)	(26,904)	101,896,597
Total Metropolitan Knoxville Airport Authority	\$ 164,857,876	\$ 30,918,310	\$ (3,684,059)	\$ 192,092,127
Knoxville Area Transit				
<i>Nondepreciable:</i>				
Land	\$ 2,314,836	\$ -	\$ (115,600)	\$ 2,199,236
Artwork	49,000	-	-	49,000
Construction in progress	159,941	282,373	(442,314)	-
Total nondepreciable capital assets	2,523,777	282,373	(557,914)	2,248,236
<i>Depreciable:</i>				
Buildings and building improvements	32,637,878	-	-	32,637,878
Infrastructure and site improvements	-	557,914	-	557,914
Equipment, vehicles, furniture and fixtures	31,639,350	4,536,752	(855,348)	35,320,754
Total depreciable capital assets	64,277,228	5,094,666	(855,348)	68,516,546
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(8,805,194)	(1,034,432)	-	(9,839,626)
Infrastructure and site improvements	-	3,854	-	3,854
Equipment, vehicles, furniture and fixtures	(17,123,537)	(2,291,727)	855,348	(18,559,916)
Total accumulated depreciation	(25,928,731)	(3,322,305)	855,348	(28,395,688)
Total depreciable capital assets, net	38,348,497	1,772,361	-	40,120,858
Total Knoxville Area Transit	\$ 40,872,274	\$ 2,054,734	\$ (557,914)	\$ 42,369,094

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 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>	\$ 2,906,222	\$ 110,620	\$ 2,795,602	\$ 3,875,000	\$ -
<i>Special Revenue Fund:</i>					
Community Development Block Grant	-	59,000	(59,000)	-	-
Abandoned Vehicles	-	745,000	(745,000)	-	-
City Inspections	-	7,500	(7,500)	-	-
City Court	-	575,000	(575,000)	-	-
Miscellaneous Grants	5,000	1,214,500	(1,209,500)	-	-
Miscellaneous Special Revenue	160,000	240,272	(80,272)	-	-
Storm Water	-	5,500	(5,500)	-	-
Solid Waste	-	330	(330)	-	-
Miscellaneous Community Development Funds	500,000	62,000	438,000	-	-
<i>Capital Projects Fund</i>	180,000	180,000	-	-	-
<i>Internal Service Funds:</i>					
Fleet Maintenance	-	4,000	(4,000)	-	-
Risk Management	-	501,500	(501,500)	-	-
Health Insurance	30,178	-	30,178	-	-
Total governmental activities	<u>\$ 3,781,400</u>	<u>\$ 3,705,222</u>	<u>\$ 76,178</u>	<u>\$ 3,875,000</u>	<u>\$ -</u>
Business-Type Activities					
Knoxville Convention Center	1,180,000	115,000	1,065,000	-	-
Public Assembly Facilities	40,000	950,000	(910,000)	-	-
Metro Parking	350,000	356,000	(6,000)	-	-
Municipal Golf Courses	655,000	365,000	290,000	-	-
Total business-type activities	<u>2,225,000</u>	<u>1,786,000</u>	<u>439,000</u>	<u>-</u>	<u>-</u>
Fiduciary Funds					
City Choice Plus Fund	-	515,178	(515,178)	-	-
	-	515,178	(515,178)	-	-
Component Units:					
Knoxville Area Transit	-	-	-	-	3,875,000
	<u>\$ 6,006,400</u>	<u>\$ 6,006,400</u>	<u>\$ -</u>	<u>\$ 3,875,000</u>	<u>\$ 3,875,000</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM DEBT

Bonds and note payable at June 30, 2017, are comprised of the following issues:

	<u>General Obligation Bonds and Note Payable</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
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	\$ -	\$ 10,260,000	\$ 10,260,000
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%	4,085,000	-	4,085,000
General Obligation Refunding Bonds Series 2012 maturing through 2025 at varying rates of interest ranging from 1.0% to 5.0%	21,031,640	35,318,360	56,350,000
General Obligation Bonds Series 2014 maturing through 2034 at varying rates of interest ranging from 2.8% to 3.2%	<u>29,300,000</u>	<u>-</u>	<u>29,300,000</u>
Total General Obligation Bonds	54,416,640	105,548,360	159,965,000
HUD Section 108 Promissory Note maturing through 2036 bearing interest at LIBOR plus 20 basis points.	<u>2,900,000</u>	<u>-</u>	<u>2,900,000</u>
Total Primary Government	<u>\$ 57,316,640</u>	<u>\$ 105,548,360</u>	<u>\$ 162,865,000</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM DEBT - Continued

	Revenue Bonds
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%	\$ 265,795,000
Water Revenue Bonds Series S to CC maturing through 2050 at varying rates of interest ranging from 2.0% to 5.5%	164,635,000
Gas Revenue Bonds Series L to U, maturing through 2050 at varying rates of interest ranging from 2.0% to 6.2%	107,220,000
Waste Water Revenue Bonds Series 2005 B, 2008, 2010 2010C, 2012A, 2012B, 2013A, 2014A, 2015A, 2015B maturing through 2047 at varying rates of interest ranging from 1.18% to 6.5%	499,850,000
	\$ 1,037,500,000
<i>Metropolitan Knoxville Airport Authority:</i>	
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. \$16,950,000 bears interest at a synthetic rate of 3.13%. The remaining principal bears interest at a variable rate (0.92% at June 30, 2017)	\$ 56,520,000
Airport Revenue Refunding Note Series 2017A, maturing through 2026, bearing a fixed interest rate of 1.95%	11,000,000
	\$ 67,520,000

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, 2017, these requirements had been satisfied.

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

Primary Government	General Obligation Bonds and Note Payable			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 4,742,180	\$ 1,788,615	\$ 5,357,820	\$ 3,642,039
2019	4,946,980	1,617,422	5,558,020	3,399,802
2020	5,411,380	1,383,073	5,838,620	3,210,896
2021	4,658,420	1,192,867	5,631,580	2,950,070
2022	4,974,660	968,446	5,920,340	2,929,984
2023-2027	16,793,020	3,226,075	33,546,980	16,157,689
2028-2032	10,700,000	1,620,688	43,695,000	7,943,400
2033-2036	5,090,000	213,438	-	424,575
	57,316,640	\$ 12,010,624	105,548,360	\$ 40,658,455
Unamortized premium	3,950,947		1,075,065	
Total	\$ 61,267,587		\$ 106,623,425	

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM DEBT - Continued

Component Units	Revenue Bonds and Local Gov't Public Improvement Bonds	
	Principal	Interest
2018	\$ 39,180,000	\$ 40,151,907
2019	40,390,000	39,058,860
2020	42,085,000	37,534,264
2021	43,820,000	35,924,511
2022	45,885,000	34,166,607
2023-2027	243,515,000	144,669,623
2028-2032	205,995,000	105,968,848
2033-2037	163,750,000	73,703,315
2038-2042	170,100,000	42,256,045
2043-2047	102,475,000	11,490,950
2048-2050	7,825,000	552,150
	<u>\$ 1,105,020,000</u>	<u>\$ 565,477,080</u>

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, 2017, is \$10,260,000.

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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 10 - LONG-TERM DEBT - Continued

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2017, 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	\$ 10,260,000	12/16/2009	3.955%	70% of 1 Month LIBOR	\$ (589,087)	6/1/2020	A2

Fair Value - As of June 30, 2017, the swap had a negative fair value of \$589,087. 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.

The current notional and fair value amounts of the outstanding swap as of June 30, 2017, were as follows:

<u>Associated Debt Issue</u>	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2017</u>		<u>June 30, 2017</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional Amount</u>
Business -Type Activities Hedging Derivative Loan Payable to the Public Building Authority of Sevier County - Series VI-L1	Deferred Outflow of Resources	\$ 596,666	Debt	\$ (589,087)	\$ 10,260,000

Credit Risk - As of June 30, 2017, 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, 2017, 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. 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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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,” 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, 2017, 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.

For the year ending June 30,	Principal	Interest	Net Interest Rate Swap Payment	Total
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>\$ 10,260,000</u>	<u>\$ 937,125</u>	<u>\$ (60,500)</u>	<u>\$ 11,136,625</u>

Component units

Metropolitan Knoxville Airport Authority

Objective of the Interest Rate Swap - 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 an interest rate swap. The intention of the swap 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 swap as of June 30, 2017, 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 V-A-1	\$16,950,000	6/28/2001	4.36%	62.5% of 5 Year LIBOR	6/1/2021

Terms - The notional amounts of the swap matches principal amounts of the associated debt. Except as discussed under rollover risk, the Authority’s swap agreement contains 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 swap was 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 - LONG-TERM DEBT - Continued

Investment Derivative Instrument Risks

The Authority has an investment derivative associated with the Series V-A-1 bond. Accordingly, the \$923,380 decrease in its fair value in fiscal year 2017 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 \$1,191,256 has been reported as a long-term liability at June 30, 2017.

Credit risk: As of June 30, 2017, 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 swap counterparty, Raymond James Financial Products, Inc. was rated Baa2/BBB+ by Moody's and Standard & Poor's, respectively, as of June 30, 2017, with its Credit Support Provider, Deutsche Bank, rated Baa2/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, 2017, 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.

For the year ending June 30,	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, net	
2018	\$ 5,125,000	\$ 729,073	\$ 518,537	\$ 6,372,610
2019	5,350,000	669,491	394,589	6,414,080
2020	5,580,000	607,480	264,646	6,452,126
2021	5,825,000	543,076	128,268	6,496,344
2022	6,190,000	475,951	-	6,665,951
Thereafter	39,450,000	1,334,624	-	40,784,624
	<u>\$ 67,520,000</u>	<u>\$ 4,359,695</u>	<u>\$ 1,306,040</u>	<u>\$ 73,185,735</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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. 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, 2016 these bonds became subject to a 6.9 percent 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. KUB's Electric Division also issued Series DD 2014 and Series FF 2015 to fund electric system capital improvements. During fiscal year 2017, KUB's Electric Division issued Series GG 2016 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series HH 2017 bonds to retire a portion of outstanding Series W 2005 bonds as follows. On April 7, 2017, \$23.5 million in revenue refunding bonds with an average interest rate of 4.1 percent were issued to advance refund \$25.5 million of outstanding bonds with an average interest rate of 4.6 percent. The net proceeds of \$26.1 million (after payment of \$0.2 million in issuance costs plus premium of \$2.5 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 11 years by \$3.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2.8 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, \$53 million at June 30, 2017, 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 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, 2016, these bonds became subject to a 6.9 percent 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, 2017**

NOTE 10 - LONG-TERM DEBT - Continued

bonds to retire Series N 2007 outstanding bonds. During fiscal year 2017, KUB's Gas Division issued Series V 2016 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series W 2017 bonds to retire outstanding Series L 2005 bonds as follows. On April 7, 2017, \$8.1 million in revenue refunding bonds with an average interest rate of 5 percent were issued to currently refund \$9.3 million of outstanding bonds with an average interest rate of 4.4 percent. The net proceeds of \$9.4 million (after payment of \$0.1 million in issuance costs plus premium of \$1.3 million and an additional issuer equity contribution of \$0.1 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 10 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.

During fiscal year 2006, KUB's Water Division 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. KUB's Water Division also issued Series AA 2014 and Series CC 2015 bonds to fund water system capital improvements. During fiscal year 2017, KUB's Water Division issued Series DD 2016 bonds to fund water system capital improvements. KUB's Water Division also issued Series EE 2016 bonds to retire a portion of outstanding Series U 2009 bonds as follows. On August 5, 2016, \$20.9 million in revenue refunding bonds with an average interest rate of 2.5 percent were issued to advance refund \$19.9 million of outstanding bonds with an average interest rate of 4.18 percent. The net proceeds of \$22 million (after payment of \$0.3 million in issuance costs plus premium of \$1 million and an additional issuer equity contribution of \$0.4 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 \$2.5 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2.2 million. KUB's Water Division also issued Series FF 2017 bonds to retire outstanding Series S 2005 bonds as follows. On April 7, 2017, \$5.3 million in revenue refunding bonds with an average interest rate of 4.1 percent were issued to currently refund \$5.8 million of outstanding bonds with an average interest rate of 4.3 percent. The net proceeds of \$5.9 million (after payment of \$0.1 million in issuance costs plus premium of \$0.6 million and an additional issuer equity contribution of \$0.1 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 10 years by \$0.7 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$0.6 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, \$19.9 million at June 30, 2017, and the trust account assets are not included in the financial statements.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 10 - LONG-TERM DEBT - Continued

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, 2016, these bonds became subject to a 6.9 percent 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 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 received from the United States Government for each interest payment. Effective October 1, 2016, these bonds became subject to a 6.9 percent 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. KUB's Wastewater Division also issued Series 2014A and Series 2015B bonds to fund wastewater system capital improvements. During fiscal year 2017, KUB's Wastewater Division issued Series 2016 bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2017A bonds to retire outstanding Series 2005B bonds as follows. On April 7, 2017, \$12 million in revenue refunding bonds with an average interest rate of 4.4 percent were issued to currently refund \$13.2 million of outstanding bonds with an average interest rate of 4.3 percent. The net proceeds of \$13.2 million (after payment of \$0.1 million in issuance costs plus premium of \$1.3 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 10 years by \$1.4 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.3 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, \$15.7 million at June 30, 2017, and the trust account assets are not included in the financial statements.

Metropolitan Knoxville Airport Authority

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017:

	Balance June 30, 2016	Additions and Transfers	Reductions and Transfers	Balance June 30, 2017	Due Within One Year
Primary Government					
<i>Government Activities:</i>					
General obligation bonds	\$ 59,414,400	\$ -	\$ 4,997,760	\$ 54,416,640	\$ 4,742,180
Add unamortized amounts for issuance premium:	4,519,893	-	568,946	3,950,947	568,946
	63,934,293	-	5,566,706	58,367,587	5,311,126
HUD section 108 promissory note	825,000	2,075,000	-	2,900,000	-
Estimated claims liability	17,600,000	2,313,218	2,313,218	17,600,000	5,100,000
Compensated absences payable	9,741,990	6,728,353	8,152,892	8,317,451	8,134,559
Net pension liability	170,321,787	70,412,169	28,170,337	212,563,619	-
Net other postemployment benefit obligation	-	515,503	-	515,503	-
Total governmental activities long-term liabilities	<u>\$ 262,423,070</u>	<u>\$ 82,044,243</u>	<u>\$ 44,203,153</u>	<u>\$ 300,264,160</u>	<u>\$ 18,545,685</u>
<i>Business-type Activities:</i>					
General obligation bonds	\$ 110,705,600	\$ -	\$ 5,157,240	\$ 105,548,360	\$ 5,357,820
Add unamortized amounts for issuance premium:	1,210,982	-	135,917	1,075,065	135,917
	111,916,582	-	5,293,157	106,623,425	5,493,737
Compensated absences payable	4,405	17,057	16,719	4,743	4,743
Net pension liability	1,766,645	349,609	2,116,254	-	-
Derivative instrument - interest rate swaps	1,185,753	-	596,666	589,087	-
Total business-type activities long-term liabilities	<u>\$ 114,873,385</u>	<u>\$ 366,666</u>	<u>\$ 8,022,796</u>	<u>\$ 107,217,255</u>	<u>\$ 5,498,480</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 \$164,559 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, 2017

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, 2017, principal and interest payments on all debt issues were approximately 12% of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately \$221 million, based on market interest rates effective on June 30, 2017.

	Balance June 30, 2016	Additions and Transfers	Reductions and Transfers	Defeased	Balance June 30, 2017	Due Within One Year
Component Units						
<i>Knoxville Utilities Board:</i>						
Revenue bonds	\$ 976,430,000	\$ 166,660,000	\$ 31,900,000	\$ 73,690,000	\$ 1,037,500,000	\$ 34,055,000
Other long-term liabilities:						
TVA conservation program	8,412,853	469,575	2,646,367	-	6,236,061	1,500,000
Compensated absences	9,061,226	15,234,380	15,221,328	-	9,074,278	3,000,000
Customer advances for construction	2,247,599	2,267,651	1,220,054	-	3,295,196	17,000
Other	303,673	193,396	372,292	-	124,777	35,000
Total Knoxville Utilities Board	<u>996,455,351</u>	<u>184,825,002</u>	<u>51,360,041</u>	<u>73,690,000</u>	<u>1,056,230,312</u>	<u>38,607,000</u>
<i>Metropolitan Knoxville Airport Authority:</i>						
Revenue/general obligation bonds	<u>70,635,000</u>	<u>11,000,000</u>	<u>4,590,000</u>	<u>9,525,000</u>	<u>67,520,000</u>	<u>5,125,000</u>
Total Metropolitan Knoxville Airport Authority	<u>70,635,000</u>	<u>11,000,000</u>	<u>4,590,000</u>	<u>9,525,000</u>	<u>67,520,000</u>	<u>5,125,000</u>
Total component units	<u>\$ 1,067,090,351</u>	<u>\$ 195,825,002</u>	<u>\$ 55,950,041</u>	<u>\$ 83,215,000</u>	<u>\$ 1,123,750,312</u>	<u>\$ 43,732,000</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, 2017.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 were \$1,242,421.

Component Units

The Knoxville Utilities Board has non-cancellable operating lease commitments for office equipment, property 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>
2018	\$349,871
2019	326,280
2020	<u>229,300</u>
Total	<u>\$905,451</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 12 - FUND BALANCES

Detail fund balances are as follows:

	Debt Service		Capital		Special Revenue Funds		
	Fund		Projects Fund		Miscellaneous Community Development		
	General Fund		Fund		Fund	Other Funds	Total
Fund Balances:							
Nonspendable:							
Inventory	\$ 297,185	\$ -	\$ 184,528	\$ -	\$ -	\$ 47,857	\$ 529,570
Prepays	55,351	-	-	-	-	-	55,351
Permanent Fund Principal	-	-	-	-	-	624,065	624,065
Restricted for:							
Street Improvements	-	-	-	-	-	3,085,243	3,085,243
Community Development	-	-	-	-	1,643,078	-	1,643,078
Law Enforcement	-	-	-	-	-	3,835,038	3,835,038
Parks & Recreation	-	-	-	-	-	243,015	243,015
Solid Waste Operations	-	-	-	-	-	3,082,697	3,082,697
Krutch Park	-	-	-	-	-	303,972	303,972
Committed to:							
Debt Service	-	50,707,123	-	-	-	-	50,707,123
Economic Stabilization	47,353,984	-	-	-	-	-	47,353,984
Other Capital Projects	-	-	73,661,098	-	-	-	73,661,098
Abandoned Vehicle Operations	-	-	-	-	-	893,251	893,251
City Inspections Operations	-	-	-	-	-	525,579	525,579
City Court Operations	-	-	-	-	-	1,045,713	1,045,713
Animal Control Operations	-	-	-	-	-	619,239	619,239
Beer Board	-	-	-	-	-	139,832	139,832
Finance & Accountability	732,471	-	-	-	-	-	732,471
Law Enforcement	-	-	-	-	-	1,844,329	1,844,329
Safety City	-	-	-	-	-	470,637	470,637
Solid Waste Operations	-	-	-	-	-	412,650	412,650
Storm Water Operations	-	-	-	-	-	925,486	925,486
Community Development	-	-	-	-	3,469	2,619,677	2,623,146
Assigned to:							
Administration	205,308	-	-	-	-	-	205,308
Appropriated Fund Balance	18,265,000	-	-	-	-	-	18,265,000
Community Development	1,601,684	-	-	-	9,145	-	1,610,829
Law Enforcement	-	-	-	-	-	489,860	489,860
Solid Waste Operations	-	-	-	-	-	130,513	130,513
Storm Water Operations	-	-	-	-	-	300,000	300,000
Parks & Recreation	71,072	-	-	-	-	-	71,072
Other Capital Projects	-	-	15,953,656	-	-	-	15,953,656
Unassigned	<u>27,757,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,757,309</u>
Total Fund Balances	<u>\$96,339,364</u>	<u>\$50,707,123</u>	<u>\$ 89,799,282</u>	<u>\$ 1,655,692</u>	<u>\$21,638,653</u>	<u>\$ 260,140,114</u>	

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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.

	2017	2016
Claims liability, beginning of year	\$ 2,500,000	\$ 2,500,000
Provision for incurred claims	13,021,629	12,203,278
Payments made on claims	<u>(13,021,629)</u>	<u>(12,203,276)</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, 2017.

An analysis of claims activity for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Claims liability, beginning of year	\$ 17,600,000	\$ 17,600,000
Provision for incurred claims	2,313,218	3,440,420
Payments made on claims	<u>(2,313,218)</u>	<u>(3,440,420)</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, 2017

NOTE 13 - RISK MANAGEMENT - Continued

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2017, 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, 2017, the amount of these liabilities was \$1,891,790. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Claims liability, beginning of year	\$ 1,758,352	\$ 1,699,525
Provision for incurred claims	16,041,816	14,043,332
Payments made on claims	(15,908,378)	(13,984,505)
Claims liability, end of year	\$ 1,891,790	\$ 1,758,352

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, 2017

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 32.60% 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. The agreement was extended one year to extend through 2017.

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, 2017

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 and Public Assembly Facilities - 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 should 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.

Beginning July 1, 2016, the agreement was amended to include an additional 5 year management term, whereas all City personnel previously managed by SMG were transitioned to SMG employment. The extended term will continue until June 30, 2021, and includes a first optional 3 year renewal term, followed by a second optional 2 year renewal term. The amended agreement also includes SMG managing the City's two Public Assembly Facilities, the Knoxville Civic Auditorium & Coliseum and Chilhowee Park & Exposition Center. The amended agreement calls for a fixed base fee of \$260,000 in fiscal year 2017, and increasing by the CPI each year thereafter, with a ceiling of 3% in any fiscal year. Under the amendment, SMG shall be eligible for annual quantitative incentive fees, of which shall not exceed 100% of the base compensation for each fiscal year.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, 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, 2017:

	<u>Spent to Date</u>	<u>Contractual Commitment Remaining at June 30, 2017</u>
Access Improvements	\$ 472,629	\$ 311,419
Bridge Improvements	549,702	238,508
Bridge Maintenance	1,132,163	73,383
Building Facilities	99,962	52,193
Building Improvements	569,849	130,101
Cumberland Avenue Improvements	16,588,758	2,441,761
Downtown Improvements	3,261,990	108,002
Drainage Improvements	2,739,616	186,237
Fire Safety House	-	89,684
Greenway Improvements	1,756,033	850,329
Information Systems Upgrades	918,837	97,760
Lakeshore Park Improvements	2,101,192	80,683
Multimodal Improvements	131,709	210,791
Parks Improvements	1,719,384	62,508
Paving Program	8,280,659	4,061,534
Pedestrian & Bicycle Infrastructure	287,049	172,444
Ramp Replacement	815,494	323,495
Roadway Improvements	6,016,279	1,575,855
Safety City Buildings	577,647	62,353
Sidewalk Improvements	4,642,998	2,827,018
Solid Waste Facilities	483,501	20,000
South Knoxville Waterfront	7,577,673	346,965
Street Lighting	6,572	3,288
Streetscapes	1,127,294	431,612
Water Quality Improvements	888,258	80,352
	<u>\$ 62,745,248</u>	<u>\$ 14,838,275</u>
Total		

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

Encumbrances - Information regarding encumbrances is available to assist in the management of commitments against appropriations. Encumbrance accounting is utilized for budgetary control purposes. Encumbrances, however, are not treated as expenditures in the basic financial statements. Outstanding encumbrances for the governmental funds at June 30, 2017 were as follows:

	<u>Outstanding Encumbrances</u>
General Fund	\$ 974,917
Capital Projects	16,586,180
Miscellaneous CD Funds	
Miscellaneous Community Development Funds	36,974
Other Governmental Funds	
Miscellaneous Special Revenue Funds	105,051
Solid Waste	178,163
CDBG	41,134
City Inspections	4,129
Miscellaneous Grants Funds	321,481
Stormwater Fund	4,202
Public Assembly Facilities	94,407
	748,567
	\$ 18,346,638

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 under-recovered cost was (\$3,744,086) at June 30, 2017.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

Purchased Power Adjustment - In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. 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 \$3,957,673 at June 30, 2017.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2017, the Gas Division of the Knoxville Utilities Board hedged 59% of its total gas purchases via gas supply contracts. As of June 30, 2017, the Gas Division had hedged the price on approximately 9% of its anticipated gas purchases for fiscal year 2017.

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>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Demand:					
Transportation	\$ 13,337,216	\$ 13,337,216	\$ 3,838,772	\$ -	\$ -
Storage	<u>4,415,996</u>	<u>4,415,996</u>	<u>2,079,592</u>	<u>1,290,120</u>	<u>1,290,120</u>
Demand total	<u>\$ 17,753,212</u>	<u>\$ 17,753,212</u>	<u>\$ 5,918,364</u>	<u>\$ 1,290,120</u>	<u>\$ 1,290,120</u>
Commodity:					
Baseload	<u>\$ 12,235,833</u>	<u>\$ 7,937,249</u>	<u>\$ 1,647,925</u>	<u>\$ -</u>	<u>\$ -</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for 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, 2017.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

Other Commitments and Contingencies

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (SSOs) on KUB's wastewater system had to be completed by June 30, 2016. KUB completed all the requirements of the Consent Decree for the collection system two years in advance of the deadline. The Consent Decree 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, 2017, the Wastewater Division had issued \$505 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, three 6% rate increases effective October 2014, October 2015 and October 2016, and three 5% rate increases, effective July 2017, July 2018, and July 2019, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting 99.5% of manholes and gravity mains, smoke testing 99.9% of gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced approximately 352.3 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 83 percent reduction in SSOs.

As of June 30, 2017, the Wastewater Division had completed its thirteenth full year under the Consent Decree, spending \$531.7 million on capital investments to meet Consent Decree requirements.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 \$4,859,773 in aviation area revenue during 2017. 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 96% of total passengers during 2017. As of June 30, 2017, 92% 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, 2017

NOTE 18 – TRANSFERS - Continued

Transfers From:

	Governmental Activities							Business-type Activities		Internal Service Funds		Total		
	General Fund	Debt Service	Capital Projects	State Street Aid	Abandoned Vehicles	City Court	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Convention Center	Metro Parking		Fleet Maintenance	Health Insurance
Transfers To:														
Primary Government:														
<i>Governmental Activities:</i>														
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,180,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,180,160
Capital Projects Fund	9,700,000	17,989,000	-	616,000	20,000	-	806,000	-	260,000	-	-	-	-	29,391,000
Storm Water	3,120,530	-	-	-	-	-	-	-	-	-	-	-	-	3,120,530
Solid Waste	9,371,670	-	-	-	-	-	-	-	-	-	-	-	-	9,371,670
Miscellaneous Special Revenue Funds	136,990	-	-	-	-	-	-	-	-	-	-	-	-	136,990
<i>Business-type Activities:</i>														
Convention Center Public Assembly Facilities	3,412,562	-	-	-	-	-	-	-	-	-	-	-	-	3,412,562
City Golf Courses	281,900	-	-	-	-	-	-	-	-	-	-	-	-	281,900
<i>Internal Service Funds:</i>														
Fleet Maintenance	147,846	226,000	-	-	-	-	-	-	-	-	23,860	-	-	397,706
Health Insurance	1,228,030	-	-	-	-	-	-	-	-	-	-	-	-	1,228,030
Equipment Replacement	746,335	150,000	160,347	-	-	13,900	-	853	2,643,537	13,915	4,538	52,930	1,300	3,787,655
	<u>\$30,622,683</u>	<u>\$18,365,000</u>	<u>\$160,347</u>	<u>\$616,000</u>	<u>\$ 20,000</u>	<u>\$2,194,060</u>	<u>\$ 806,000</u>	<u>\$ 853</u>	<u>\$2,903,537</u>	<u>\$ 13,915</u>	<u>\$28,398</u>	<u>\$ 52,930</u>	<u>\$ 1,300</u>	<u>\$ 55,785,023</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 eight divisions of 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 2016, 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 immediate 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. Division C is a closed plan. 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, 2017**

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. Division F is a closed 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. Division G is a closed plan. 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, employer’s 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 \$1,718,943 for 2017.

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 based on each Division’s plan and are generally limited to a maximum increase in retirement allowance of 4 percent for Divisions A, B, C, F and G and 3 percent for Division H.

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Employees covered by the benefit terms. Membership of the Plan consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

Active participants	1,472
Vested terminated participants	101
Retired participants	<u>2,129</u>
 Total	 <u>3,702</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 21 years remain at July 1, 2016. Projected covered payroll for the year beginning July 1, 2016 amounted to approximately \$71,481,768. The ratio of the net pension liability to the covered payroll was 297.4%.

The contributions for the year ended June 30, 2017 were based on the actuarial valuation as of July 1, 2015 (2016 contributions were based on the July 1, 2014 valuation). The table below shows the contribution rates as percentages of covered payroll.

<u>Plan</u>	<u>2017</u>	<u>2016</u>
C	44.11%	44.85%
A, B, G	20.62%	20.34%
H, general government	8.91%	8.33%
H, uniformed	10.36%	12.00%

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, 2017 and 2016 were \$171,604 and \$201,891, respectively.

Net Pension Liability

The City's net pension liability was measured as of July 1, 2016, 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, 2016 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	21 years
Asset valuation method	Market value, adjusted for a 10-year phase-in of each year's difference between actual and expected value; 80% - 120% limitations
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

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

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	11.37%	11.3%
Age 35	4.7%	5.6%
Age 50	3.6%	3.8%
Age 60	3.0%	3.0%

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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2006 - July 1, 2011.

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 July 1, 2016 are summarized in the following table:

<u>Assets Class</u>	<u>Target Allocation</u>
Equity	45.5%
Fixed Income	26.0
Hedge Funds	5.0
Risk Parity	5.0
Real Assets	17.5
Cash	1.0

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

<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	4.25%	6.25%
Small-Mid Cap Stocks	4.00	6.00
Developed International Stocks	5.25	7.50
Emerging Markets Stocks	7.25	9.75
Private Equity	7.75	9.75
Core Fixed Income	3.00	3.00
Defensive Equity	4.00	4.00
Core Plus Fixed Income	3.50	5.50
TIPS	3.00	3.00
Emerging Markets Debt	5.00	7.00
International Growth Fixed Income	2.75	2.75
Hedge Funds	4.75	6.75
Risk Parity	6.50	8.25
Core Real Estate	6.75	6.75
Non-Core Real Estate	8.00	10.00
MLPs	6.50	8.50
Private Energy	7.75	9.75
Cash	0.75	2.75

*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 7.3% for the past twenty years on a rolling average rate of return which includes the financial crisis of 2008-2009.

Changes to Actuarial Assumptions: During 2017, the Pension System's actuary conducted an experience study of the pension plan for the period July 1, 2011 through July 1, 2016. This experience study was used to update the actuarial assumptions used in the July 1, 2017 valuation, which is the measurement date for the City's fiscal year 2018 financial reporting. The following represents the updated assumptions used in the July 1, 2017 valuation and the anticipated impact on the total pension liability:

- The discount rate is 5.5% for Plan H and 7.25% for all other plans
- The assumed salary scale was updated based on the plan's actual experience
- The rate of return on plan investments is 5.5%, based on 2.5% inflation and 0.5% expense assumption for Plan H and 7.25% based on 2.5% inflation and 0.5% expense assumption for all other plans.
- The mortality rates for general government and uniformed bodies were based on 110% of the RP-2000 Healthy Annuitant static table rates.

The impact of these assumption changes will increase the total pension liability by approximately \$21,000,000.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016 (July 1, 2015 measurement)	\$ 716,840,438	\$ 544,752,006	\$ 172,088,432
Changes for the year:			
Service cost	13,109,044	-	13,109,044
Interest expense	51,824,992	-	51,824,992
Experience losses (gains)	2,127,908	-	2,127,908
Contributions - City	-	23,900,725	(23,900,725)
Contributions - members	-	4,414,955	(4,414,955)
Net investment income (loss)	-	(1,048,951)	1,048,951
Refunds of contributions	(771,126)	(771,126)	-
Benefits paid	(43,946,206)	(43,946,206)	-
Plan administrative expenses	-	(679,972)	679,972
Net changes	22,344,612	(18,130,575)	40,475,187
Balances at June 30, 2017 (July 1, 2016 measurement)	\$ 739,185,050	\$ 526,621,431	\$ 212,563,619

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-percentage point higher (8.375 percent) than the current rate:

	1% Decrease (6.375%)*	Current Rate (7.375%)*	1% Increase (8.375%)*
Net Pension Liability	\$ 297,597,761	\$ 212,563,619	\$ 141,323,590

* 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, 2017

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, 2017, the City recognized pension expense of \$18,581,802. At June 30, 2017, 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	\$ 2,268,479	\$ 4,097,547
Net difference between projected and actual earnings on investments	41,289,068	-
Change in proportion between Government-wide and Business-type Activities	1,321,923	1,321,923
Contributions made subsequent to the measurement date	23,791,166	-
Total	\$ 68,670,636	\$ 5,419,470

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,	
2018	6,596,957
2019	6,596,957
2020	16,404,727
2021	9,506,701
2022	354,658

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, 2017, the City reported no contributions payable to the pension plan required for the year ended June 30, 2017.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 \$395,273 in 2017.

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 \$116,370 in 2017.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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. For the fiscal year ended June 30, 2017, the City and the retirees contributed \$384,860 and \$-0-, 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, 2017, the City's annual OPEB cost of \$900,363 exceeded the actual contribution of \$384,860. 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, 2017	\$ 900,363	43%	\$515,503
June 30, 2016	1,146,169	100%	-
June 30, 2015	1,071,169	100%	-

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the Plan was 0% funded. Since the current contribution amounts are less than the ARC, the City will record a liability for OPEB of \$515,503. The City 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 \$9.9 million. Since there are no plan assets, the unfunded actuarial accrued liability is \$9.9 million. The covered payroll was \$73.0 million and the ratio of the UAAL to covered payroll is 13.5%.

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, 2017 valuation, the Entry Age Normal 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 8% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a 12 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, 2017 was 28 years.

Component Units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 567 former employees and 580 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, 2017, 334 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 is 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, 2017**

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, 2017 were \$620,015. The contribution to the Trust satisfied the annual required contribution (ARC), as determined by the Postretirement Benefit Plan's actuarial valuation as of January 1, 2015 which was \$620,015. As of June 30, 2017, the employer OPEB obligation has been exceeded by \$167,467.

The ARC for the fiscal year ending June 30, 2018, as determined by the Plan's actuarial valuation as of January 1, 2017 is \$-0-.

The actuarial valuation for the Plan as of January 1, 2017 has been completed. The valuation determined that the Plan's actuarial accrued liability was \$45.5 million. The actuarial value of the Plan's assets was \$48.9 million. As a result, the Plan's unfunded actuarial accrued liability was \$3.5 million.

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	\$15,360,561
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	18,524,684
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	2,561,261
Subsidies paid by the City to Knoxville Area Transit	9,503,030

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 22 - TAX ABATEMENTS

The City of Knoxville typically issues tax abatements in two forms, a payment in lieu of taxes (PILOT), and Tax Increment Financing (TIF Loan). The City's PILOT agreements do not contain clawback or recapture provisions based on performance goals. In the event of default, the City may clawback property or personal taxes that would have been otherwise owed.

The Industrial Development Board of the City of Knoxville (City IDB) performs public functions on behalf of the City of Knoxville. Authorized by Tennessee Code Annotated (TCA) Section 7-53-305, a provision of the Tennessee Industrial Development Corporations Act, the City IDB undertakes financing and development of projects deemed to promote industry, trade, commerce, tourism and recreation, and housing construction. The Board acts as a conduit organization for property tax abatements through PILOT agreements. The abatement, which may be as much as 100% of the standard real and/or personal property taxes, may be granted to any qualified business located within or relocating to property within the boundaries of the City limits. The City currently has 33 active PILOT agreements, with \$1,951,101 abated in 2017.

The nonprofit organization, Knoxville Community Development Corporation (KCDC), is the official redevelopment agency for the City of Knoxville. Through a Cooperation Agreement with the City of Knoxville, KCDC manages has 7 PILOT agreements. These agreements are for the development of affordable housing within Knox County and the City of Knoxville. Additionally, authorized by Tennessee Code Annotated (TCA) Section 9-23-101, the Uniformity in Tax Increment Financing Act of 2012, its board of directors oversee the approval of TIF loans within the City's redevelopment areas. The City remits the incremental portion of the levied taxes as payment to the issuer of the TIF loan. The portion of the tax levy that is allocated for debt service is not affected. The City currently has 29 active TIF agreements, with \$2,127,239 abated in 2017.

	City of Knoxville Tax Abatements		
	PILOT	TIF	Total
2017	\$ 1,951,101	\$ 2,127,239	\$ 4,078,340
1 - 5 years	7,814,661	9,136,258	16,950,919
6 - 10 years	4,794,205	7,517,625	12,311,830
11 - 15 years	2,208,501	4,018,552	6,227,053
16 - 20 years	405,530	3,274,689	3,680,219
20 + years	322,938	1,128,152	1,451,090
Total Taxes Abated Over the Next 20+ years	\$17,496,936	\$27,202,515	\$44,699,451

The above table is a current list of the amount of taxes the City of Knoxville estimates to abate over the life of all PILOT and TIF agreements throughout the next 20+ years, *ceteris paribus*.

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CITY OF KNOXVILLE, TENNESSEE

Required Supplementary Information
June 30, 2017

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

Unaudited - See Independent Auditor's Report

	2016	2015	2014
Total Pension Liability			
Service cost	\$ 13.1	\$ 12.6	\$ 12.3
Interest	51.8	50.9	49.4
Differences between expected and actual experience	2.1	(6.1)	0.9
Benefit payments/refunds	<u>(44.7)</u>	<u>(43.5)</u>	<u>(42.3)</u>
Net change in total pension liability	22.3	13.9	20.3
Total pension liability, beginning	<u>716.9</u>	<u>703.0</u>	<u>682.7</u>
Total pension liability, ending (a)	<u>\$ 739.2</u>	<u>\$ 716.9</u>	<u>\$ 703.0</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 23.9	\$ 22.6	\$ 15.2
Contributions - employee	4.4	4.1	4.0
Net investment income	(1.0)	7.9	87.1
Benefit payments/refunds	(44.7)	(43.5)	(42.3)
Administrative expenses	<u>(0.7)</u>	<u>(0.7)</u>	<u>(0.8)</u>
Net change in plan fiduciary net position	\$ (18.1)	\$ (9.6)	\$ 63.2
Plan fiduciary net position - beginning	<u>544.8</u>	<u>554.4</u>	<u>491.2</u>
Plan fiduciary net position - ending (b)	<u>\$ 526.7</u>	<u>\$ 544.8</u>	<u>\$ 554.4</u>
Net pension liability - ending (a) - (b)	<u>\$ 212.5</u>	<u>\$ 172.1</u>	<u>\$ 148.6</u>
Plan fiduciary net position as a % of the total pension liability	71.3%	76.0%	78.9%
Covered payroll	\$ 71.5	\$ 71.0	\$ 69.9
Net pension liability as a % of covered payroll	297.4%	242.4%	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.

Information regarding the Plan's annual money-weighted rate of return can be found in the Plan's separate financial statements as noted in Note 19.

CITY OF KNOXVILLE, TENNESSEE

**Required Supplementary Information
June 30, 2017**

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

Unaudited - See Independent Auditor's Report

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014 *</u>
Actuarially determined contribution	\$ 23.8	\$ 23.9	\$ 22.6	\$ 20.9
Contributions in relation to the actuarially determined contribution	<u>23.8</u>	<u>23.9</u>	<u>22.6</u>	<u>20.9</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 72.6	\$ 71.5	\$ 71.0	\$ 69.9
Contributions as a percentage of covered payroll	32.8%	33.4%	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 Independent Auditor's Report

	<u>January 1, 2016</u>	<u>January 1, 2015</u>	<u>January 1, 2014</u>
Actuarially determined contribution	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions in relation to the actuarially determined contribution	<u>5,243,146</u>	<u>5,991,887</u>	<u>5,908,541</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	11.80%	13.48%	13.41%

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, 2017**

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

Unaudited - See Independent 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, 2016	\$ -	\$ 9,922,386	\$ 9,922,386	0.0%	\$ 73,067,495	13.6%
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 Independent Auditor's Report

Year Ended	Annual OPEB Cost	Annual Required Contribution	Percentage Contributed
June 30, 2017	\$ 900,363	\$ 384,860	42.7%
June 30, 2016	1,146,169	1,146,169	100.0%
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, 2017

Special Revenue Funds						
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Assets						
Cash & cash equivalents	\$ -	\$ 51	\$ 744,461	\$ 2,902	\$ 26,611	\$ 349,790
Investments	2,607,654	-	935,521	594,612	1,669,263	-
Accounts receivable	860,650	272,749	604	11,852	13,105	1,143,107
Notes receivable	-	2,268,231	-	-	-	-
Inventories	-	47,857	-	-	-	-
Due from other funds	-	-	-	-	-	5,000
Total assets	<u>\$ 3,468,304</u>	<u>\$ 2,588,888</u>	<u>\$ 1,680,586</u>	<u>\$ 609,366</u>	<u>\$ 1,708,979</u>	<u>\$ 1,497,897</u>
Liabilities						
Accounts payable	\$ 383,061	\$ 143,816	\$ 27,624	\$ 5,262	\$ 45,188	\$ 102,244
Accrued liabilities	-	24,499	14,711	71,025	43,078	59,051
Customer deposits	-	45,485	-	-	-	-
Due to other funds	-	59,000	745,000	7,500	575,000	1,214,500
Due to other governmental agencies	-	-	-	-	-	-
Total liabilities	<u>383,061</u>	<u>272,800</u>	<u>787,335</u>	<u>83,787</u>	<u>663,266</u>	<u>1,375,795</u>
Deferred inflows of resources						
Unavailable revenue - other	-	2,268,231	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>2,268,231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances						
Non-spendable	-	47,857	-	-	-	-
Restricted	3,085,243	-	-	-	-	122,102
Committed	-	-	893,251	525,579	1,045,713	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total fund balances	<u>3,085,243</u>	<u>47,857</u>	<u>893,251</u>	<u>525,579</u>	<u>1,045,713</u>	<u>122,102</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,468,304</u>	<u>\$ 2,588,888</u>	<u>\$ 1,680,586</u>	<u>\$ 609,366</u>	<u>\$ 1,708,979</u>	<u>\$ 1,497,897</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
\$ -	\$ 212,291	\$ 280,613	\$ 517	\$ -	\$ 1,617,236	\$ 299,218	\$ 1,916,454
618,489	7,328,299	1,045,973	5,085,899	2,619,677	22,505,387	627,454	23,132,841
750	11,776	877	29,945	-	2,345,415	1,365	2,346,780
-	2,900,000	-	-	-	5,168,231	-	5,168,231
-	-	-	-	-	47,857	-	47,857
-	160,000	-	-	-	165,000	-	165,000
<u>\$ 619,239</u>	<u>\$ 10,612,366</u>	<u>\$ 1,327,463</u>	<u>\$ 5,116,361</u>	<u>\$ 2,619,677</u>	<u>\$ 31,849,126</u>	<u>\$ 928,037</u>	<u>\$ 32,777,163</u>
\$ -	\$ 55,344	\$ 18,479	\$ 1,465,060	\$ -	\$ 2,246,078	\$ -	\$ 2,246,078
-	11,635	77,998	25,111	-	327,108	-	327,108
-	497,705	-	-	-	543,190	-	543,190
-	240,272	5,500	330	-	2,847,102	-	2,847,102
-	6,801	-	-	-	6,801	-	6,801
-	811,757	101,977	1,490,501	-	5,970,279	-	5,970,279
-	2,900,000	-	-	-	5,168,231	-	5,168,231
-	2,900,000	-	-	-	5,168,231	-	5,168,231
-	-	-	-	-	47,857	624,065	671,922
-	3,955,951	-	3,082,697	-	10,245,993	303,972	10,549,965
619,239	2,454,798	925,486	412,650	2,619,677	9,496,393	-	9,496,393
-	489,860	300,000	130,513	-	920,373	-	920,373
-	-	-	-	-	-	-	-
<u>619,239</u>	<u>6,900,609</u>	<u>1,225,486</u>	<u>3,625,860</u>	<u>2,619,677</u>	<u>20,710,616</u>	<u>928,037</u>	<u>21,638,653</u>
<u>\$ 619,239</u>	<u>\$ 10,612,366</u>	<u>\$ 1,327,463</u>	<u>\$ 5,116,361</u>	<u>\$ 2,619,677</u>	<u>\$ 31,849,126</u>	<u>\$ 928,037</u>	<u>\$ 32,777,163</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, 2017

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Revenues						
Taxes, assessments, interest & penalties	\$ 4,950,945	\$ -	\$ -	\$ -	\$ 475,895	\$ -
Licenses, permits & inspection charges	-	-	-	2,671,206	-	-
Intergovernmental	-	1,855,804	-	-	-	2,050,792
Charges for services	-	-	398,695	-	1,598,197	-
Fines & forfeitures	-	-	-	-	1,103,357	-
Other	13,841	178,497	364,790	134,183	25,337	58
Total revenues	<u>4,964,786</u>	<u>2,034,301</u>	<u>763,485</u>	<u>2,805,389</u>	<u>3,202,786</u>	<u>2,050,850</u>
Expenditures						
Current:						
Administration	-	-	-	-	-	70,169
Finance	-	-	-	-	-	-
Community Development	-	2,018,030	-	-	-	495,636
Parks and Recreation	-	-	-	-	-	2,578
Engineering	4,519,522	-	914,389	-	-	117,697
Public Services	-	-	-	2,709,570	-	-
Law	-	-	-	-	969,796	-
Police	-	-	-	-	-	1,349,432
Emergency Management	-	-	-	-	-	15,118
Fire	-	-	-	-	-	-
Legislative	-	-	-	-	-	-
Total expenditures	<u>4,519,522</u>	<u>2,018,030</u>	<u>914,389</u>	<u>2,709,570</u>	<u>969,796</u>	<u>2,050,630</u>
Excess (deficiency) of revenues over (under) expenditures	445,264	16,271	(150,904)	95,819	2,232,990	220
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	(616,000)	-	(20,000)	-	(2,194,060)	-
Total other financing sources (uses)	<u>(616,000)</u>	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>(2,194,060)</u>	<u>-</u>
Net changes in fund balances	(170,736)	16,271	(170,904)	95,819	38,930	220
Fund balances - beginning	<u>3,255,979</u>	<u>31,586</u>	<u>1,064,155</u>	<u>429,760</u>	<u>1,006,783</u>	<u>121,882</u>
Fund balances - ending	<u>\$ 3,085,243</u>	<u>\$ 47,857</u>	<u>\$ 893,251</u>	<u>\$ 525,579</u>	<u>\$ 1,045,713</u>	<u>\$ 122,102</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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,426,840	\$ -	\$ 5,426,840
-	-	-	-	-	2,671,206	-	2,671,206
-	2,379,056	-	-	-	6,285,652	-	6,285,652
40,360	262,688	189,486	1,400,758	199,998	4,090,182	-	4,090,182
-	1,272,023	-	-	-	2,375,380	-	2,375,380
3,102	226,989	5,482	207,804	13,481	1,173,564	43,513	1,217,077
<u>43,462</u>	<u>4,140,756</u>	<u>194,968</u>	<u>1,608,562</u>	<u>213,479</u>	<u>22,022,824</u>	<u>43,513</u>	<u>22,066,337</u>
-	-	-	-	-	70,169	-	70,169
-	-	-	-	199,998	199,998	-	199,998
-	2,353,326	-	-	-	4,866,992	-	4,866,992
-	66,521	-	-	-	69,099	-	69,099
-	-	3,098,658	-	-	8,650,266	-	8,650,266
7,198	-	-	9,508,447	-	12,225,215	-	12,225,215
-	-	-	-	-	969,796	-	969,796
-	1,223,860	-	-	-	2,573,292	-	2,573,292
-	70,167	-	-	-	85,285	-	85,285
-	10,663	-	-	-	10,663	-	10,663
-	3,027	-	-	-	3,027	-	3,027
<u>7,198</u>	<u>3,727,564</u>	<u>3,098,658</u>	<u>9,508,447</u>	<u>199,998</u>	<u>29,723,802</u>	<u>-</u>	<u>29,723,802</u>
36,264	413,192	(2,903,690)	(7,899,885)	13,481	(7,700,978)	43,513	(7,657,465)
-	136,990	3,120,530	9,371,670	-	12,629,190	-	12,629,190
-	(806,000)	(853)	(2,903,537)	-	(6,540,450)	-	(6,540,450)
-	(669,010)	3,119,677	6,468,133	-	6,088,740	-	6,088,740
36,264	(255,818)	215,987	(1,431,752)	13,481	(1,612,238)	43,513	(1,568,725)
<u>582,975</u>	<u>7,156,427</u>	<u>1,009,499</u>	<u>5,057,612</u>	<u>2,606,196</u>	<u>22,322,854</u>	<u>884,524</u>	<u>23,207,378</u>
\$ 619,239	\$ 6,900,609	\$ 1,225,486	\$ 3,625,860	\$ 2,619,677	\$ 20,710,616	\$ 928,037	\$ 21,638,653

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
 STATE STREET AID
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues:				
Taxes, assessments, interest & penalties	\$ 4,848,700	\$ 4,848,700	\$ 4,950,945	\$ 102,245
Other	2,800	287,800	13,841	(273,959)
Total revenues	<u>4,851,500</u>	<u>5,136,500</u>	<u>4,964,786</u>	<u>(171,714)</u>
Expenditures				
Current:				
Engineering	<u>4,235,500</u>	<u>4,520,500</u>	<u>4,519,522</u>	<u>978</u>
Total expenditures	<u>4,235,500</u>	<u>4,520,500</u>	<u>4,519,522</u>	<u>978</u>
Excess (deficiency) of revenues over (under) expenditures	<u>616,000</u>	<u>616,000</u>	<u>445,264</u>	<u>(170,736)</u>
Other financing sources (uses)				
Transfers out	<u>(616,000)</u>	<u>(616,000)</u>	<u>(616,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(616,000)</u>	<u>(616,000)</u>	<u>(616,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(170,736)</u>	<u>\$ (170,736)</u>
Fund balance - beginning			<u>3,255,979</u>	
Fund balance - ending			<u>\$ 3,085,243</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, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Intergovernmental	\$ 1,324,340	\$ 1,324,340	\$ 1,855,804	\$ 531,464
Other	1,052,300	1,292,646	178,497	(1,114,149)
Total revenues	<u>2,376,640</u>	<u>2,616,986</u>	<u>2,034,301</u>	<u>(582,685)</u>
Expenditures:				
Current:				
Community Development	2,376,640	2,616,986	2,018,030	598,956
Total expenditures	<u>2,376,640</u>	<u>2,616,986</u>	<u>2,018,030</u>	<u>598,956</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>16,271</u>	<u>16,271</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>16,271</u>	<u>\$ 16,271</u>
Fund balances - beginning			<u>31,586</u>	
Fund balances - ending			<u>\$ 47,857</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, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues:				
Charges for services:	\$ 455,700	\$ 455,700	\$ 398,695	\$ (57,005)
Other	402,090	402,090	364,790	(37,300)
Total revenues	<u>857,790</u>	<u>857,790</u>	<u>763,485</u>	<u>(94,305)</u>
Expenditures				
Current:				
Engineering	837,790	837,790	914,389	(76,599)
Total expenditures	<u>837,790</u>	<u>837,790</u>	<u>914,389</u>	<u>(76,599)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,000</u>	<u>20,000</u>	<u>(150,904)</u>	<u>(170,904)</u>
Other financing sources (uses)				
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(170,904)</u>	<u>\$ (170,904)</u>
Fund balance - beginning			<u>1,064,155</u>	
Fund balance - ending			<u>\$ 893,251</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, 2017

	Budget Amounts		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Licenses, permits & inspection charges	\$ 2,298,080	\$ 2,343,080	\$ 2,671,206	\$ 328,126
Other	480	4,609	134,183	129,574
Total revenues	<u>2,298,560</u>	<u>2,347,689</u>	<u>2,805,389</u>	<u>457,700</u>
Expenditures				
Current:				
Public Services	<u>2,579,120</u>	<u>2,583,249</u>	<u>2,709,570</u>	<u>(126,321)</u>
Total expenditures	<u>2,579,120</u>	<u>2,583,249</u>	<u>2,709,570</u>	<u>(126,321)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(280,560)</u>	<u>(235,560)</u>	<u>95,819</u>	<u>331,379</u>
Other financing sources (uses)				
Transfers in	<u>280,560</u>	<u>235,560</u>	<u>-</u>	<u>(235,560)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>95,819</u>	<u>\$ 95,819</u>
Fund balance - beginning			<u>429,760</u>	
Fund balance - ending			<u>\$ 525,579</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, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenue				
Taxes, assessments, interest & penalties	\$ 422,350	\$ 472,350	\$ 475,895	\$ 3,545
Charges for services	1,406,930	1,596,930	1,598,197	1,267
Fines & forfeitures	823,100	1,098,100	1,103,357	5,257
Other	17,900	17,900	25,337	7,437
Total revenues	<u>2,670,280</u>	<u>3,185,280</u>	<u>3,202,786</u>	<u>17,506</u>
Expenditures				
Current:				
Law	1,040,120	991,220	969,796	21,424
Total expenditures	<u>1,040,120</u>	<u>991,220</u>	<u>969,796</u>	<u>21,424</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,630,160</u>	<u>2,194,060</u>	<u>2,232,990</u>	<u>38,930</u>
Other financing sources (uses)				
Transfers out	<u>(1,630,160)</u>	<u>(2,194,060)</u>	<u>(2,194,060)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,630,160)</u>	<u>(2,194,060)</u>	<u>(2,194,060)</u>	<u>-</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	38,930	<u>\$ 38,930</u>
Fund balance - beginning			<u>1,006,783</u>	
Fund balance - ending			<u>\$ 1,045,713</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, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Charges for services	\$ 34,050	\$ 34,050	\$ 40,360	\$ 6,310
Other	450	450	3,102	2,652
Total revenues	<u>34,500</u>	<u>34,500</u>	<u>43,462</u>	<u>8,962</u>
Expenditures				
Current:				
Public services	<u>34,500</u>	<u>34,500</u>	<u>7,198</u>	<u>27,302</u>
Total expenditures	<u>34,500</u>	<u>34,500</u>	<u>7,198</u>	<u>27,302</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>36,264</u>	<u>36,264</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>36,264</u>	<u>\$ 36,264</u>
Fund balances - beginning			<u>582,975</u>	
Fund balances - ending			<u>\$ 619,239</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, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Intergovernmental	\$ 90,300	\$ 90,300	\$ 2,379,056	\$ 2,288,756
Charges for services	259,500	259,500	262,688	3,188
Fines & forfeitures	1,458,000	1,548,259	1,272,023	(276,236)
Other	444,870	3,156,984	226,989	(2,929,995)
Total revenues	<u>2,252,670</u>	<u>5,055,043</u>	<u>4,140,756</u>	<u>(914,287)</u>
Expenditures				
Current:				
Administration	-	-	-	-
Community Development	40,000	2,381,000	2,353,326	27,674
Parks and Recreation	75,000	75,000	66,521	8,479
Police	1,413,660	1,762,904	1,223,860	539,044
Emergency Management	-	114,129	70,167	43,962
Fire	20,000	18,000	10,663	7,337
Legislative	35,000	35,000	3,027	31,973
Total expenditures	<u>1,583,660</u>	<u>4,386,033</u>	<u>3,727,564</u>	<u>658,469</u>
Excess (deficiency) of revenues over (under) expenditures	<u>669,010</u>	<u>669,010</u>	<u>413,192</u>	<u>(255,818)</u>
Other financing sources (uses)				
Transfers in	136,990	159,990	136,990	(23,000)
Transfers out	(806,000)	(829,000)	(806,000)	23,000
Total other financing sources (uses)	<u>(669,010)</u>	<u>(669,010)</u>	<u>(669,010)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(255,818)</u>	<u>\$ (255,818)</u>
Fund balances - beginning			<u>7,156,427</u>	
Fund balances - ending			<u>\$ 6,900,609</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
 STORM WATER
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Charges for services	\$ 126,500	\$ 126,500	\$ 189,486	\$ 62,986
Other	830	5,032	5,482	450
Total revenues	<u>127,330</u>	<u>131,532</u>	<u>194,968</u>	<u>63,436</u>
Expenditures				
Current:				
Engineering	<u>3,247,860</u>	<u>3,251,202</u>	<u>3,098,658</u>	<u>152,544</u>
Total expenditures	<u>3,247,860</u>	<u>3,251,202</u>	<u>3,098,658</u>	<u>152,544</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,120,530)</u>	<u>(3,119,670)</u>	<u>(2,903,690)</u>	<u>215,980</u>
Other financing sources (uses)				
Transfers in	3,120,530	3,120,530	3,120,530	-
Transfers out	<u>-</u>	<u>(860)</u>	<u>(853)</u>	<u>7</u>
Total other financing sources (uses)	<u>3,120,530</u>	<u>3,119,670</u>	<u>3,119,677</u>	<u>7</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	215,987	<u>\$ 215,987</u>
Fund balance - beginning			<u>1,009,499</u>	
Fund balance - ending			<u>\$ 1,225,486</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
 SOLID WASTE
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Charges for services	\$ 1,092,000	\$ 1,092,000	\$ 1,400,758	\$ 308,758
Other	640,000	3,561,086	207,804	(3,353,282)
Total revenues	<u>1,732,000</u>	<u>4,653,086</u>	<u>1,608,562</u>	<u>(3,044,524)</u>
Expenditures				
Current:				
Public Services	<u>10,843,670</u>	<u>11,120,756</u>	<u>9,508,447</u>	<u>1,612,309</u>
Total expenditures	<u>10,843,670</u>	<u>11,120,756</u>	<u>9,508,447</u>	<u>1,612,309</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,111,670)</u>	<u>(6,467,670)</u>	<u>(7,899,885)</u>	<u>(1,432,215)</u>
Other financing sources (uses)				
Transfers in	9,371,670	9,371,670	9,371,670	-
Transfers out	<u>(260,000)</u>	<u>(2,904,000)</u>	<u>(2,903,537)</u>	<u>463</u>
Total other financing sources (uses)	<u>9,111,670</u>	<u>6,467,670</u>	<u>6,468,133</u>	<u>463</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(1,431,752)</u>	<u>\$ (1,431,752)</u>
Fund balance - beginning			<u>5,057,612</u>	
Fund balance - ending			<u>\$ 3,625,860</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, 2017

Assets

Cash & cash equivalents	\$	136,068
Investments		50,127,391
Accounts receivable		173,133
Taxes receivable		26,104,309
Notes receivable		<u>117,648</u>
Total assets	\$	<u>76,658,549</u>

Deferred inflows of resources

Unavailable revenue - property taxes		<u>25,951,426</u>
Total deferred inflows of resources		<u>25,951,426</u>

Fund balances

Committed		<u>50,707,123</u>
Total fund balance		<u>50,707,123</u>
Total liabilities, deferred inflows of resources and fund balance	\$	<u>76,658,549</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
 DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance
	Original	Final		With Final Budget
Revenues				
Taxes, assessments, interest & penalties	\$ 24,812,580	\$ 24,812,580	\$ 24,337,838	\$ (474,742)
Other	528,522	528,522	528,522	-
Total revenues	25,341,102	25,341,102	24,866,360	(474,742)
Expenditures				
Current:				
Debt service:				
Principal retirement	4,997,760	4,997,760	4,997,760	-
Interest payments on bonds & notes	2,038,520	2,038,520	2,038,503	17
Total expenditures	7,036,280	7,036,280	7,036,263	17
Excess (deficiency) of revenues over (under) expenditures	18,304,822	18,304,822	17,830,097	(474,725)
Other financing sources (uses)				
Transfers out	(18,365,000)	(18,365,000)	(18,365,000)	-
Total other financing sources (uses)	(18,365,000)	(18,365,000)	(18,365,000)	-
Net changes in fund balances	\$ (60,178)	\$ (60,178)	(534,903)	\$ (474,725)
Fund balance - beginning			51,242,026	
Fund balance - ending			\$ 50,707,123	

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2017

Assets

Cash & cash equivalents	\$ 4,749,819
Investments	89,299,878
Accounts receivable	4,619,237
Inventory	<u>184,528</u>
Total assets	<u>\$ 98,853,462</u>

Liabilities

Accounts payable	\$ 5,050,974
Accrued liabilities	1,736,398
Due to other governmental agencies	<u>36,016</u>
Total liabilities	<u>6,823,388</u>

Deferred inflows of resources

Unavailable revenue - other	<u>2,230,792</u>
Total deferred inflows of resources	<u>2,230,792</u>

Fund balance

Nonspendable	184,528
Committed	73,661,098
Assigned	<u>15,953,656</u>
Total fund balance	<u>89,799,282</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 98,853,462</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 - FROM INCEPTION
 CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	<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	\$ 22,905,628	\$ 8,583,649	\$ 31,489,277	\$ 58,459,033	\$ (26,969,756)
Other	22,785,411	5,121,589	27,907,000	29,036,770	(1,129,770)
Total revenues	<u>45,691,039</u>	<u>13,705,238</u>	<u>59,396,277</u>	<u>87,495,803</u>	<u>(28,099,526)</u>
Expenditures					
Current:					
Capital & grant projects	<u>229,704,646</u>	<u>53,187,540</u>	<u>282,892,186</u>	<u>318,321,083</u>	<u>(35,428,897)</u>
Total expenditures	<u>229,704,646</u>	<u>53,187,540</u>	<u>282,892,186</u>	<u>318,321,083</u>	<u>(35,428,897)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(184,013,607)</u>	<u>(39,482,302)</u>	<u>(223,495,909)</u>	<u>(230,825,280)</u>	<u>7,329,371</u>
Other financing sources (uses)					
Bonds proceeds	31,080,000	-	31,080,000	38,266,237	(7,186,237)
Debt issue premium	527,039	-	527,039	-	527,039
Transfers in	185,918,846	29,391,000	215,309,846	192,559,043	22,750,803
Transfers out	<u>(4,453,145)</u>	<u>(160,347)</u>	<u>(4,613,492)</u>	-	<u>(4,613,492)</u>
Total other financing sources (uses)	<u>213,072,740</u>	<u>29,230,653</u>	<u>242,303,393</u>	<u>230,825,280</u>	<u>11,478,113</u>
Net changes in fund balance	<u>\$ 29,059,133</u>	<u>(10,251,649)</u>	<u>\$ 18,807,484</u>	<u>\$ -</u>	<u>\$ 18,807,484</u>
Fund balance - beginning		<u>100,050,931</u>			
Fund balance - ending		<u>\$ 89,799,282</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, 2017**

Assets	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Current assets				
Cash & temporary investments	\$ 20,915	\$ 2,631,298	\$ 87,215	\$ 2,739,428
Investments	5,105,546	9,236,595	125,683	14,467,824
Accounts receivable	305,379	167,184	-	472,563
Due from other funds	350,000	40,000	655,000	1,045,000
Inventories	-	-	23,529	23,529
Prepaid items	-	5,097	10,011	15,108
Total current assets	<u>5,781,840</u>	<u>12,080,174</u>	<u>901,438</u>	<u>18,763,452</u>
Noncurrent assets				
Land & site improvements	2,079,796	1,831,368	473,119	4,384,283
Building & building improvements	29,743,644	21,897,758	1,014,584	52,655,986
Equipment	37,178	2,614,801	553,712	3,205,691
Construction in progress	567,037	-	-	567,037
Less: accumulated depreciation	<u>(16,407,929)</u>	<u>(19,113,583)</u>	<u>(608,618)</u>	<u>(36,130,130)</u>
Total capital assets (net of accumulated depreciation)	16,019,726	7,230,344	1,432,797	24,682,867
Equity interest in joint venture	<u>27,139</u>	<u>-</u>	<u>-</u>	<u>27,139</u>
Total noncurrent assets	<u>16,046,865</u>	<u>7,230,344</u>	<u>1,432,797</u>	<u>24,710,006</u>
Total assets	<u>21,828,705</u>	<u>19,310,518</u>	<u>2,334,235</u>	<u>43,473,458</u>
Deferred outflows of resources				
Pensions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities				
Current liabilities				
Accounts payable	18,584	489,786	100,632	609,002
Accrued liabilities	7,499	605,291	-	612,790
Unearned revenue	-	181,541	21,024	202,565
Due to other funds	356,000	950,000	365,000	1,671,000
Compensated absences	4,743	-	-	4,743
Total current liabilities	<u>386,826</u>	<u>2,226,618</u>	<u>486,656</u>	<u>3,100,100</u>
Total liabilities	<u>386,826</u>	<u>2,226,618</u>	<u>486,656</u>	<u>3,100,100</u>
Deferred inflows of resources				
Pensions	<u>-</u>	<u>1,321,923</u>	<u>-</u>	<u>1,321,923</u>
Total deferred inflows of resources	<u>-</u>	<u>1,321,923</u>	<u>-</u>	<u>1,321,923</u>
Net position				
Net investment in capital assets	16,019,726	7,230,344	1,432,797	24,682,867
Unrestricted	<u>5,422,153</u>	<u>8,531,633</u>	<u>414,782</u>	<u>14,368,568</u>
Total net position	<u>\$ 21,441,879</u>	<u>\$ 15,761,977</u>	<u>\$ 1,847,579</u>	<u>\$ 39,051,435</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, 2017

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	\$ 2,886,820	\$ 2,813,453	\$ 1,042,640	\$ 6,742,913
Total operating revenues	<u>2,886,820</u>	<u>2,813,453</u>	<u>1,042,640</u>	<u>6,742,913</u>
Operating expenses				
Personal services	200,282	-	-	200,282
Maintenance	-	293,528	-	293,528
Depreciation & amortization	1,099,423	568,248	56,678	1,724,349
Other services & charges	<u>2,174,872</u>	<u>4,722,225</u>	<u>1,019,617</u>	<u>7,916,714</u>
Total operating expenses	<u>3,474,577</u>	<u>5,584,001</u>	<u>1,076,295</u>	<u>10,134,873</u>
Operating income (loss)	<u>(587,757)</u>	<u>(2,770,548)</u>	<u>(33,655)</u>	<u>(3,391,960)</u>
Nonoperating revenue (expense)				
Interest income	26,096	44,042	858	70,996
Intergovernmental revenue	-	346,558	-	346,558
Other expenses	-	179,213	-	179,213
Total nonoperating revenue (expense)	<u>26,096</u>	<u>569,813</u>	<u>858</u>	<u>596,767</u>
Income (loss) before transfers and capital contributions	(561,661)	(2,200,735)	(32,797)	(2,795,193)
Transfers in	-	2,476,820	281,900	2,758,720
Transfers out	(28,398)	-	-	(28,398)
Capital contributions	<u>1,051,531</u>	<u>-</u>	<u>-</u>	<u>1,051,531</u>
Change in net position	461,472	276,085	249,103	986,660
Fund balances - beginning	<u>20,980,407</u>	<u>15,485,892</u>	<u>1,598,476</u>	<u>38,064,775</u>
Fund balances - ending	<u>\$ 21,441,879</u>	<u>\$ 15,761,977</u>	<u>\$ 1,847,579</u>	<u>\$ 39,051,435</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, 2017

	<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	\$ 2,687,109	\$ 2,853,824	\$ 1,038,305	\$ 6,579,238
Cash paid to suppliers	(2,304,926)	(4,840,393)	(1,212,922)	(8,358,241)
Cash paid to employees	(197,474)	-	-	(197,474)
Net cash provided by (used in) operating activities	<u>184,709</u>	<u>(1,986,569)</u>	<u>(174,617)</u>	<u>(1,976,477)</u>
Noncapital financing activities				
Transfers from other funds	-	5,644,378	646,900	6,291,278
Transfers to other funds	(162,398)	-	(505,000)	(667,398)
Tax and intergovernmental revenues	-	179,213	-	179,213
Net cash provided by (used in) noncapital financing activities	<u>(162,398)</u>	<u>5,823,591</u>	<u>141,900</u>	<u>5,803,093</u>
Capital and related financing activities				
Acquisition and construction of capital assets	(1,004,850)	(321,559)	-	(1,326,409)
Capital contributions	1,051,531	-	-	1,051,531
Net cash provided by (used in) capital and related financing activities	<u>46,681</u>	<u>(321,559)</u>	<u>-</u>	<u>(274,878)</u>
Investing activities				
Sales/(purchases) of investments, net	(738,144)	(945,236)	(104,211)	(1,787,591)
Investment earnings	26,096	44,042	858	70,996
Net change in equity investment in joint venture	487,809	-	-	487,809
Net cash provided by (used in) investing activities	<u>(224,239)</u>	<u>(901,194)</u>	<u>(103,353)</u>	<u>(1,228,786)</u>
Net increase (decrease) in cash and cash equivalents	<u>(155,247)</u>	<u>2,614,269</u>	<u>(136,070)</u>	<u>2,322,952</u>
Cash and cash equivalents				
Beginning of year	<u>176,162</u>	<u>17,029</u>	<u>223,285</u>	<u>416,476</u>
End of year	<u>\$ 20,915</u>	<u>\$ 2,631,298</u>	<u>\$ 87,215</u>	<u>\$ 2,739,428</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, 2017

	<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)	\$ (587,757)	\$(2,770,548)	\$ (33,655)	\$ (3,391,960)
Adjustments to reconcile operating income (loss)				
to net cash provided by (used in) operating				
activities:				
Depreciation	1,099,423	568,248	56,678	1,724,349
Pension expense (negative expense)	-	(264,384)	-	(264,384)
Change in assets and liabilities				
(Increase) decrease in receivables	(199,711)	(136,073)	-	(335,784)
(Increase) decrease in prepayments	-	(5,097)	883	(4,214)
(Increase) decrease in inventories	-	-	6,056	6,056
Increase (decrease) in accounts payable	(130,054)	(78,089)	(200,244)	(408,387)
Increase (decrease) in accrued expenses	2,470	517,833	-	520,303
Increase (decrease) in compensated absences	338	-	-	338
Increase (decrease) in deferred revenue	-	181,541	(4,335)	177,206
Total adjustments	<u>772,466</u>	<u>783,979</u>	<u>(140,962)</u>	<u>1,415,483</u>
Net cash provided by (used in) operating activities	<u>\$ 184,709</u>	<u>\$(1,986,569)</u>	<u>\$ (174,617)</u>	<u>\$ (1,976,477)</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, 2017

Assets	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Current assets						
Cash & temporary investments	\$ 948,786	\$ 303,202	\$ 515,778	\$ 497,979	\$ 1,207,144	\$ 3,472,889
Investments	48,017,037	34,135,336	21,780,887	18,179,413	116,149	122,228,822
Accounts receivable	46,665	53,278	123,001	-	-	222,944
Due from fiduciary funds	-	-	30,178	-	-	30,178
Inventories	1,020,750	-	-	-	-	1,020,750
Total current assets	<u>50,033,238</u>	<u>34,491,816</u>	<u>22,449,844</u>	<u>18,677,392</u>	<u>1,323,293</u>	<u>126,975,583</u>
Noncurrent assets						
Land & site improvements	61,627	-	-	-	-	61,627
Building & building improvements	195,764	-	-	-	-	195,764
Equipment	65,524,417	19,995	-	23,874,632	-	89,419,044
Less: accumulated depreciation	(43,170,159)	(7,998)	-	(15,780,362)	-	(58,958,519)
Total capital assets (net of accumulated depreciation)	22,611,649	11,997	-	8,094,270	-	30,717,916
Equity interest in joint venture	-	-	-	-	1,754,097	1,754,097
Total noncurrent assets	<u>22,611,649</u>	<u>11,997</u>	<u>-</u>	<u>8,094,270</u>	<u>1,754,097</u>	<u>32,472,013</u>
Total assets	<u>72,644,887</u>	<u>34,503,813</u>	<u>22,449,844</u>	<u>26,771,662</u>	<u>3,077,390</u>	<u>159,447,596</u>
Deferred outflows of resources						
Pensions	938,150	213,408	118,525	-	-	1,270,083
Total deferred outflows of resources	<u>938,150</u>	<u>213,408</u>	<u>118,525</u>	<u>-</u>	<u>-</u>	<u>1,270,083</u>
Liabilities						
Current liabilities						
Accounts payable	1,477,259	268,711	303,886	13,142	64,000	2,126,998
Accrued liabilities	89,884	18,069	2,511,111	-	-	2,619,064
Due to other funds	4,000	501,500	-	-	-	505,500
Compensated absences	135,320	19,304	9,935	-	-	164,559
Net pension liability	2,960,957	673,552	374,085	-	-	4,008,594
Estimated claims liability	-	5,100,000	-	-	-	5,100,000
Total current liabilities	<u>4,667,420</u>	<u>6,581,136</u>	<u>3,199,017</u>	<u>13,142</u>	<u>64,000</u>	<u>14,524,715</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>4,667,420</u>	<u>19,081,136</u>	<u>3,199,017</u>	<u>13,142</u>	<u>64,000</u>	<u>27,024,715</u>
Deferred inflows of resources						
Pensions	57,078	12,984	7,211	-	-	77,273
Total deferred inflows of resources	<u>57,078</u>	<u>12,984</u>	<u>7,211</u>	<u>-</u>	<u>-</u>	<u>77,273</u>
Net position						
Net investment in capital assets	22,611,649	11,997	-	8,094,270	-	30,717,916
Unrestricted	46,246,890	15,611,104	19,362,141	18,664,250	3,013,390	102,897,775
Total net position	<u>\$ 68,858,539</u>	<u>\$ 15,623,101</u>	<u>\$ 19,362,141</u>	<u>\$ 26,758,520</u>	<u>\$ 3,013,390</u>	<u>\$ 133,615,691</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, 2017

	<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	\$ 16,069,092	\$ 6,653,868	\$19,682,090	\$ 1,930,271	\$ 1,501,629	\$ 45,836,950
Total operating revenues	<u>16,069,092</u>	<u>6,653,868</u>	<u>19,682,090</u>	<u>1,930,271</u>	<u>1,501,629</u>	<u>45,836,950</u>
Operating expenses						
Personal services	2,713,880	1,215,018	454,916	-	-	4,383,814
Materials & supplies	2,346,764	36,496	2,721	36,220	-	2,422,201
Maintenance	709,426	7,137	700	-	-	717,263
Depreciation & amortization	4,617,654	3,999	-	1,578,873	-	6,200,526
Other services & charges	2,438,381	4,712,688	17,771,611	-	1,553,019	26,475,699
Total operating expenses	<u>12,826,105</u>	<u>5,975,338</u>	<u>18,229,948</u>	<u>1,615,093</u>	<u>1,553,019</u>	<u>40,199,503</u>
Operating income (loss)	<u>3,242,987</u>	<u>678,530</u>	<u>1,452,142</u>	<u>315,178</u>	<u>(51,390)</u>	<u>5,637,447</u>
Nonoperating revenue (expense)						
Investment income (loss)	328,020	12,583	130,282	91,689	605	563,179
Intergovernmental revenue	-	164,392	-	-	-	164,392
Other revenues	13,569	208,098	46,792	-	-	268,459
Gain (loss) on disposal of capital assets	331,318	-	-	3,682	-	335,000
Total nonoperating revenue (expense)	<u>672,907</u>	<u>385,073</u>	<u>177,074</u>	<u>95,371</u>	<u>605</u>	<u>1,331,030</u>
Income (loss) before transfers and capital contributions	3,915,894	1,063,603	1,629,216	410,549	(50,785)	6,968,477
Transfers in	397,706	-	1,228,030	3,787,655	-	5,413,391
Transfers out	(52,930)	-	(1,300)	-	-	(54,230)
Capital contributions	231,086	-	-	701,113	-	932,199
Change in net position	4,491,756	1,063,603	2,855,946	4,899,317	(50,785)	13,259,837
Total net position, beginning	<u>64,366,783</u>	<u>14,559,498</u>	<u>16,506,195</u>	<u>21,859,203</u>	<u>3,064,175</u>	<u>120,355,854</u>
Total net position, ending	<u>\$ 68,858,539</u>	<u>\$ 15,623,101</u>	<u>\$ 19,362,141</u>	<u>\$ 26,758,520</u>	<u>\$ 3,013,390</u>	<u>\$ 133,615,691</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, 2017**

	<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	\$ 16,045,101	\$ 6,604,134	\$ 19,560,621	\$ 1,930,271	\$ 1,506,306	\$ 45,646,433
Cash paid to suppliers	(4,762,578)	(4,749,184)	(2,721)	(36,220)	-	(9,550,703)
Cash paid to employees	(2,739,244)	(1,270,612)	(463,174)	-	-	(4,473,030)
Cash paid for interfund services used	47,609	56,412	(111,434)	-	(1,489,169)	(1,496,582)
Payments of claims and insurance	-	-	(17,771,947)	-	-	(17,771,947)
Net cash provided by (used in) operating activities	<u>8,590,888</u>	<u>640,750</u>	<u>1,211,345</u>	<u>1,894,051</u>	<u>17,137</u>	<u>12,354,171</u>
Noncapital financing activities						
Transfers from other funds	348,776	489,477	1,546,552	3,867,655	-	6,252,460
Transfers to other funds	-	-	-	-	(25,000)	(25,000)
Transfers to component units	674,000	-	-	-	-	674,000
Tax and intergovernmental revenues	13,569	372,490	46,792	-	-	432,851
Net cash provided by (used in) noncapital financing activities	<u>1,036,345</u>	<u>861,967</u>	<u>1,593,344</u>	<u>3,867,655</u>	<u>(25,000)</u>	<u>7,334,311</u>
Capital and related financing activities						
Acquisition and construction of capital assets	(8,008,295)	-	-	(5,062,493)	-	(13,070,788)
Proceeds from sale of capital assets	331,318	-	-	-	-	331,318
Capital contributions	231,086	-	-	701,113	-	932,199
Net cash provided by (used in) capital and related financing activities	<u>(7,445,891)</u>	<u>-</u>	<u>-</u>	<u>(4,361,380)</u>	<u>-</u>	<u>(11,807,271)</u>
Investing activities						
Sales/(purchases) of investments, net	(1,576,946)	(1,213,097)	(2,535,268)	(1,287,165)	-	(6,612,476)
Investment earnings	328,020	12,583	130,282	91,689	605	563,179
Net change in equity investment in joint venture	-	-	-	-	214,981	214,981
Net cash provided by (used in) investing activities	<u>(1,248,926)</u>	<u>(1,200,514)</u>	<u>(2,404,986)</u>	<u>(1,195,476)</u>	<u>215,586</u>	<u>(5,834,316)</u>
Net increase (decrease) in cash and cash equivalents	<u>932,416</u>	<u>302,203</u>	<u>399,703</u>	<u>204,850</u>	<u>207,723</u>	<u>2,046,895</u>
Cash and cash equivalents						
Beginning of year	<u>16,370</u>	<u>999</u>	<u>116,075</u>	<u>293,129</u>	<u>999,421</u>	<u>1,425,994</u>
End of year	<u>\$ 948,786</u>	<u>\$ 303,202</u>	<u>\$ 515,778</u>	<u>\$ 497,979</u>	<u>\$ 1,207,144</u>	<u>\$ 3,472,889</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, 2017

	<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)	\$ 3,242,987	\$ 678,530	\$ 1,452,142	\$ 315,178	\$ (51,390)	\$ 5,637,447
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating						
activities:						
Depreciation	4,617,654	3,999	-	1,578,873	-	6,200,526
Pension expense (income)	(72,564)	(16,507)	(9,167)	-	-	(98,238)
Change in assets and liabilities						
(Increase) decrease in receivables	(23,991)	(49,734)	(121,469)	-	4,677	(190,517)
(Increase) decrease in inventories	22,567	-	-	-	-	22,567
Increase (decrease) in accounts payable	757,035	63,549	(110,734)	-	63,850	773,700
Increase (decrease) in accrued expenses	11,435	(1,681)	(336)	-	-	9,418
Increase (decrease) in compensated absences	35,765	(37,406)	909	-	-	(732)
Total adjustments	<u>5,347,901</u>	<u>(37,780)</u>	<u>(240,797)</u>	<u>1,578,873</u>	<u>68,527</u>	<u>6,716,724</u>
Net cash provided by (used in) operating activities	<u>\$ 8,590,888</u>	<u>\$ 640,750</u>	<u>\$ 1,211,345</u>	<u>\$ 1,894,051</u>	<u>\$ 17,137</u>	<u>\$ 12,354,171</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, 2017

	<u>City Choice Plus</u>	<u>Employee Health Savings Fund</u>	<u>Total</u>
Assets			
Cash	\$ 3,687	\$ 1,109,360	\$ 1,113,047
State & municipal government securities	519,399	-	519,399
Accounts receivable	263,408	-	263,408
Total current assets	<u>\$ 786,494</u>	<u>\$ 1,109,360</u>	<u>\$ 1,895,854</u>
Liabilities			
Health care claims liability	\$ 271,316	\$ 1,109,360	\$ 1,380,676
Due to other funds	515,178	-	515,178
Total liabilities	<u>\$ 786,494</u>	<u>\$ 1,109,360</u>	<u>\$ 1,895,854</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, 2017

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
<u>City Choice Fund</u>				
Assets				
Cash	\$ 1,797	\$ 53,056	\$ 51,166	\$ 3,687
State & municipal government securities	53,785	465,614	-	519,399
Accounts receivable	-	263,408	-	263,408
Total assets	<u>\$ 55,582</u>	<u>\$ 782,078</u>	<u>\$ 51,166</u>	<u>\$ 786,494</u>
Liabilities				
Health care claims liability	\$ 25,582	\$ 296,900	\$ 51,166	\$ 271,316
Due to other funds	30,000	485,178	-	515,178
Total liabilities	<u>\$ 55,582</u>	<u>\$ 782,078</u>	<u>\$ 51,166</u>	<u>\$ 786,494</u>
<u>Employee Health Savings Fund</u>				
Assets				
Cash	\$ 90,097	\$ 1,109,360	\$ 90,097	\$ 1,109,360
Due from other funds	900,000	-	900,000	-
Total assets	<u>\$ 990,097</u>	<u>\$ 1,109,360</u>	<u>\$ 990,097</u>	<u>\$ 1,109,360</u>
Liabilities				
Health care claims liability	\$ 990,097	\$ 1,109,360	\$ 990,097	\$ 1,109,360
Total liabilities	<u>\$ 990,097</u>	<u>\$ 1,109,360</u>	<u>\$ 990,097</u>	<u>\$ 1,109,360</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 91,894	\$ 1,162,416	\$ 141,263	\$ 1,113,047
State & municipal government securities	53,785	465,614	-	519,399
Accounts receivable	-	263,408	-	263,408
Due from other funds	900,000	-	900,000	-
Total assets	<u>\$ 1,045,679</u>	<u>\$ 1,891,438</u>	<u>\$ 1,041,263</u>	<u>\$ 1,895,854</u>
Liabilities				
Health care claims liability	\$ 1,015,679	\$ 1,406,260	\$ 1,041,263	\$ 1,380,676
Due to other funds	30,000	485,178	-	515,178
Total liabilities	<u>\$ 1,045,679</u>	<u>\$ 1,891,438</u>	<u>\$ 1,041,263</u>	<u>\$ 1,895,854</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, 2017

Assets

Current assets:

Cash & temporary investments	\$	3,376,699
Investments		999,701
Accounts receivable		10,146,117
Inventories		1,279,741
Total current assets		15,802,258

Noncurrent assets:

Land & site improvements		2,757,150
Building & building improvements		32,637,878
Equipment		35,369,754
Less: accumulated depreciation		(28,395,688)
Total capital assets (net of accumulated depreciation)		42,369,094
Total assets		58,171,352

Liabilities

Current liabilities:

Accounts payable		4,804,484
Accrued liabilities		192,717
Due to primary government		3,875,000
Total liabilities		8,872,201

Deferred inflows of resources

Deferred revenue		528,303
Total deferred inflows of resources		528,303

Net position

Net investment in capital assets		42,369,094
Unrestricted		6,401,754
Total net position		\$ 48,770,848

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 KNOXVILLE AREA TRANSIT - COMPONENT UNIT
 FOR THE YEAR ENDED JUNE 30, 2017

Operating revenues	
Charges for services	\$ 2,091,291
Total operating revenues	<u>2,091,291</u>
Operating expenses	
Personal services	14,851,835
Materials & supplies	2,833,418
Maintenance	544,026
Depreciation & amortization	3,322,305
Other services and charges	<u>8,321,303</u>
Total expenses	<u>29,872,887</u>
Operating income (loss)	<u>(27,781,596)</u>
Nonoperating revenue (expense)	
Intergovernmental revenue	30,336,575
Other expenses	<u>(91,406)</u>
Total nonoperating revenue (expense)	<u>30,245,169</u>
Change in net position	2,463,573
Total net position, beginning	<u>46,307,275</u>
Total net position, ending	<u>\$ 48,770,848</u>

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, 2017

Operating activities	
Cash received from customers and users	\$ 2,091,291
Cash paid to suppliers	(7,302,132)
Cash paid to employees	<u>(14,832,700)</u>
Net cash provided by (used in) operating activities	<u>(20,043,541)</u>
Noncapital financing activities	
Transfers from primary government	(6,079,265)
Tax and intergovernmental revenues	<u>33,244,003</u>
Net cash provided by (used in) noncapital financing activities	<u>27,164,738</u>
Capital and related financing activities	
Acquisition of capital assets	<u>(4,819,125)</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,819,125)</u>
Investing activities	
Sales/(purchases) of investments, net	<u>(414,900)</u>
Net cash provided by (used in) investing activities	<u>(414,900)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,887,172</u>
Cash and cash equivalents	
Beginning of year	<u>1,489,527</u>
End of year	<u>\$ 3,376,699</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, 2017

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

Operating income (loss)	\$ (27,781,596)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	3,322,305
Change in assets and liabilities	
(Increase) decrease in inventories	22,804
Increase (decrease) in accounts payable	4,373,811
Increase (decrease) in accrued expenses	19,135
Total adjustments	<u>7,738,055</u>
Net cash provided by (used in) operating activities	<u>\$ (20,043,541)</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.

Contents	Page
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
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Revenue Capacity	
<i>These schedules contain trend information to help the reader assess the City's most significant revenue source, the property tax.</i>	
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<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	
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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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities										
Net investment in capital assets	\$ 186,466	\$ 205,877	\$ 213,568	\$ 220,028	\$ 220,585	\$ 223,777	\$ 231,666	\$ 225,581	\$ 261,956	\$ 298,791
Restricted	37,487	38,911	39,449	43,399	46,675	61,997	49,782	22,870	15,759	12,817
Unrestricted	179,868	192,241	218,176	233,442	237,088	243,367	260,379	162,267	186,985	203,126
Total Governmental Activities Net Position	\$ 403,821	\$ 437,029	\$ 471,193	\$ 496,869	\$ 504,348	\$ 529,141	\$ 541,827	\$ 410,718	\$ 464,700	\$ 514,734
Business-type Activities										
Net investment in capital assets	\$ 30,268	\$ 28,212	\$ 26,344	\$ 26,075	\$ 24,881	\$ 28,494	\$ 29,159	\$ 30,011	\$ 31,484	\$ 35,332
Unrestricted	16,682	17,782	24,590	33,712	38,728	39,323	40,223	42,012	48,363	51,795
Total Business-type Activities Net Position	\$ 46,950	\$ 45,994	\$ 50,934	\$ 59,787	\$ 63,609	\$ 67,817	\$ 69,382	\$ 72,023	\$ 79,847	\$ 87,127
Primary Government										
Net investment in capital assets	\$ 216,734	\$ 234,089	\$ 239,912	\$ 246,103	\$ 245,466	\$ 252,271	\$ 260,825	\$ 255,592	\$ 293,440	\$ 334,123
Restricted	37,487	38,911	39,449	43,399	46,675	61,997	49,782	22,870	15,759	12,817
Unrestricted	196,550	210,023	242,766	267,154	275,816	282,690	300,602	204,279	235,348	254,921
Total Primary Government Net Position	\$ 450,771	\$ 483,023	\$ 522,127	\$ 556,656	\$ 567,957	\$ 596,958	\$ 611,209	\$ 482,741	\$ 544,547	\$ 601,861

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental Activities:										
General government	\$ 9,630	\$ 8,833	\$ 13,348	\$ 13,495	\$ 34,882	\$ 23,591	\$ 32,702	\$ 16,347	\$ 20,697	\$ 24,653
Public safety	78,172	80,936	81,637	83,059	85,416	88,381	89,816	91,659	95,864	100,752
Physical environment	42,048	44,421	45,244	46,977	48,046	49,230	51,368	49,559	51,100	54,041
Transportation	9,614	12,131	9,647	10,467	11,201	11,970	11,048	10,866	10,589	11,016
Economic Development	8,732	10,686	16,441	11,878	8,460	8,120	8,752	10,550	19,843	13,499
Parks & Recreation	11,634	11,893	12,858	12,308	11,827	10,195	10,345	10,723	9,586	9,936
Health & Sanitation	9,833	10,094	10,430	10,361	11,111	10,388	10,688	10,274	10,414	9,738
Interest on long-term debt	3,138	2,754	2,398	2,152	1,989	1,718	1,827	2,196	2,339	1,998
Total governmental activities expenses	<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>	<u>220,432</u>	<u>225,633</u>
Business-type Activities:										
Metro parking	1,464	1,565	1,364	1,610	1,625	1,184	5,689	2,721	2,372	3,475
Public assembly facilities	4,174	4,356	4,847	6,539	4,535	5,212	5,751	4,563	3,888	5,584
Knoxville Convention Center	21,246	20,452	19,393	19,395	19,013	17,081	16,716	17,530	16,909	17,735
Municipal Golf Courses	886	1,390	1,368	1,811	1,440	1,413	1,427	1,457	1,597	1,076
Total business-type activities	<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>	<u>24,766</u>	<u>27,870</u>
Total primary government	<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>	<u>\$ 245,198</u>	<u>\$ 253,503</u>
Program Revenues										
Governmental Activities:										
Charges for Services:										
General government	\$ 629	\$ 540	\$ 651	\$ 757	\$ 817	\$ 860	\$ 2,339	\$ 1,923	\$ 1,726	\$ 1,259
Public safety	9,233	9,191	9,436	8,945	6,971	7,185	6,114	6,263	6,259	7,224
Physical environment	1,135	717	1,026	985	1,539	1,561	1,583	761	1,261	1,523
Transportation	857	688	760	955	640	551	635	729	630	406
Economic Development	-	-	955	665	428	260	355	578	172	408
Parks & recreation	801	694	689	537	531	494	583	630	642	669
Health & sanitation	43	47	54	49	40	38	36	41	33	40
Operating grants and contributions	9,804	10,387	15,758	14,811	10,088	7,517	8,409	7,710	7,893	9,103
Capital grants and contributions	5,753	5,161	4,724	3,777	3,318	3,556	4,693	6,658	11,573	14,282
Total governmental activities program revenues	<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>	<u>30,189</u>	<u>34,894</u>
Business-type Activities:										
Charges for Services:										
Metro parking	1,716	2,188	1,690	1,565	1,418	1,685	1,546	1,539	1,796	2,887
Public assembly facilities	2,863	1,812	1,400	1,855	2,090	1,954	1,952	1,786	1,630	2,813
Knoxville Convention Center	6,409	5,396	5,797	5,171	4,962	5,386	4,755	4,438	4,651	5,410
Municipal Golf Courses	776	1,105	1,121	1,195	1,332	1,193	1,317	1,082	1,048	1,043
Operating grants and contributions	-	1,430	1,435	1,500	1,750	1,562	1,500	1,500	1,500	1,500
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	<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>	<u>10,625</u>	<u>13,653</u>
Total primary government program revenues	<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>	<u>\$ 40,814</u>	<u>\$ 48,547</u>
Net expense:										
Governmental Activities	\$ 144,546	\$ 154,323	\$ 157,950	\$ 159,216	\$ 188,560	\$ 181,571	\$ 191,799	\$ 176,881	\$ 190,243	\$ 190,739
Business-type Activities	16,006	15,832	15,529	18,069	15,061	13,110	18,513	15,926	14,141	14,217
Total primary government net expense	<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>	<u>\$ 204,384</u>	<u>\$ 204,956</u>
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property taxes, interest and penalties	\$ 109,619	\$ 113,846	\$ 117,760	\$ 118,043	\$ 121,124	\$ 121,922	\$ 123,072	\$ 140,772	\$ 144,263	\$ 145,721
Intergovernmental revenues	65,482	58,776	61,625	61,221	60,798	68,337	65,910	67,588	76,727	74,157
Other taxes	17,883	17,908	17,955	18,525	19,968	20,763	20,053	20,844	21,986	22,159
Other revenue	10,670	6,562	2,733	3,669	2,296	4,465	4,062	3,941	8,440	4,866
Transfers	(11,010)	(9,561)	(10,900)	(16,352)	(8,148)	(9,123)	(8,612)	(9,653)	(7,191)	(6,129)
Total governmental activities	<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>	<u>244,225</u>	<u>240,774</u>
Business-type Activities:										
Intergovernmental revenues	671	375	4,283	4,539	4,689	3,198	4,888	3,451	7,042	6,983
Other taxes	6,820	6,418	5,047	5,218	5,420	5,211	5,395	5,921	6,903	6,756
Other revenue	643	676	240	599	627	570	1,182	1,352	829	1,628
Transfers	11,010	9,561	10,900	16,352	8,148	9,123	8,612	9,653	7,191	6,129
Total business-type activities	<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>	<u>21,965</u>	<u>21,496</u>
Total primary government	<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>	<u>266,190</u>	<u>262,270</u>
Changes in Net Position										
Governmental activities	\$ 48,098	\$ 33,208	\$ 31,223	\$ 25,890	\$ 7,478	\$ 24,793	\$ 12,686	\$ 46,611	\$ 53,982	\$ 50,035
Business-type activities	3,138	1,198	4,941	8,639	3,823	4,992	1,564	4,451	7,824	7,279
Total primary government	<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>	<u>\$ 61,806</u>	<u>\$ 57,314</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									
	2008	2009	2010	2011*	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 1,333	\$ 1,303	\$ 960							
Unreserved	48,223	51,036	59,704							
Nonspendable				\$ 425	\$ 385	\$ 300	\$ 324	\$ 443	\$ 364	\$ 353
Restricted				1,989	-	-	-	-	-	-
Committed				34,631	39,136	36,771	40,232	41,469	42,650	48,086
Assigned				231	311	2,648	2,482	3,353	4,038	20,143
Unassigned				27,987	19,892	30,436	27,958	30,508	38,458	27,757
Total general fund	<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>	<u>\$ 85,510</u>	<u>\$ 96,339</u>
All other governmental funds										
Nonspendable/Restricted (Reserved/Designated)	\$ 7,082	\$ 5,312	\$ 3,428							
Unreserved, reported in:										
Special Revenue funds	22,903	24,138	26,055							
Debt Service funds	34,623	36,259	36,907							
Capital Projects funds	53,084	55,248	72,654							
Nonspendable				\$ 656	\$ 739	\$ 737	\$ 673	\$ 1,076	\$ 1,122	\$ 856
Restricted				65,277	60,074	61,133	63,370	36,908	24,592	12,193
Committed				73,913	84,068	89,885	93,181	150,904	150,342	133,869
Assigned				-	-	-	-	-	-	16,883
Total all other governmental funds	<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>	<u>\$ 176,056</u>	<u>\$ 163,801</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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes, assessments, interest & penalties	\$ 169,632	\$ 169,521	\$ 168,880	\$ 173,425	\$ 180,543	\$ 183,445	\$ 184,128	\$ 204,089	\$ 212,108	\$ 212,992
Licenses, permits & inspection charges	2,281	1,973	1,726	1,708	1,975	1,994	2,027	2,266	2,656	3,005
Intergovernmental revenue	34,986	31,540	40,729	37,081	30,040	37,359	34,586	36,125	48,074	45,811
Charges for services	6,323	6,021	6,997	6,859	6,502	6,528	6,263	7,089	6,118	6,728
Fines & forfeitures	4,953	5,397	5,924	5,536	3,637	4,010	3,256	3,247	3,147	3,010
Other	10,711	8,800	7,568	6,207	5,370	5,170	5,524	5,073	8,354	8,350
Total revenues	<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>	<u>280,457</u>	<u>279,896</u>
Expenditures										
Current:										
General government	16,914	14,310	13,958	14,267	15,983	15,701	16,242	17,000	17,308	17,189
Public safety	75,821	77,449	79,071	81,613	85,311	86,986	89,224	99,871	102,155	103,510
Physical environment	21,696	24,435	21,487	66,819	59,861	58,565	61,475	61,478	63,178	63,287
Parks & recreation	910	907	906	907	7,722	7,621	7,976	8,422	8,652	8,721
Economic development	48,007	51,701	60,222	13,790	23,043	12,961	11,896	11,994	22,549	16,902
Other	-	-	-	-	486	91	68	248	-	-
Capital Outlay	22,684	24,440	20,864	19,155	17,497	19,253	25,892	36,163	51,710	53,188
Debt Service:										
Principal	8,540	7,408	5,396	5,577	4,853	5,413	5,291	5,384	6,141	4,998
Interest	3,138	2,754	2,439	2,188	2,116	1,730	1,745	2,136	2,328	2,039
Total expenditures	<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>	<u>274,021</u>	<u>269,834</u>
Excess of revenues over expenditures	31,176	19,848	27,481	26,500	11,195	30,185	15,975	15,193	6,436	10,062
Other Financing Sources (Uses)										
Net proceeds from issuance of debt	-	-	13,471	-	411	-	-	31,607	-	-
Transfers in	45,175	40,845	42,809	39,727	35,497	36,787	41,982	45,703	39,296	44,200
Transfers out	(60,611)	(54,645)	(57,350)	(60,612)	(47,607)	(49,667)	(51,648)	(56,061)	(48,827)	(55,688)
Total other financing sources (uses)	<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>	<u>(9,531)</u>	<u>(11,488)</u>
Net changes in fund balances	<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>	<u>\$ (3,095)</u>	<u>\$ (1,426)</u>
Debt service as a percentage of noncapital	6.7%	5.6%	4.2%	4.2%	3.4%	3.7%	3.5%	3.6%	3.7%	3.1%

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)		Total's		Direct Tax Rate	Assessed Value as a Percentage of Actual Value	
	Commercial	Industrial	Residential & Farm	Exempt & Other Properties	Totals	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value			
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	483,278	13,036,026	4,002,458	1,155,830	346,877	283,414	155,878	14,475,270	4,505,213	2.73	31%
2015	5,732,339	225,073	6,701,229	480,543	13,139,184	4,045,652	1,234,486	370,507	306,497	168,573	14,680,167	4,584,732	2.73	31%
2016	5,818,821	229,219	6,739,326	506,660	13,294,026	4,092,561	1,192,171	357,705	317,769	174,773	14,803,966	4,625,039	2.73	31%
2017	5,889,689	220,653	6,802,982	528,688	13,442,012	4,134,629	1,291,255	387,395	310,743	170,908	15,044,010	4,692,932	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	
2008	1.8900	0.8100	2.7000	1.1300	0.3300	1.2300	2.6900	5.3900
2009	2.2400	0.8100	3.0500	1.1000	0.3600	1.2300	2.6900	5.7400
2010	2.0600	0.7500	2.8100	0.9700	0.3100	1.0800	2.3600	5.1700
2011	2.0600	0.7500	2.8100	0.9700	0.3100	1.0800	2.3600	5.1700
2012	1.8000	0.6600	2.4600	0.9700	0.3100	1.0800	2.3600	4.8200
2013	1.8000	0.6600	2.4600	0.9700	0.3100	1.0800	2.3600	4.8200
2014	1.8600	0.6000	2.4600	0.9700	0.3100	1.0800	2.3600	4.8200
2015	2.1923	0.5334	2.7257	0.9600	0.4800	0.8800	2.3200	5.0457
2016	2.1923	0.5334	2.7257	0.9700	0.4700	0.8800	2.3200	5.0457
2017	2.1923	0.5334	2.7257	0.9700	0.4700	0.8800	2.3200	5.0457

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

Taxpayer	Type of Business	2017			2008		
		Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value
Simon Property Group/West Town Mall	Retail	\$ 34,421	1	0.74%	\$ 5,195	9	0.15%
Hart TC H-II LLC	Property management	33,065	2	0.71%			
Wal-Mart Corporation	Retail	31,606	3	0.68%			
Metro Knoxville HMA	Medical services	29,282	4	0.63%			
East Tennessee Childrens Hospital	Medical services	28,015	5	0.60%			
SCRIPPS Networks, Inc	Multi media broadcasting company	27,387	6	0.59%			
Fort Sanders Regional Medical Center	Medical services	26,303	7	0.56%	17,024	4	0.49%
Pilot Corp.	Oil	25,611	8	0.55%			
Tennessee Holding LLC	Property management and leasing	15,600	9	0.33%			
Comcast Cablevision	Media	18,389	10	0.39%			
Bellsouth Telecommunications	Telecommunications				53,274	1	1.52%
East Towne Mall	Retail center				21,523	2	0.61%
AT&T Telecommunications	Telecommunications				20,051	3	0.57%
Tennessee Holding LLC	Property management and leasing				14,786	5	0.42%
East Tennessee Baptist Hospital	Medical services				9,503	6	0.27%
Lillie Mae Cain Estate	Property management and leasing				7,584	7	0.22%
All Eleven LLC	Property management and leasing				7,289	8	0.21%
Furrow Samuel J	Property management and leasing				3,778	10	0.11%
		<u>\$ 269,679</u>		<u>5.78%</u>	<u>\$ 160,007</u>		<u>4.57%</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
2008	98,233	93,938	95.63%	4,280	98,218	99.98%
2009	101,436	96,548	95.18%	4,863	101,411	99.98%
2010	102,836	96,254	93.60%	6,529	102,783	99.95%
2011	103,350	97,167	94.02%	6,098	103,265	99.92%
2012	104,330	99,086	94.97%	5,116	104,202	99.88%
2013	105,918	102,045	96.34%	3,647	105,692	99.79%
2014	107,481	102,862	95.70%	4,237	107,099	99.64%
2015	124,620	120,215	96.47%	3,499	123,714	99.27%
2016	125,854	120,707	95.91%	2,721	123,428	98.07%
2017	128,021	121,450	94.87%	-	121,450	94.87%

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

Governmental Activities

Fiscal Year	General Obligation Bonds			Other Governmental Activities Debt		
	Principal Outstanding	Unamortized Premiums (Discounts)	Total General Obligation Debt	HUD Section 108 Note	Capital Lease	Debt Participation Agreement
2008	63,900	1,389	65,289	-	-	1,156
2009	56,560	1,283	57,843	-	-	1,088
2010	51,235	1,178	52,413	-	13,470	1,017
2011	46,675	1,073	47,748	-	13,470	-
2012	50,562	6,219	56,781	-	-	-
2013	50,823	5,673	56,496	-	-	-
2014	39,858	5,131	44,989	-	-	-
2015	65,555	5,089	70,644	-	-	-
2016	60,239	4,520	64,759	825	-	-
2017	54,417	3,951	58,368	2,900	-	-

Business Type Activities

Fiscal Year	General Obligation Bonds			Other Business Type Activities Debt			% of Personal Income ⁽²⁾	Per Capita ⁽²⁾
	Principal Outstanding	Unamortized Premiums (Discounts)	Total General Obligation Debt	Golf Course Equipment Note	Capital Lease	Total Primary Government ⁽¹⁾		
2008	144,240	(1,057)	143,183	103	-	209,731	6.02%	1,173.65
2009	140,810	(993)	139,817	103	325	199,176	5.87%	1,113.96
2010	137,230	(929)	136,301	90	254	203,545	5.94%	1,137.92
2011	133,495	(865)	132,630	78	179	194,105	5.67%	1,085.15
2012	127,828	971	128,799	65	102	185,747	5.30%	1,027.58
2013	125,378	1,619	126,997	-	-	183,493	5.55%	1,015.11
2014	119,577	1,483	121,060	-	-	166,049	4.27%	906.03
2015	115,239	1,347	116,586	-	-	187,230	4.51%	1,021.61
2016	110,706	1,211	111,917	-	-	177,501	4.13%	957.96
2017	105,548	1,075	106,623	-	-	167,891	3.74%	901.48

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:		Percentage of Estimated Taxable Value of Property	Per Capita
		Amounts Available in Debt Service Fund	Total		
2008	208,140	34,623	173,517	4.95%	971.00
2009	197,370	36,259	161,111	4.46%	901.07
2010	188,465	36,397	152,068	3.63%	850.14
2011	180,170	42,532	137,638	3.29%	769.47
2012	178,390	40,732	137,658	3.24%	761.55
2013	176,201	45,811	130,390	3.03%	721.34
2014	159,435	46,833	112,602	2.50%	614.40
2015	180,794	49,746	131,048	2.86%	715.05
2016	170,945	50,252	120,693	2.61%	651.37
2017	159,965	51,242	108,723	2.32%	583.78

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.

**PLEDGED-REVENUE COVERAGE
PRIMARY GOVERNMENT**

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

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

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
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
2014	752,561	629,663	122,898	61,316	2.00
2015	764,621	630,919	133,702	62,541	2.14
2016	734,750	594,027	140,723	67,518	2.08
2017	771,636	624,645	146,991	71,785	2.05

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

<u>Fiscal Year</u>	<u>Gross Revenue (net of grant receipts)</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
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
2015	31,119	19,612	11,507	6,367	1.81
2016	32,147	20,192	11,955	6,477	1.85
2017	33,240	21,329	11,911	6,799	1.75

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2017
(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	\$ 58,368	100.00%	\$ 58,368
Overlapping Debt:			
Knox County	435,645	42.09%	183,363
Knox County Schools	280,610	42.09%	118,109
Total Overlapping Debt	716,255		301,472
 Total Direct and Overlapping Debt	 \$ 774,623		 \$ 359,840

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		
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	32,160,699	37,764	32.9	89.3%	60.9%	30.6%	11.7%	58,940	6.9%
2014	184,292	33,586,873	39,188	32.3	84.6%	54.4%	28.9%	10.4%	59,232	5.8%
2015	185,291	35,206,284	40,870	33.8	87.0%	55.5%	29.9%	11.4%	59,516	4.6%
2016	186,239	36,567,663	42,102	32.8	87.8%	57.6%	29.3%	11.4%	60,313	2.7%
2017(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	2017				2008			
	Number of Employees (1)	Rank	Percentage of Total Area Employment		Number of Employees	Rank	Percentage of Total Area Employment	
Covenant Health	10,119	1	2.42%		8,000	2	3.58%	
Knox County Schools	8,146	2	1.94%					
U.S. Department of Energy (Oak Ridge/Y-12)	7,000	3	1.67%					
The University of Tennessee, Knoxville	6,646	4	1.59%		9,317	1	4.17%	
Wal-Mart Stores, Inc.	5,951	5	1.42%					
University of Tennessee Medical Center	5,144	6	1.23%		3,225	4	1.44%	
Oak Ridge National Laboratory	4,327	8	1.03%					
Tennova Healthcare	4,033	7	0.96%					
The Dollywood Company	4,000	9	0.95%					
DENSO Manufacturing Tennessee, Inc.	3,900	10	0.93%		2,100	10	0.94%	
St. Mary's Health System (acquired by Tennova)					3,666	3	1.64%	
Knox County Government					2,500	6	1.12%	
City of Knoxville Government					2,820	5	1.26%	
Clayton Homes					2,500	7	1.12%	
Baptist Health Systems					2,347	8	1.05%	
Aluminum Company of America (ALCOA)					2,300	9	1.03%	
Sea Ray Boats, Inc.								
Total Knoxville MSA Laborforce (2)	418,879				223,429			

(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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administration	25.0	26.5	26.5	26.0	30.5	30.5	30.5	31.5	33.5	35.5
Finance	52.5	52.5	51.0	51.0	51.5	48.5	49.0	49.0	49.0	50.0
Information Systems	30.0	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	1.0	1.0
Engineering	89.5	89.5	88.5	88.5	90.5	89.0	88.5	88.5	89.5	89.0
Fleet Services	56.0	56.0	55.0	55.0	54.0	54.0	54.0	54.0	57.0	57.0
Inspections	31.0	31.0	29.0	29.0	29.0	29.0	29.0	29.0	40.0	40.0
Public Services	307.0	305.0	305.0	305.0	305.0	305.0	305.0	305.0	292.0	292.0
Development Services	4.0	4.0	4.0	4.0	4.0	4.0	5.0	6.0	6.5	6.5
Community Development	21.5	21.5	21.5	19.5	19.5	19.5	15.5	15.5	12.5	13.5
Recreation	58.0	57.5	55.0	55.0	53.0	53.0	51.5	51.5	50.5	50.5
Law	13.0	14.0	13.0	13.0	12.5	13.0	13.0	13.0	13.0	13.0
Police										
Sworn	416.0	416.0	416.0	416.0	416.0	416.0	416.0	416.0	416.0	416.0
Civilian	121.0	121.0	120.0	120.0	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>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>	<u>539.0</u>	<u>539.0</u>
Fire										
Sworn	328.0	328.0	327.0	327.0	327.0	327.0	327.0	327.0	327.0	327.0
Civilian	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal	<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>	<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	14.5	14.5	14.5	14.5	14.5
Civil Service	13.0	13.0	12.0	12.0	12.0	10.0	10.0	10.0	10.0	10.0
Public Assembly Facilities	35.5	35.5	36.0	35.5	36.0	36.0	34.5	34.5	34.5	-
GRAND TOTAL	<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>	<u><u>1,617.0</u></u>	<u><u>1,586.0</u></u>

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

<u>Department</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>
Public Safety										
Police										
Arrests	20,492	24,008	16,702	16,648	15,898	14,376	11,484	11,900	12,453	10,604
Citations	95,121	131,619	156,053	135,680	107,501	105,635	96,147	88,731	68,374	49,585
Fire										
Fire Inspections	3,742	4,051	3,481	3,692	3,518	4,547	4,144	3,968	3,162	3,366
Alarms Attended	20,174	21,131	20,214	20,463	20,688	21,227	21,644	20,788	22,346	21,647
First Responder Calls	10,272	11,349	10,032	10,442	10,954	10,816	10,546	9,214	10,307	9,573
Engineering										
Miles of Streets Resurfaced	84	44	38	42	48	55	46	43	40	59
Parks & Recreation										
Recreation Center Participants	372,110	537,486	596,748	620,469	551,101	527,224	495,231	472,613	480,993	496,683
Service										
Pothole Repairs (by tons of asphalt)	349	383	496	561	398	430	357	204	197	480

Sources: Various city departments

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

Department	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Public Safety										
Safety Building - Police	1	1	1	1	1	1	1	1	1	1
Fire Halls	18	18	18	18	18	19	19	19	19	19
Operations & Engineering										
Street Lights	29,506	29,801	29,649	29,569	29,711	30,145	30,211	30,232	30,250	30,299
Miles of Streets Maintained	1,274	1,274	1,277	1,277	1,277	1,278	1,178	1,179	1,179	1,175
Parks & Recreation										
Recreation Centers	13	13	13	12	12	12	12	12	14	16
Parks	81	81	80	81	81	82	82	81	81	93
Park Acreage	1,858	1,858	1,963	1,963	1,963	2,000	2,000	2,828	2,828	3,102
Swimming Pools	5	5	5	5	5	5	5	5	5	5
Tennis Courts	68	68	68	68	68	67	67	47	47	45
Miles of Greenway	42	43	44	66	66	85	86	86	86	113
Golf Courses	3	3	3	3	3	3	3	3	3	3
Pickleball Courts	-	-	-	-	-	-	-	-	10	10
Metro Parking										
Parking Garages	5	5	5	5	5	5	5	5	5	5
Parking Lots	5	5	5	7	8	8	8	8	8	9
Total Spaces	3,827	3,827	3,827	4,296	4,312	4,289	4,529	4,529	4,688	4,673
Fleet										
Garages	2	2	2	2	2	2	2	2	2	2
Number of Vehicles Maintained	1,418	1,496	1,527	1,630	1,515	1,532	1,538	1,552	1,562	1,510

Sources: Various City Departments

COMPLIANCE SECTION

CITY OF KNOXVILLE, TENNESSEE
SINGLE AUDIT REPORT AND FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2017

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**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2017**

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2016	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2017	Amount Passed Through to Subrecipients	
U.S. Department of Housing and Urban Development									
<u>Direct assistance</u>									
	FEDERAL ASSISTANCE								
	Community Development Block Grant	14.218	B-14-MC-47-0005	\$ -	\$ 528,820	\$ 528,820	\$ -	\$ -	
	Community Development Block Grant	14.218	B-15-MC-47-0005	273,557	594,366	320,809	-	-	
	Community Development Block Grant	14.218	B-16-MC-47-0005	-	911,921	1,184,669	272,749	1,216,609	
	Community Development Block Grant/Section 108	14.218	B-15-MC-47-0005	(226,125)	2,330,648	2,324,657	(232,117)	-	
		<u>14.218</u>		<u>47,432</u>	<u>4,365,755</u>	<u>4,358,955</u>	<u>40,632</u>	<u>1,216,609</u>	
	Home Grant 2013	14.239	M13-MC-47-0201	-	253,139	253,139	-	-	
	Home Grant 2014	14.239	M14-MC-47-0201	-	275,597	275,597	-	-	
	Home Grant 2015	14.239	M15-MC-47-0201	(157,886)	264,398	422,284	-	-	
	Home Grant 2016	14.239	M16-MC-47-0201	-	837,373	343,606	(493,767)	-	
		<u>14.239</u>		<u>(157,886)</u>	<u>1,630,507</u>	<u>1,294,626</u>	<u>(493,767)</u>	<u>-</u>	
<u>Passed through from</u>									
Tennessee Housing Development Agency	Emergency Shelter (THDA)	14.231	ESG-14-08	41,028	41,028	-	-	-	
	Emergency Shelter (THDA)	14.231	ESG-15-26	23,546	23,546	-	-	-	
	Emergency Shelter (THDA)	14.231	ESG-16-38	-	150,714	178,750	28,036	167,500	
		<u>14.231</u>		<u>64,574</u>	<u>215,288</u>	<u>178,750</u>	<u>28,036</u>	<u>167,500</u>	
	Lead Hazard Control Grant	14.900	TNLHB0564-13	99,048	252,876	386,207	232,379	253,470	
	Healthy Homes Grant	14.900	TNLHB0564-13(B)	29,953	76,474	83,929	37,408	-	
		<u>14.900</u>		<u>129,001</u>	<u>329,350</u>	<u>470,136</u>	<u>269,787</u>	<u>253,470</u>	
Total U.S. Department of Housing and Urban Development				<u>83,121</u>	<u>6,540,900</u>	<u>6,302,467</u>	<u>(155,312)</u>	<u>1,637,579</u>	
U.S. Department of Justice									
<u>Direct assistance</u>									
	Knoxville's Enhanced Training & Svcs to End Abuse	16.528	2015-EW-AX-K009	31,526	48,773	44,649	27,401	40,876	
	Grants to Encourage Arrests 2012 (OVW-Arrest)	16.590	2012-WE-AX-0025	127,795	161,825	34,030	-	25,879	
Department of Justice	Equitable Sharing Program/MLARS	16.922		-	769,203	100,092	(669,111)	-	
<u>Passed through from</u>									
Department of Finance and Administration:	Office of Juvenile Justice and Delinquency Prevention	2013 TN ICAC Task Force Grant	16.543	2013-MC-FX-K031	324,608	472,658	510,687	362,638	74,459
		TN ICAC Forensic Hiring Program for the Wounded Veteran	16.543	2015-MC-FX-K050	-	28,481	43,044	14,563	-
		Tennessee 2016 ICAC Federal Grant	16.543	2016-MC-FX-K052	-	52,317	93,523	41,206	-
			<u>16.543</u>	<u>324,608</u>	<u>553,456</u>	<u>647,254</u>	<u>418,407</u>	<u>74,459</u>	
	2016-2018 Knoxville Victim's Services (VOCA)	16.575	Contract 26743	18,954	60,856	80,053	38,151	-	
	VOCA - Knoxville Family Justice Center Navigator	16.575	2015-VA-GX-0018	-	17,457	27,370	9,913	-	
			<u>16.575</u>	<u>18,954</u>	<u>78,313</u>	<u>107,423</u>	<u>48,064</u>	<u>-</u>	
	2013 Byrne/Justice Assistance Grant Program	16.579	2013-DJ-BX-0335	79,565	89,725	11,302	1,142	1,743	
	2014 Byrne/Justice Assistance Grant Program	16.579	2014-DJ-BX-0564	87,067	93,477	30,163	23,753	-	
			<u>16.579</u>	<u>166,632</u>	<u>183,202</u>	<u>41,465</u>	<u>24,895</u>	<u>1,743</u>	
	JAG Family Justice Center TA Provider	16.738	Edison 22561	34,192	33,324	49,835	50,703	-	
	Byrne Justice Assistance Grant - Knoxville TCCRP	16.738	Contract 27197	39,034	71,087	105,199	73,146	-	
	2015 Knoxville Knox County JAG Grant	16.738	2015-DJ-BX-0591	97,387	102,164	4,777	-	-	
	2016 Knoxville Knox County JAG Grant	16.738	2016-DJ-BX-0707	-	-	14,638	14,638	-	
		<u>16.738</u>		<u>170,613</u>	<u>206,575</u>	<u>174,449</u>	<u>138,487</u>	<u>-</u>	
Total U.S. Department of Justice				<u>840,128</u>	<u>2,001,347</u>	<u>1,149,362</u>	<u>(11,857)</u>	<u>142,957</u>	

See independent auditor's report.

**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2017**

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/16	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/17	Amount Passed Through to Subrecipients
U.S. Department of Transportation								
<u>Direct assistance</u>								
Federal Transit Cluster	2011 CMAQ Grant	20.507	TN-95-X040-00	3,121	4,631	1,649	138	-
	2012 STP Grant	20.507	TN-95-X048-00	53,062	53,062	1,411,738	1,411,738	-
	2013 STP Grant	20.507	TN-95-X067-00	-	-	1,464,800	1,464,800	-
	2014 STP Grant	20.507	TN-95-X071-00	-	-	715,985	715,985	-
	2012 Formula Grant	20.507	TN-90-0350-00	258,139	258,139	-	-	-
	2013 Formula Grant	20.507	TN-90-X361-00	47,645	47,772	127	-	-
	2014 Formula Grant	20.507	TN-90-X0381	54,191	67,049	12,857	-	-
	2015 Formula Grant	20.507	TN-2017-012-00	5,242,185	5,334,389	105,144	12,940	-
	2016 Formula Grant	20.507	TN-2017-018-00	4,382,513	5,151,339	768,826	-	-
	2017 Formula Grant	20.507	TN-90-X2017	-	-	4,428,287	4,428,287	-
		20.507		10,040,856	10,916,381	8,909,413	8,033,888	-
	Knoxville Station Transit Center Project	20.500	TN-04-0022	292,730	292,730	-	-	-
	2013 5309 State of Good Repair Grant	20.500	TN-04-0073-00	365,569	365,569	-	-	-
	2010 5309 TDOT Discretionary Funding	20.500	TN-04-0045-02	177,112	177,112	-	-	-
		20.500		835,411	835,411	-	-	-
	2013 & 2014 5339 (MAP 21) Grant	20.526	TN-34-0005-00	23,714	240,163	393,493	177,044	-
Total Federal Transit Cluster				10,899,981	11,991,955	9,302,906	8,210,932	-
<u>Passed through from</u>								
Tennessee Department of Transportation	Jackson Avenue Ramps	20.205	BRZE-9109(103); Pin 106077.00	192,964	238,782	274,451	228,633	-
Tennessee Department of Transportation	Cumberland Avenue Streetscapes & Pedestrian Improvements	20.205	STP-M-9109(115); Pin 110692.00	5,975,305	10,863,715	6,544,599	1,656,189	-
Tennessee Department of Transportation	Upper Second Creek Greenway	20.205	State 060018; Pin 107380.00	169,454	181,100	17,455	5,809	-
Tennessee Department of Transportation	Access Improvements to I-275 Business Park	20.205	Contract 090268; Pin 110262.00	51,156	207,234	215,376	59,297	-
Tennessee Department of Transportation	Holbrook Bridge over Fountain Road	20.205	BRZE-9109(122); Pin 107700.00	1,167,506	949,867	98,041	315,679	-
Tennessee Department of Transportation	Knox-Blount Greenway Phase I	20.205	State 110043; Pin 115617.00	109,840	110,439	599	-	-
Tennessee Department of Transportation	N. Central Street Streetscape Improvements	20.205	47LPLM-F3-082; State 110195	210,131	262,197	53,557	1,492	-
Tennessee Department of Transportation	Park City Sidewalk Network Completion	20.205	CM-9109(148); State 110045	99,513	55,264	54,405	98,654	-
Tennessee Department of Transportation	Washington Pike and Millertown Pike Widening	20.205	STP-M-9109(64); State 070099	276,250	278,262	35,197	33,186	-
Tennessee Department of Transportation	COK Greenway Corridor Feasibility & Assessment	20.205	STP-M-9109(162); State 120271	50,317	53,262	2,945	-	-
Tennessee Department of Transportation	First Creek Greenway	20.205	STP-EN-9109(143)	79,116	202,672	504,692	381,136	-
Tennessee Department of Transportation	Advanced Traffic Management System - Traffic Control Upgrade	20.205	STP-M-9109(165); State 140161; PIN 1	253,475	523,197	342,604	72,882	-
Tennessee Department of Transportation	CMAQ funding for ther Chapman Highway Portion of the ATMS	20.205	CM-9109(1171); State 140161	-	158,000	177,000	19,000	-
Tennessee Department of Transportation	Widening of Pleasant Ridge Road, from City Limits to	20.205	STP-EN-9109(53)	23,225	4,930	-	18,295	-
Tennessee Department of Transportation	Liberty Street Multimodal Improvements	20.205	TAP-STP-M-9115(171); State 150169	566	38,400	105,367	67,533	-
Tennessee Department of Transportation	Transportation Planning Grant through MPC	20.205	Edison ID: 38616	2,645	2,645	-	-	-
		20.205		8,661,463	14,129,966	8,426,288	2,957,785	-
Highway Safety Cluster	16/17 GHSO - Knoxville's FY2016 Pedestrian Safety Grant	20.600	Z-16-GHS185/Edison 47348	759	3,464	2,705	-	-
	17/18 GHSO - Knoxville's FY2017 Pedestrian Safety Grant	20.600	Z-17-THS042/Edison 51899	-	2,589	2,589	-	-
		20.600		759	6,053	5,294	-	-
	FY16 GHSO Nighttime Seafbelt Demo Project	20.616	Z-16-GHS184/Edison 47353	1,377	5,218	3,841	-	-
	FY17 GHSO Nighttime Seafbelt Demo Project	20.616	Z-17-THS386/Edison 51817	-	7,347	9,199	1,852	-
		20.616		1,377	12,565	13,040	1,852	-
Total Highway Safety Cluster				2,136	18,618	18,334	1,852	-
Governor's Highway Safety	Knoxville's FY16 DUI Enforcement (GHSO)	20.607	Z-16-GHS183/Edison 47354	19,305	23,898	4,593	-	-
	Knoxville's FY17 DUI Enforcement (GHSO)	20.607	Z-16-THS207/Edison 51901	-	19,994	23,917	3,923	-
		20.607		19,305	43,892	28,510	3,923	-
Total U.S. Department of Transportation				19,582,885	26,184,431	17,776,038	11,174,492	-
U.S. Department of Treasury								
<u>Direct assistance</u>								
	Equitable Sharing/TEOAF	21.016		-	829,111	339,243	(489,868)	-
Total U.S. Department of Treasury				-	829,111	339,243	(489,868)	-
U.S. Department of Environmental Protection								
<u>Direct assistance</u>								
	EPA/Brownfield Cleanup Cooperative Grant	66.818	BF-00D47816-0	-	1,291	11,452	10,161	-
Total U.S. Department of Environmental Protection				-	1,291	11,452	10,161	-

See independent auditor's report.

**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2017**

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/16	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/17	Amount Passed Through to Subrecipients
U.S. Department of Homeland Security								
<i>Passed through from</i>								
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm	97.036	FEMA-1974-DR-TN	-	253	253	-	-
	Public Assistance/Disaster Grant for June 22, 2011 Storm	97.036	FEMA-4005-DR-TN	38,487	141,220	102,733	-	-
		97.036		<u>38,487</u>	<u>141,473</u>	<u>102,986</u>	-	-
Tennessee Emergency Management Agency	2015 Emergency Management Performance Grant	97.042	34101-14216	150,000	150,000	-	-	-
Tennessee Emergency Management Agency	2016 Emergency Management Performance Grant	97.042	52021-22466	-	150,000	150,000	-	-
		97.042		<u>150,000</u>	<u>300,000</u>	<u>150,000</u>	-	-
Passed through Knox County	FY2015 Homeland Security Grant Program	97.067	34101-26216	-	12,171	15,288	3,117	-
Total U.S. Department of Homeland Security				<u>188,487</u>	<u>453,644</u>	<u>268,274</u>	<u>3,117</u>	-
Total Federal Assistance				\$ 20,694,621	\$ 36,010,724	\$ 25,846,836	\$ 10,530,733	\$ 1,780,536

See independent auditor's report.

**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2017**

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2016	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2017
STATE ASSISTANCE							
Tennessee Department of Environment and Conservation	FY2016-2017 Household Hazardous Waste		32701-01717/Edison 49148	\$ -	\$ -	\$ 117,697	\$ 117,697
	Clean Tennessee Energy Grant Program		32701-02412/Edison 44177	228,488	228,488	-	-
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm		FEMA-1974-DR-TN	-	885	885	-
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for June 22, 2011 Storm		FEMA-4005-DR-TN	6,050	23,172	17,122	-
Tennessee Department of Agriculture - Forestry Division	TAEP FY17 Tree Planting Program		32510-15317/Edison 62348	-	18,199	18,199	-
Criminal Justice Program	2016 State ICAC Grant		31701-06205; Edison 45218	142,277	-	-	-
Criminal Justice Program	2017 State ICAC Grant/East TN State ICAC		31701-06233; Edison 49531	-	168,242	238,697	70,455
Tennessee Department of Transportation	Kingston Pike Multimodal Transportation Grant		47LPM-S3-120; State 150072; PIN 1216	488	-	125,197	125,685
Tennessee Department of Transportation	Multimodal Access Grant for Merchant Drive & Clinton Highway		47LPM-S3-095; State 140155	-	-	327	327
Tennessee Department of Transportation	2015-2016 State Operating Grant		47-UROP-S3-010	913,572	913,572	-	-
Tennessee Department of Transportation	2016-2017 State Operating Grant		47-UROP-S3-013/Z-17-UROP07-00	-	3,160,600	3,160,600	-
Tennessee Department of Transportation	FY16 Student Intership Program		GG-17-53593-00/Edison 53593	-	1,228	1,960	732
Tennessee Department of Transportation	FTA-TN-04-0022		GG-08-27785-00	39,200	38,092	(1,107)	-
Tennessee Department of Transportation	FTA-TN-90-X335		47-5307-S3-022 (47-5307-S3-014)	11,577	11,577	-	-
Tennessee Department of Transportation	FTA-TN-90-X350-00		GG-13-33857-00 (round one)	51,970	51,970	-	-
Tennessee Department of Transportation	FTA-TN-90-X361		475307-S3-018	6,984	6,999	15	-
Tennessee Department of Transportation	FTA-TN-90-X381		475307-S3-021	631,634	624,861	1,608	8,381
Tennessee Department of Transportation	FTA-TN-04-0073-00		475309-S3-023	45,696	45,696	-	-
Tennessee Department of Transportation	FTA-TN-04-0045-02		GG-15-42739-00	18,138	18,138	-	-
Tennessee Department of Transportation	FTA-TN-34-0005-00		475339-S3-002	11,412	-	49,187	60,599
Tennessee Department of Transportation	FTA-TN-90-X3		GG-17-54167-00/Edison 54167	655,274	-	13,143	668,418
Tennessee Department of Transportation	FTA-TN-90-		GG-17-54941-00/Edison 54941	547,815	-	96,104	643,919
Tennessee Department of Transportation	FTA-TN-90-		Contract Pending	-	-	553,537	553,537
Total State Assistance				\$ 3,310,575	\$ 5,453,996	\$ 4,393,171	\$ 2,249,750
Total Federal and State Assistance				\$ 24,005,196	\$ 41,464,720	\$ 30,240,007	\$ 12,780,483

See independent auditor's report.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance) and the State of Tennessee. 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 the Uniform Guidance, where applicable.

Expenditures reported on the schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2 - Loans Outstanding

The City of Knoxville had the following loan funding balances and loan balances outstanding at June 30, 2017.

These 2017 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 17 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grants	14.218	\$2,307,117	\$ 5,168,231
Empowerment Zone	14.244	-	750,285
HOME Investment Partnerships Program	14.239	-	<u>10,645,300</u>
Total Loans		<u>\$2,307,117</u>	<u>\$16,563,816</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, 2017, 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 14, 2017. 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. 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.



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*, but other matters that are required to be reported under the State of Tennessee Audit Manual are referenced as 2017-001 and 2017-002 in the accompanying Schedule of Findings and Questioned Costs.

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, PLLC

Nashville, Tennessee
December 14, 2017



Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by the Uniform Guidance

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 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, 2017. 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 \$28,732,693 in federal awards which are not included in the schedule of expenditures of federal and state awards for the year ended June 30, 2017. 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 the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.



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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crosslin, PLLC

Nashville, Tennessee
December 14, 2017

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

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 2 CFR 200.516(a)? yes no

Identification of major programs for the City of Knoxville for the fiscal year ended June 30, 2017 are:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant Program
20.507 & 20.526	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$775,405

Auditee qualified as low-risk auditee? yes no

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2017**

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

None reported.

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

None reported.

IV. Findings and questioned costs required by the State of Tennessee audit manual

2017-01 Counterfeit Check

Condition, Criteria, Cause, Questioned Costs and Effect

During December 2016 it was discovered by the Financial Analyst for the City's Department of Finance that a counterfeit check was passed and cashed against the City's Bank of America account in North Carolina. A check written by the City in the amount of \$1,445.56 and dated 11/02/16 to a City vendor is believed to have been stolen from the vendor's mail box and a counterfeit check produced with the same check number and amount made payable to an individual.

Recommendations

None

Management's Response and Planned Corrective Action

This matter was investigated by the Knoxville police with no resolution. The Bank of America reimbursed the City for the amount of the check. The City considers this matter to be resolved and closed.

2017-02 Employee Theft

Condition, Criteria, Cause, Questioned Costs and Effect

During June 2017, it was discovered that two mowers were stolen from a City of Knoxville Public Works lot. The lot was unsecured and the mowers were being stored there temporarily while construction was being conducted on the facility. It was also believed that the keys may have been in one of the mowers and possibly both mowers. Based on the findings of the police investigation it was determined that an employee for the Public Works department was the perpetrator. The employee returned one of the mowers and paid restitution of \$2,500 (the value of the mower) to the City. The employee was terminated from employment with the City.

Recommendation

We recommend that management consider further controls that assure City assets are stored in a secure location at all times.

Management's Response and Planned Corrective Action

As discussed above, one mower was returned, restitution was paid to the City for the other mower and the employee was terminated from employment with the City. The City has stressed to the employees of the Public Works department the importance of following the City's policy of storing all equipment in a secure location. The City considers this matter to be resolved and closed.

CITY OF KNOXVILLE, TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Financial Statement Findings

None reported.

Financial Awards Findings and Questioned Costs

None reported.