



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, 2018

KNOXVILLE, TENNESSEE

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF KNOXVILLE, TENNESSEE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

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

CITY OF KNOXVILLE, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

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INTRODUCTORY SECTION

CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR



James York

Senior Director of Finance

December 27, 2018

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, 2018. 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 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. Policymaking 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 187,347 (2017 Census Bureau Estimate). Located in East Tennessee at the headwaters of the Tennessee River, the City serves as the economic center of the East Tennessee area, including portions of Kentucky, North Carolina and Virginia. Its trade sector is one of the strongest in the state.

Knoxville has a diversified economy, and also enjoys the employment stability provided by major institutional employers including the University of Tennessee, Oak Ridge National Laboratory, and the Tennessee Valley Authority. The Brookings Institution named Knoxville one of the first three cities in the United States to fully recover from the Recession of 2008-09.

The recent local economy has been very positive. Knoxville had, in February 2018, a countywide unemployment rate of just 2.9 %, lower than both the state and nation, and more than 3,600 new regional jobs were added during the fiscal year. When two major local employers, Regal Entertainment Group and Scripps Networks Interactive, were purchased in 2017, the new owners of both companies committed to keeping employees and corporate headquarters in Knoxville, citing the favorable business climate. In the case of the Scripps acquisition the acquiring company, Discovery Networks, announced its intention to relocate its North American headquarters/operations to Knoxville.

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 74 percent of the taxable sales within the County occur inside the corporate limits of Knoxville. Approximately 72 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 10 years.

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

| Year | Collections | % Change |
|------|-------------|----------|
| 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% |
| 2018 | \$40,884 | 0.24% |

As shown above, the City, in FY18 only experienced a 0.24% increase in local sales tax. The change in sales tax revenues has been atypical. The large growth in FY16 stems from an agreement between the State of Tennessee and Amazon to levy sales taxes on purchases made through the retailer. The smaller growth numbers in the past two years are attributable to refunds/redistributions between Knox County and the City of Knoxville. We believe these refunds are now complete and expect future year growth in the 2 to 3 percent 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. Sperling's Best Places reports a projected regional job growth of 38 % in the next 10 years.

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 Utilities 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 five major airlines serving 19 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Fort Lauderdale, New York, Chicago, Denver and Washington D.C. Departures and arrivals total approximately 2 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 World's Fair Park, 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 Zoo Knoxville.

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

Knoxville consistently 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 93.5 in 2017, the average of participating cities equaling 100.0. With its reasonable cost of living and a median home price of \$156,700, Knoxville was just named as one of 10 "next urban powerhouses" by Realtor.com. 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, 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 28,894 students for Fall 2018, 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 2018 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 2018 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 modernizes aging utility infrastructure, and improves traffic flow and the aesthetics of the corridor.

On the south bank of the Tennessee River, work is nearing completion on the renovation of the former and log vacant Baptist Hospital site, 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. Regal has also recently relocated its corporate headquarters to the area.

Also on the South Waterfront, the City opened the new Suttree Landing Park, its 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 assists 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. The City is in the process of converting its complete street light network to LED’s, which will enable the City to reach its goal of reducing its energy footprint by 20 percent.

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, 2017. This was the 32nd 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.

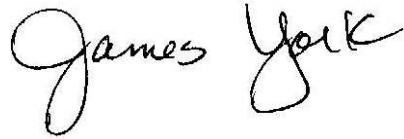
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Knoxville received GFOA’s Distinguished Budget Presentation Award for the annual operating budget dated July 1, 2017. This marks the 30th 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 Marshall Stair (Chair), Gwen McKenzie, Lauren Rider, Andrew Roberto, and Seema Singh-Perez. The national recognition afforded the City of Knoxville could not have been achieved without the increasing participation and enthusiasm of the citizens of this community. Their exceptional response has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvilleians.

Sincerely,

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

James York
Director of Finance



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

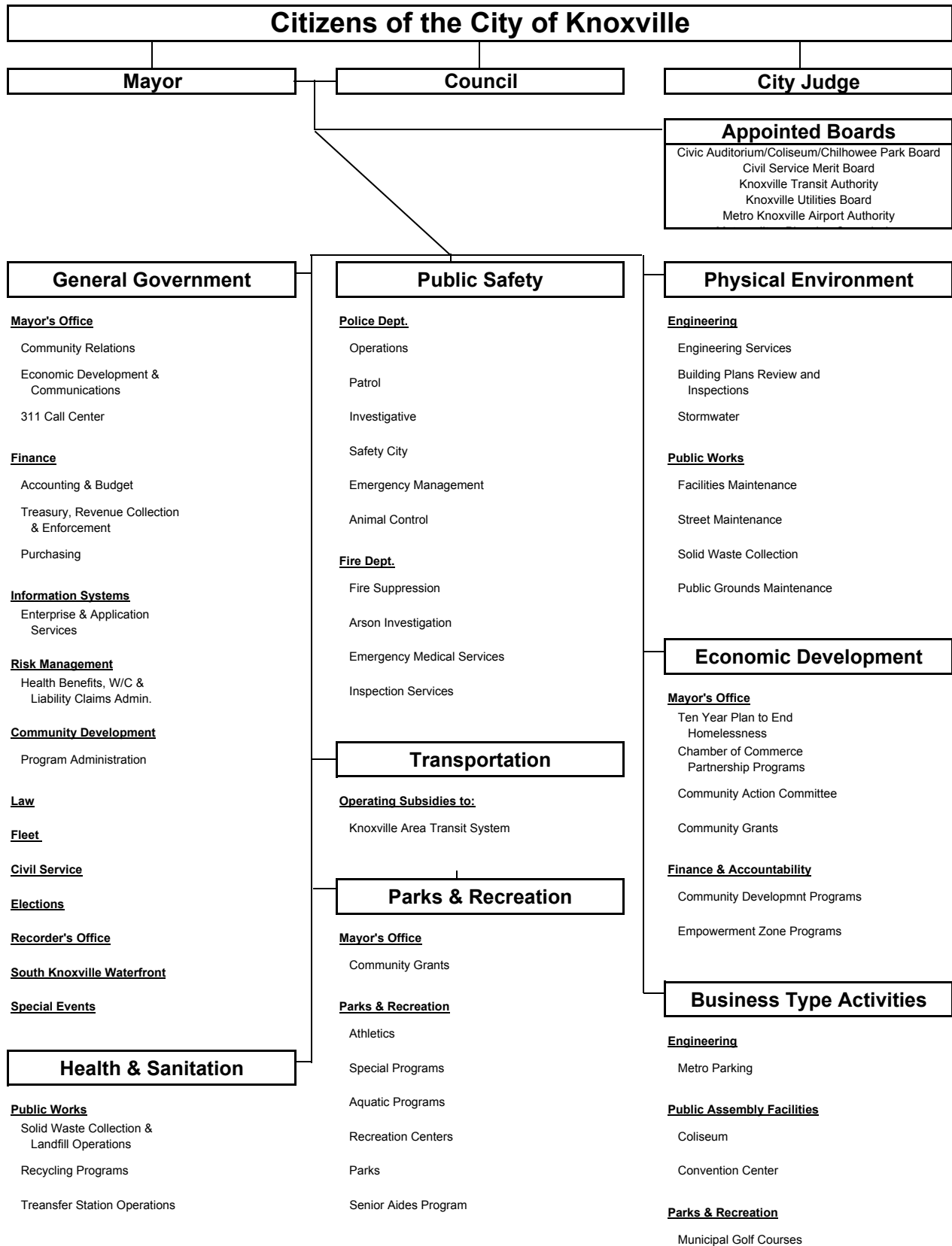
June 30, 2017

Christopher P. Morill

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
Marshall Stair
Gwen McKenzie

Finbarr Saunders, Vice Mayor
Mark Campen
Stephanie Welch

Andrew Roberto
Seema Singh-Perez
Lauren Rider

CITY JUDGE
John Rosen

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Deputy to the Mayor – David Brace, 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
Engineering – James Hagerman, Director
Finance & Accountability – Jim York, Director
Fire – Stan Sharp, Chief
Fleet – Keith Shields, Director
Information Systems – Janet Wright, Director
Knoxville Area Transit – Dawn Distler, General Manager
Knoxville Utilities Board – Mintha Roach, President
Law – Charles Swanson, Director
Parks & Recreation – Sheryl Ely, Director
Police - Eve Thomas, Chief
Public Service – Chad Weth, Director
Special Events – Judith Foltz

FINANCIAL SECTION



Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the general fund and miscellaneous community development funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3, in fiscal year 2018, the City adopted Governmental Accounting Standards Board ("GASB" Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions*). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 20 and the schedule of changes in net pension liability and related ratios and schedule of employer contributions of the pension plan on pages 96 and 97, and the schedule of changes in total OPEB liability and related ratios on page 98 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 99 to 129, 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 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 27, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Crosslin, PLLC

Nashville, Tennessee
December 27, 2018

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, 2018.

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 \$634,321,963 (*net position*). Of this amount, \$279,739,234 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net position increased by \$43,057,249, a change of 7.15% when compared to FY2017. 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 \$274,147,984, an increase of \$14,007,870 over the prior year. Of this total, \$243,592,670 or 88.85% is either non-spendable, restricted, committed, or assigned. The remaining balance of \$30,557,331 is available for other uses.
- The ending Fund Balance in the City's General Fund decreased by \$7,824,035 or 8.12%. For FY2018, \$18,265,000 was appropriated from unassigned fund balance to augment General Fund revenues to balance the planned budget expenditures. Tax collections, particularly the state shared Hall Income Tax, were much higher than anticipated, and augmented by efficient use of resources, contributed significantly to reducing the amount of unassigned fund balance needed to support expenditures. Consistent with fund balance standards, a total of \$305,352 is considered non-spendable and \$57,652,646 is assigned or committed. The remaining balance of \$30,557,331 is available for spending at the City's discretion.
- The City's total debt for the primary government increased by \$4,525,000 from \$162,865,000 to \$167,390,000 during the current fiscal year as a result of normal debt service activity and the issuance of a \$14,625,000 General Obligation Bond issue.

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.

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 Assets reports all assets and liabilities, including capital assets and long-term liabilities. Proprietary funds reflect their net assets according to their availability for use in operations.

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

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

Fiduciary and Component Unit Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support 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 assets based on their availability for use in operations.

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

Notes to the Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

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

Statement of Net Position at June 30, 2018

A condensed version of the Statement of Net Position follows:

| Condensed Financial Information | | | | | | |
|-------------------------------------|----------------------------|-------------------|-----------------------------|------------------|-----------------------------|-------------------|
| Statement of Net Position | | | | | | |
| Primary Government | | | | | | |
| For Fiscal Years Ending June 30 | | | | | | |
| (In \$1,000's) | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Assets | | | | | | |
| Cash and investments | \$ 386,829 | \$ 369,639 | \$ 66,832 | \$ 52,349 | \$ 453,661 | \$ 421,988 |
| Other assets | 187,896 | 189,689 | 8,617 | 3,907 | 196,513 | 193,596 |
| Capital assets | 377,018 | 360,059 | 138,332 | 141,955 | 515,350 | 502,014 |
| Total assets | <u>951,743</u> | <u>919,387</u> | <u>213,781</u> | <u>198,211</u> | <u>1,165,524</u> | <u>1,117,598</u> |
| Deferred Outflows | 63,235 | 68,670 | 228 | 589 | 63,463 | 69,259 |
| Liabilities | | | | | | |
| Other liabilities | 17,516 | 21,000 | 4,050 | 3,134 | 21,566 | 24,134 |
| Noncurrent liabilities | 315,956 | 300,264 | 101,363 | 107,217 | 417,319 | 407,481 |
| Total liabilities | <u>333,472</u> | <u>321,264</u> | <u>105,413</u> | <u>110,351</u> | <u>438,885</u> | <u>431,615</u> |
| Deferred Inflows | 154,723 | 152,059 | 1,058 | 1,322 | 155,781 | 153,381 |
| Net position | | | | | | |
| Net investment in capital assets | 305,396 | 298,791 | 37,202 | 35,332 | 342,598 | 334,123 |
| Restricted | 11,984 | 12,817 | - | - | 11,984 | 12,817 |
| Unrestricted | 209,403 | 203,126 | 70,336 | 51,795 | 279,739 | 254,921 |
| Total net position | <u>\$ 526,783</u> | <u>\$ 514,734</u> | <u>\$ 107,538</u> | <u>\$ 87,127</u> | <u>\$ 634,321</u> | <u>\$ 601,861</u> |

Governmental Activities

Assets have increased by 3.52% and liabilities have increased by 3.80% when compared to FY2017 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. Noncurrent liabilities increased by \$15.7 million primarily due to the issuance of new debt. The net pension liability decreased by \$7.9 million in accordance with actuarial requirements of the various pension plans. Declining principal balances due to annual debt service payments, offset in part by the addition of a \$14.625 Million general obligation bond issue in FY2018 account for the balance of the change in noncurrent liabilities. The net result of these changes is an increase in total net position of 2.34%.

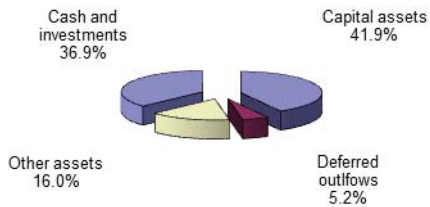
Business-Type Activities

Assets and liabilities changed by 7.86% and -4.47% respectively from FY2017 levels. The interest rate swap liability, when compared to FY2017, declined by \$360,900 due to a reduction in the outstanding principal and changing 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 23.43% increase in net position.

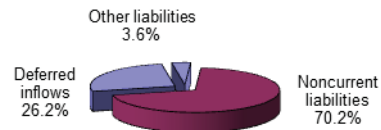
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure, and construction in progress account for 41.9% of \$1,228,987 in total assets and deferred outflows. Taxes and governmental receivables constitute 16.0%. Current liquidity comprised of cash and investments represents 36.9% and deferred outflows representing interest rate swaps and pension liabilities account for 5.2%.

Primary Government Assets & Deferred Outflows



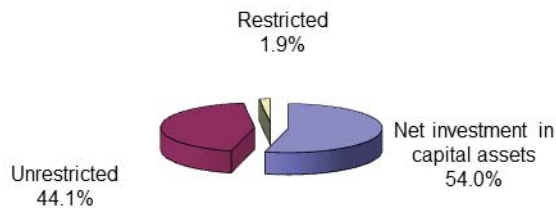
Primary Government Liabilities & Deferred Inflows



Of the total government liabilities, 70.2% are in long-term debt. Of the total long-term debt, approximately \$100.2 million, or 59.85% is related to debt issued to finance the convention center.

A portion of the City's total net assets is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. The unrestricted net assets of the City's primary governmental activities represent 44.1% of total primary government net assets.

Primary Government Total Net Position



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

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 Activities | | Business-Type Activities | | Total Primary Government | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 11,179 | \$ 11,529 | \$ 14,011 | \$ 11,639 | \$ 25,190 | \$ 23,168 |
| Operating grants & contributions | 6,632 | 9,102 | 1,500 | 1,500 | 8,132 | 10,602 |
| Capital grants & contributions | 7,608 | 14,262 | - | - | 7,608 | 14,262 |
| General revenues: | | | | | | |
| Taxes | 249,073 | 242,037 | 16,787 | 13,739 | 265,860 | 255,776 |
| Interest | 3,336 | 2,575 | 503 | 341 | 3,839 | 2,916 |
| Other | 4,134 | 2,291 | 860 | 1,802 | 4,994 | 4,093 |
| Total revenues | <u>281,962</u> | <u>281,796</u> | <u>33,661</u> | <u>29,021</u> | <u>315,623</u> | <u>310,817</u> |
| Expenses: | | | | | | |
| General government | 44,384 | 24,653 | - | - | 44,384 | 24,653 |
| Public safety | 95,748 | 100,752 | - | - | 95,748 | 100,752 |
| Physical Environment | 53,452 | 54,041 | - | - | 53,452 | 54,041 |
| Transportation | 13,307 | 11,016 | - | - | 13,307 | 11,016 |
| Economic development | 10,570 | 13,499 | - | - | 10,570 | 13,499 |
| Parks and recreation | 11,474 | 9,936 | - | - | 11,474 | 9,936 |
| Health & Sanitation | 8,766 | 9,738 | - | - | 8,766 | 9,738 |
| Interest on long-term debt | 1,761 | 1,998 | - | - | 1,761 | 1,998 |
| Other | - | - | 33,105 | 27,870 | 33,105 | 27,870 |
| Total expenses | <u>239,462</u> | <u>225,633</u> | <u>33,105</u> | <u>27,870</u> | <u>272,567</u> | <u>253,503</u> |
| Increase (decrease) in net position before transfers | 42,500 | 56,163 | 556 | 1,151 | 43,056 | 57,314 |
| Transfers | (19,855) | (6,129) | 19,855 | 6,129 | - | - |
| Changes in net position | 22,645 | 50,034 | 20,411 | 7,280 | 43,056 | 57,314 |
| Beginning net position, as restated | 504,138 | 464,700 | 87,127 | 79,847 | 591,265 | 544,547 |
| Ending net position | <u>\$ 526,783</u> | <u>\$ 514,734</u> | <u>\$ 107,538</u> | <u>\$ 87,127</u> | <u>\$ 634,321</u> | <u>\$ 601,861</u> |

Governmental Activities

Reflected in the Government-Wide Statement of Activities for the fiscal year ending June 30, 2018, only the General, Debt Service, State Street Aid 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 2.24%. The volatile state income tax on investment earnings exceeded the budgeted amount by \$6,652,233 representing an increase of \$1.6 million when compared to FY2017. This state income tax on investments is being phased out, and will be completely eliminated in FY2021.

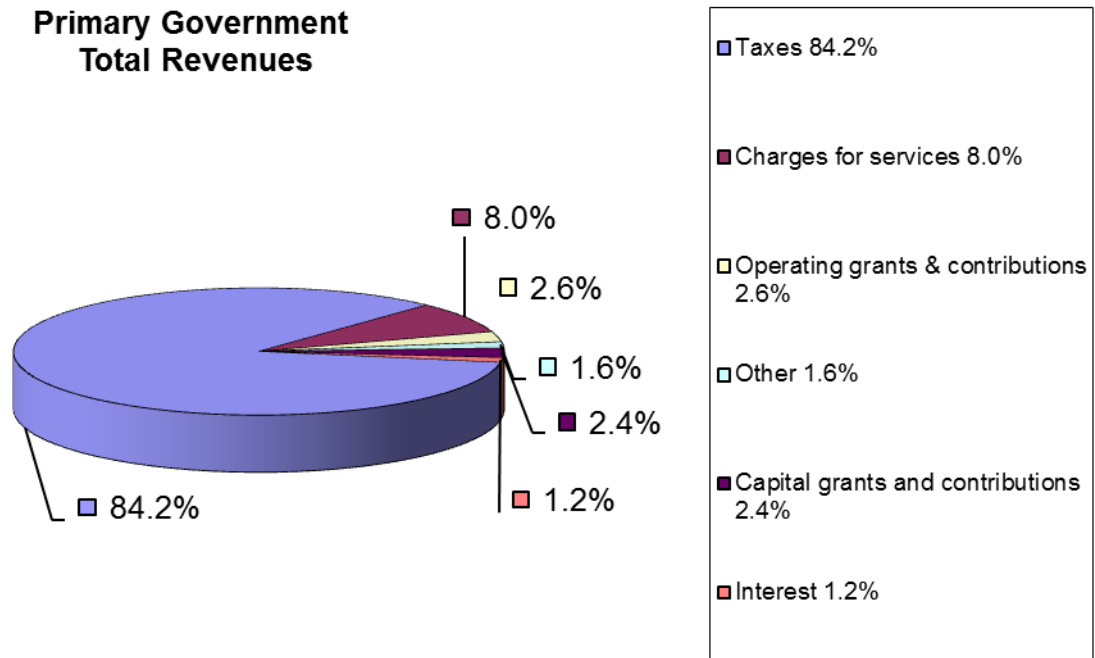
Surplus Debt Service fund revenues are generally utilized for one time expenditures, capital projects or to retire debt. Excess City Court revenues are transferred to the General Fund to finance general operations. Overall general government expenditures increased \$5.4 million primarily due to salary increases and expenditures associated with capital projects. Public safety operations accounted for 39.98% of the City's total governmental operations of \$239.5 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.

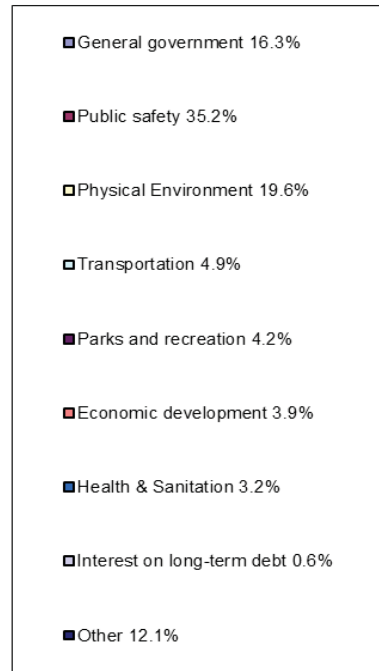
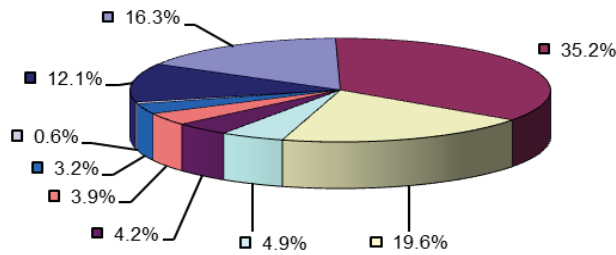
Total Government

Primary Government Revenues were \$315.6 million. The largest portion of these revenues (\$265.9 M – 84.2%) was from taxes.



Total primary government expenses totaled \$272.6 million, 35.2% of which was directed toward public safety.

Primary Government Total Expenses



Component Units

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

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

| | Knoxville Utilities Board | | Metropolitan Knoxville Airport Authority | | Knoxville Area Transit | | Totals | |
|------------------------|---------------------------|------------|--|------------|------------------------|-----------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Program Revenues | \$ 816,011 | \$ 771,504 | \$ 53,876 | \$ 64,544 | \$ 22,075 | \$ 27,744 | \$ 891,962 | \$ 863,792 |
| Program Expenses | (755,036) | (737,341) | (32,991) | (33,077) | (31,387) | (34,692) | (819,414) | (805,110) |
| Total General Revenues | 2,597 | 1,928 | 1,302 | 1,062 | 10,282 | 9,412 | 14,181 | 12,402 |
| Change in Net Assets | 63,572 | 36,091 | 22,187 | 32,529 | 970 | 2,464 | 86,729 | 71,084 |
| Net Assets at Year End | \$ 1,066,779 | \$ 998,685 | \$ 206,273 | \$ 184,086 | \$ 49,741 | \$ 48,771 | \$ 1,322,793 | \$ 1,231,542 |

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2018

The total Governmental Funds balance as of June 30, 2018 is \$274.1 million of which the general fund's balance is approximately \$88.5 million, the debt service fund is \$50.7 million, capital projects funds comprise \$115.4 million, miscellaneous community development funds total \$1.6 million and the remaining \$17.7 million is distributed among the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances increased by \$14.0 million when compared to the prior year. The change was predominantly in the general fund (down by 8.1%) reflecting the budgeted use of fund unassigned fund

balance, capital projects fund (up by 28.5%) due to the \$14.625 bond issue proceeds and other governmental funds down by 17.9% due to the transfer of the Knoxville Civic Revitalization funds to fund related projects. 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, 2018

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, 2018, 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 | 2018 | 2017 | Percent of Total 2018 | Change from Prior Year | |
|--|-------------------|-------------------|-----------------------------|------------------------|-------------------|
| | | | | Increase (Decrease) | Percent Change |
| Taxes, assessments, interest & penalties | \$ 217,761 | \$ 212,992 | 77.72% | \$ 4,769 | 2.24% |
| Licenses, permits and inspection charges | 3,052 | 3,005 | 1.09% | 47 | 1.55% |
| Intergovernmental revenue | 43,520 | 45,811 | 15.53% | (2,291) | (5.00%) |
| Charges for services | 5,013 | 6,728 | 1.79% | (1,715) | (25.49%) |
| Fines and forfeitures | 4,190 | 3,010 | 1.50% | 1,180 | 39.18% |
| Other | 6,665 | 8,350 | 2.38% | (1,685) | (20.18%) |
| Totals | <u>\$ 280,201</u> | <u>\$ 279,896</u> | <u>100.00%</u> | <u>\$ 305</u> | <u>0.11%</u> |

A comparison of revenues between FY2017 and FY2018 shows total general government revenues were up by approximately \$305 thousand or .11%. Taxes, assessments, interest & penalties showed the largest growth, increasing 2.24%, which signifies increased new construction, due to the upturn in the economy. Intergovernmental revenue dropped by 5% reflecting decreased grant funding being earned and awarded. Charges for Services and Fines and forfeitures are down a combined 5.5% primarily due to reduced collections by the City Court for various traffic related matters. An increase of \$1.56 million is reflected in the Hall Income Tax, a state shared revenue that has been historically unpredictable. 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, 2018, 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 | 2018 | 2017 | Percent of Total 2017 | Change from Prior Year | |
|----------------------------------|-------------------|-------------------|-----------------------------|------------------------|-------------------|
| | | | | Increase (Decrease) | Percent Change |
| Administration | \$ 4,770 | \$ 4,263 | 1.77% | \$ 507 | 11.90% |
| Finance | 4,236 | 4,019 | 1.57% | 217 | 5.40% |
| Information Systems | 4,250 | 4,144 | 1.58% | 106 | 2.55% |
| Community Development | 6,769 | 9,435 | 2.51% | (2,666) | (28.26%) |
| South Knoxville Waterfront | 340 | 513 | 0.13% | (173) | (33.68%) |
| Parks & Recreation | 7,700 | 7,470 | 2.85% | 230 | 3.08% |
| Mass Transit | 12,458 | 12,327 | 4.62% | 131 | 1.06% |
| Engineering | 15,057 | 15,012 | 5.58% | 45 | 0.30% |
| Public Services | 35,544 | 36,861 | 13.17% | (1,317) | (3.57%) |
| Law | 3,127 | 2,785 | 1.16% | 342 | 12.30% |
| Police | 56,636 | 59,347 | 20.99% | (2,711) | (4.57%) |
| Fire | 38,923 | 44,164 | 14.42% | (5,241) | (11.87%) |
| Legislative | 985 | 908 | 0.37% | 77 | 8.53% |
| City Elections | 317 | - | 0.12% | 317 | - |
| Civil Service | 1,091 | 1,071 | 0.40% | 20 | 1.84% |
| Knoxville Partnership | 637 | 750 | 0.24% | (113) | (15.08%) |
| Metropolitan Planning Commission | 1,107 | 1,054 | 0.41% | 53 | 5.03% |
| Knoxville Zoological Park | 1,301 | 1,251 | 0.48% | 50 | 4.03% |
| Community Agency Grants | 1,362 | 1,332 | 0.50% | 30 | 2.22% |
| Community Action Committee | 849 | 793 | 0.31% | 56 | 7.04% |
| Tax Increment Payments | 1,987 | 2,111 | 0.74% | (124) | (5.86%) |
| Other General Government | 16,835 | - | 6.24% | 16,835 | - |
| Capital and Grant Projects | 36,657 | 53,188 | 13.59% | (16,531) | (31.08%) |
| Debt service: | | | | | |
| Principal retirement | 4,742 | 4,998 | 1.76% | (256) | (5.12%) |
| Interest on bonds and notes | 1,789 | 2,039 | 0.66% | (250) | (12.24%) |
| Total Expenditures | <u>\$ 259,469</u> | <u>\$ 269,834</u> | <u>96.16%</u> | <u>\$ (10,365)</u> | <u>(3.84%)</u> |

Overall, general government expenditures in FY2018 declined by approximately \$10.4 million. Community Development expenditures decreased by approximately \$2.67 million. This drop is primarily due to the decline in the expenditures for various community development type grants. City Elections occur bi-annually, and because FY2018 was an election year, expenditures increased by \$317,000. New this fiscal year is the category for Other General Government. As will be explained more fully in the Fiduciary Funds Statements analysis, pension funds past service costs were removed from the operating departments in the amount of \$16,477,000 and moved to this category. This change caused a ripple effect in all activities with personnel and accounts for the majority of the expenditure reductions associated with the operating departments which were offset to a certain extent by salary increases and increased operating costs.

Proprietary Funds Statements

Statement of Net Assets at June 30, 2018

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 Assets for the Year Ended June 30, 2018

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 \$30.1 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2018

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 | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| I. Business-type Activities | | | | | | |
| A. Knoxville Convention Center | \$ 23,130 | \$ 20,464 | \$ 19,550 | \$ 16,879 | \$ 9,800 | \$ 3,963 |
| B. Other (Non-major enterprise funds) | | | | | | |
| 1. Metro Parking | 4,998 | 2,001 | 5,364 | 2,372 | 7,459 | - |
| 2. Public Assembly Facilities | 4,549 | 1,738 | 6,937 | 3,888 | 2,456 | 2,912 |
| 3. Municipal Golf Courses | 984 | 1,052 | 1,255 | 1,601 | 140 | 316 |
| Total Business-type Activities | <u>33,661</u> | <u>25,255</u> | <u>33,106</u> | <u>24,740</u> | <u>19,855</u> | <u>7,191</u> |
| II. Government-Wide Activities | | | | | | |
| A. Internal Service Funds | | | | | | |
| 1. Fleet Maintenance | 17,798 | 15,758 | 13,611 | 12,080 | 597 | 529 |
| 2. Risk Management | 7,514 | 7,041 | 6,141 | 6,345 | - | (3) |
| 3. Health Insurance | 19,368 | 19,286 | 18,405 | 16,898 | - | 1,282 |
| 4. Equipment Replacement | 2,793 | 1,989 | 2,352 | 1,767 | 1,937 | 531 |
| 5. City Buildings | 1,838 | 1,406 | 1,795 | 1,390 | - | - |
| Total Government-Wide Activities | <u>49,311</u> | <u>45,480</u> | <u>42,304</u> | <u>38,480</u> | <u>2,534</u> | <u>2,339</u> |
| Totals | <u>\$ 82,972</u> | <u>\$ 70,735</u> | <u>\$ 75,410</u> | <u>\$ 63,220</u> | <u>\$ 22,389</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 | |
|---------------------------------------|-----------------------|--------|------------------------|-----------|--------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| I. Business-type Activities | | | | | | |
| A. Knoxville Convention Center | \$ - | \$ - | \$ 13,380 | \$ 7,548 | \$ 61,456 | \$ 48,076 |
| B. Other (Non-major enterprise funds) | | | | | | |
| 1. Metro Parking | - | 118 | 7,093 | (253) | 28,535 | 21,442 |
| 2. Public Assembly Facilities | - | - | 68 | 762 | 15,830 | 15,762 |
| 3. Municipal Golf Courses | - | - | (131) | (233) | 1,717 | 1,848 |
| Total Business-type Activities | - | 118 | 20,410 | 7,824 | 107,538 | 87,128 |
| II. Government-Wide Activities | | | | | | |
| A. Internal Service Funds | | | | | | |
| 1. Fleet Maintenance | - | 308 | 4,784 | 4,515 | 73,643 | 68,859 |
| 2. Risk Management | - | - | 1,373 | 693 | 16,996 | 15,623 |
| 3. Health Insurance | - | - | 963 | 3,670 | 20,325 | 19,362 |
| 4. Equipment Replacement | 198 | 160 | 2,576 | 913 | 29,335 | 26,759 |
| 5. City Buildings | - | - | 43 | 16 | 3,056 | 3,013 |
| Total Government-Wide Activities | 198 | 468 | 9,739 | 9,807 | 143,355 | 133,616 |
| Totals | \$ 198 | \$ 586 | \$ 30,149 | \$ 17,631 | \$ 250,893 | \$ 220,744 |

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 | FY2018 Contribution Rates | Estimated FY2019 Contribution Rates |
|----------------------------------|---------------------------------|---------------------------------|--|
| General Govt. Employees (Closed) | 20.62% | 7.39% * | 7.22% |
| General Govt. Employees (Open) | 8.91% | 8.70% | 8.69% |
| Uniformed Employees (Closed) | 44.11% | 17.77% * | 17.80% |
| Uniformed Employees (Open) | 10.36% | 11.69% | 13.75% |

The City's Pension Fund is being funded as required by the actuary and is currently funded at 74.21%. The city is currently amortizing the unfunded portion according to an actuarial determined schedule. Beginning in FY18, the unamortized portion of the closed plans are being paid as a direct cost rather than as a percentage of payroll. For FY18 this amount was \$16,477,000 and is estimated at \$19,414,000 in FY19. The plan is to be fully funded in 20 years. For comparison purposes, if everything were expressed as a percentage of payroll, would be 23.22% in FY18 and 26.05% in FY19 for General Government employees and 47.29% and 53.53% respectively for Police and Fire employees. 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 nominal contributions in future years.

General Fund Budgetary Highlights

During the year there was approximately \$3,296 thousand in appropriation changes 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, 2018

| Department | Carry Forward of Prior Year Encumbrances | Other | Total Changes |
|---------------------------|--|---------------------|---------------------|
| Administration | \$ 7,959 | \$ 25,000 | \$ 32,959 |
| Finance | 12,381 | (300,000) | (287,619) |
| Information Systems | 40,917 | - | 40,917 |
| Community Development | 67,150 | 350,000 | 417,150 |
| Public Service | 51,287 | 150,000 | 201,287 |
| Engineering | 78,145 | 200,000 | 278,145 |
| Parks and Recreation | 10,982 | 50,000 | 60,982 |
| Mass Transit | - | 711,000 | 711,000 |
| Law | 30,290 | - | 30,290 |
| Police | 453,286 | 20,000 | 473,286 |
| Fire | 5,648 | 220,000 | 225,648 |
| Legislative | 8,862 | - | 8,862 |
| Civil Service | 5,758 | 10,000 | 15,758 |
| City Elections | - | 66,850 | 66,850 |
| Nondepartmental: | | | |
| Agency Grants | 162,261 | - | 162,261 |
| Transfers | - | 858,100 | 858,100 |
| Total General Fund | \$ 934,926 | \$ 2,360,950 | \$ 3,295,876 |

Approximately a third of the change in budget amendments is due to the re-appropriation of prior year encumbrances (\$934,926) and is reflected in multiple city departments. The increase in Transfers (\$858,100) is due to the re-appropriation of monies that lapsed in FY2017 and were needed for the FY2018. The remaining budget revisions were necessary to cover unanticipated expenditures in various department due to unforeseen and unbudgeted expenditures.

Capital Asset and Debt Administration

As of June 30, 2018, as reflected in the following table, the primary government of the City had investments of \$515 million in capital assets, net of depreciation. Construction in progress declined by \$18.6 million due to the completion of the Cumberland Avenue Improvement project. This project, alone, had a final cost of \$21.7 million. The City has many ongoing maintenance programs, such as paving and bridge maintenance, to help preserve the City's infrastructure. For additional information on the capital assets of the City, please refer to Note 9 of the Notes to Financial Statements.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---------------------------------|----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land and site improvements | \$ 84,378 | \$ 84,139 | \$ 7,336 | \$ 7,336 | \$ 91,714 | \$ 91,475 |
| Buildings and improvements | 74,539 | 73,719 | 208,289 | 207,539 | 282,828 | 281,258 |
| Equipment, furniture & fixtures | 108,878 | 100,771 | 9,014 | 7,794 | 117,892 | 108,565 |
| Infrastructure | 423,662 | 379,086 | 28,892 | 28,842 | 452,554 | 407,928 |
| Artwork | 107 | 38 | 765 | 765 | 872 | 803 |
| Construction in progress | 12,201 | 31,279 | 2,470 | 2,017 | 14,671 | 33,296 |
| Less accumulated depreciator | (326,747) | (308,973) | (118,434) | (112,338) | (445,181) | (421,311) |
| Totals | <u>\$ 377,018</u> | <u>\$ 360,059</u> | <u>\$ 138,332</u> | <u>\$ 141,955</u> | <u>\$ 515,350</u> | <u>\$ 502,014</u> |

The following table reconciles the change in capital assets. Included in this table are the total activities for both the government and business-type activities of the total primary government.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-----------------------------|----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Beginning balance | \$ 669,032 | \$ 621,138 | \$ 254,294 | \$ 249,649 | \$ 923,326 | \$ 870,787 |
| Additions | 66,650 | 92,098 | 7,117 | 7,336 | 73,767 | 99,434 |
| Deletions | (31,917) | (44,204) | (4,645) | (2,692) | (36,562) | (46,896) |
| Balance before depreciation | 703,765 | 669,032 | 256,766 | 254,293 | 960,531 | 923,325 |
| Accumulated depreciation | (326,747) | (308,973) | (118,434) | (112,338) | (445,181) | (421,311) |
| Balance after depreciation | <u>\$ 377,018</u> | <u>\$ 360,059</u> | <u>\$ 138,332</u> | <u>\$ 141,955</u> | <u>\$ 515,350</u> | <u>\$ 502,014</u> |

As of the year-end, the City's Total Primary Government had \$167.39 million in general obligation and note debt outstanding.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|----------------------------|------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Current - Due in 1 year: | | | | | | |
| General Obligation Bonds | \$ 6,237 | \$ 4,742 | \$ 5,558 | \$ 5,358 | \$ 11,795 | \$ 10,100 |
| Non Current - Due in more than 1 year: | | | | | | |
| General Obligation Bonds | 58,062 | 49,675 | 94,633 | 100,190 | 152,695 | 149,865 |
| Section 108 Loan | 2,900 | 2,900 | - | - | 2,900 | 2,900 |
| Total Non Current | <u>60,962</u> | <u>52,575</u> | <u>94,633</u> | <u>100,190</u> | <u>155,595</u> | <u>152,765</u> |
| Subtotal | 67,199 | 57,317 | 100,191 | 105,548 | 167,390 | 162,865 |
| Unamortized Premiums, Discounts and Gain on Refunding | 4,422 | 3,951 | 939 | 1,075 | 5,361 | 5,026 |
| Total Long Term Debt | <u>\$ 71,621</u> | <u>\$ 61,268</u> | <u>\$ 101,130</u> | <u>\$ 106,623</u> | <u>\$ 172,751</u> | <u>\$ 167,891</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 11 of the Notes to Financial Statements.

| | <u>2018</u> | <u>2017</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 revenue category represents \$186.9 million or 82.8% 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 FY2018 the taxable value of real property increased by 14% and the overall tax roll increased by 12.8%. This change was mainly due to the periodic reassessment and augmented by 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 18.1% of total General Fund revenues. This source tends to be somewhat more elastic than other taxes and is more cyclical in nature. Growth for FY2018 was flat, increasing by only 0.25% (\$96,950) when compared to FY2017. 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 \$32.66 million or 14.47% of total revenue. When compared to FY2017 this represents an increase of approximately \$2.9 million or 9.74%. The majority of the increase in this category was due to the increase 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 and 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 years, and costs are expected to rise for another two years before leveling off. 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, 2018

| | Primary Government | | | Combined Discretely Presented Component Units | Total Reporting Unit |
|--|----------------------------|-----------------------------|--------------------------------|---|----------------------------|
| | Governmental Activities | Business-type Activities | Total Primary Government | | |
| Assets | | | | | |
| Cash and cash equivalents | \$ 8,894,026 | \$ 1,692,247 | \$ 10,586,273 | \$ 145,473,271 | \$ 156,059,544 |
| Investments | 377,934,524 | 65,139,772 | 443,074,296 | 141,015,569 | 584,089,865 |
| Receivables (net of allowance for uncollectibles): | | | | | |
| Accounts | 8,112,738 | 3,598,327 | 11,711,065 | 100,624,067 | 112,335,132 |
| Taxes | 160,370,074 | - | 160,370,074 | - | 160,370,074 |
| Notes and leases | 17,726,586 | - | 17,726,586 | - | 17,726,586 |
| TVA conservation program | - | - | - | 4,301,001 | 4,301,001 |
| Other | - | 37,762 | 37,762 | 189,947 | 227,709 |
| Internal balances | (4,737,000) | 4,737,000 | - | - | - |
| Due from component units | 2,809,500 | - | 2,809,500 | - | 2,809,500 |
| Inventories | 1,945,874 | 151,245 | 2,097,119 | 24,518,152 | 26,615,271 |
| Prepaid items | 28,717 | 61,797 | 90,514 | 8,704,437 | 8,794,951 |
| Equity interest in joint venture | 1,639,984 | 30,770 | 1,670,754 | - | 1,670,754 |
| Deferred charges | - | - | - | 906,355 | 906,355 |
| Restricted assets: | | | | | |
| Temporarily restricted: | | | | | |
| Bond funds | - | - | - | 34,624,260 | 34,624,260 |
| Receivables | - | - | - | 820,000 | 820,000 |
| Other | - | - | - | 21,446 | 21,446 |
| Net pension asset | - | - | - | 19,778,372 | 19,778,372 |
| Net other postemployment benefits asset | - | - | - | 3,751,068 | 3,751,068 |
| Other assets | - | - | - | 15,381,807 | 15,381,807 |
| Capital assets: | | | | | |
| Land and site improvements | 84,377,714 | 7,336,303 | 91,714,017 | 161,701,674 | 253,415,691 |
| Buildings and improvements | 74,539,546 | 208,288,667 | 282,828,213 | 204,314,579 | 487,142,792 |
| Utility plant in service | - | - | - | 2,616,728,074 | 2,616,728,074 |
| Equipment, furniture and fixtures | 108,984,757 | 9,779,097 | 118,763,854 | 53,676,836 | 172,440,690 |
| Infrastructure and site improvements | 423,661,764 | 28,891,710 | 452,553,474 | - | 452,553,474 |
| Construction in progress | 12,201,621 | 2,470,008 | 14,671,629 | 227,985,073 | 242,656,702 |
| Less accumulated depreciation | (326,747,456) | (118,433,944) | (445,181,400) | (1,114,136,094) | (1,559,317,494) |
| Total assets | 951,742,969 | 213,780,761 | 1,165,523,730 | 2,650,379,894 | 3,815,903,624 |
| Deferred outflows of resources | | | | | |
| Pensions | 62,877,210 | - | 62,877,210 | 1,947,863 | 64,825,073 |
| Other postemployment benefits | 358,020 | - | 358,020 | 662,384 | 1,020,404 |
| Interest rate swap | - | 228,187 | 228,187 | - | 228,187 |
| Unamortized bond refunding | - | - | - | 24,155,558 | 24,155,558 |
| Total deferred outflows of resources | 63,235,230 | 228,187 | 63,463,417 | 26,765,805 | 90,229,222 |
| Liabilities | | | | | |
| Accounts payable | 10,489,237 | 2,546,000 | 13,035,237 | 57,900,770 | 70,936,007 |
| Matured principal and interest on bonds | - | - | - | 14,092,280 | 14,092,280 |
| Accrued liabilities | 5,601,995 | 784,221 | 6,386,216 | 24,178,123 | 30,564,339 |
| Due to primary government | - | - | - | 2,809,500 | 2,809,500 |
| Due to other governmental agencies | 399,976 | - | 399,976 | - | 399,976 |
| Customer deposits, plus accrued interest | 759,827 | 158,894 | 918,721 | 19,239,531 | 20,158,252 |
| Accrued interest | 265,077 | 263,559 | 528,636 | 8,670 | 537,306 |
| Unearned revenue | - | 297,810 | 297,810 | - | 297,810 |
| Noncurrent liabilities: | | | | | |
| Long-term debt due within one year | 6,910,019 | 5,693,937 | 12,603,956 | 42,195,000 | 54,798,956 |
| Long-term debt due in more than one year | 64,711,804 | 95,435,751 | 160,147,555 | 1,119,995,000 | 1,280,142,555 |
| Other noncurrent liabilities due within one year | 5,274,351 | 4,900 | 5,279,251 | 34,146,236 | 39,425,487 |
| Other noncurrent liabilities due in more than one year | 23,227,494 | - | 23,227,494 | 24,185,865 | 47,413,359 |
| Net pension liability | 204,580,179 | - | 204,580,179 | 280,341 | 204,860,520 |
| Other postemployment benefits liability | 11,251,754 | - | 11,251,754 | - | 11,251,754 |
| Derivative instruments - interest rate swaps | - | 228,187 | 228,187 | 607,009 | 835,196 |
| Total liabilities | 333,471,713 | 105,413,259 | 438,884,972 | 1,339,638,325 | 1,778,523,297 |
| Deferred inflows of resources | | | | | |
| Pensions | 6,224,056 | 1,057,537 | 7,281,593 | 13,937,341 | 21,218,934 |
| Other postemployment benefits | 234,637 | - | 234,637 | 321,637 | 556,274 |
| Deferred revenue | 18,990,518 | - | 18,990,518 | - | 18,990,518 |
| Assessed and unlevied property taxes | 129,273,464 | - | 129,273,464 | 454,810 | 129,728,274 |
| Total deferred inflows of resources | 154,722,675 | 1,057,537 | 155,780,212 | 14,713,788 | 170,494,000 |
| Net position | | | | | |
| Net investment in capital assets | 305,396,123 | 37,202,153 | 342,598,276 | 983,028,639 | 1,325,626,915 |
| Restricted for: | | | | | |
| Debt service | - | - | - | 19,414,174 | 19,414,174 |
| Park maintenance: | | | | | |
| Nonexpendable | 624,065 | - | 624,065 | - | 624,065 |
| Expendable | 328,026 | - | 328,026 | - | 328,026 |
| Other | 11,032,362 | - | 11,032,362 | 1,959,252 | 12,991,614 |
| Unrestricted | 209,403,235 | 70,335,999 | 279,739,234 | 318,391,521 | 598,130,755 |
| Total net position | \$ 526,783,811 | \$ 107,538,152 | \$ 634,321,963 | \$ 1,322,793,586 | \$ 1,957,115,549 |

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

CITY OF KNOXVILLE, TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| Functions/Programs | Expenses | Program Revenues | | |
|--|-----------------------|-----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government | | | | |
| Governmental activities: | | | | |
| General Government | \$ 44,383,879 | \$ 1,228,057 | \$ 1,043,278 | \$ - |
| Public Safety | 95,747,631 | 6,900,699 | 1,345,569 | 620,239 |
| Physical Environment | 53,452,377 | 1,673,776 | 555,436 | 1,303,827 |
| Transportation | 13,306,760 | 442,543 | 26,459 | - |
| Economic Development | 10,570,012 | 144,222 | 3,661,168 | 5,661,171 |
| Parks & Recreation | 11,474,154 | 753,639 | - | - |
| Health & Sanitation | 8,766,024 | 36,138 | - | 22,742 |
| Interest on long-term debt | 1,760,555 | - | - | - |
| Total governmental activities | <u>239,461,392</u> | <u>11,179,074</u> | <u>6,631,910</u> | <u>7,607,979</u> |
| Business-type activities: | | | | |
| Metro Parking | 5,363,538 | 4,013,633 | - | - |
| Public Assembly Facilities | 6,937,208 | 3,578,856 | - | - |
| Knoxville Convention Center | 19,549,870 | 5,435,822 | 1,500,000 | - |
| Municipal Golf Courses | 1,254,509 | 982,635 | - | - |
| Total business-type activities | <u>33,105,125</u> | <u>14,010,946</u> | <u>1,500,000</u> | <u>-</u> |
| Total primary government | <u>\$ 272,566,517</u> | <u>\$ 25,190,020</u> | <u>\$ 8,131,910</u> | <u>\$ 7,607,979</u> |
| Combined discretely presented component units | <u>\$ 819,413,683</u> | <u>\$ 857,252,123</u> | <u>\$ 3,212,374</u> | <u>\$ 31,497,980</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, as restated
Net position - end of year

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

| Net (Expense) Revenue and Changes in Net Position | | | | |
|--|-------------------------------------|-----------------------|--------------------------------------|---------------------------|
| Primary Government | | | Combined Discretely | Total |
| Governmental Activities | Business-type Activities | Total | Presented Component Units | Reporting Unit |
| \$ (42,112,544) | \$ - | \$ (42,112,544) | \$ - | \$ (42,112,544) |
| (86,881,124) | - | (86,881,124) | - | (86,881,124) |
| (49,919,338) | - | (49,919,338) | - | (49,919,338) |
| (12,837,758) | - | (12,837,758) | - | (12,837,758) |
| (1,103,451) | - | (1,103,451) | - | (1,103,451) |
| (10,720,515) | - | (10,720,515) | - | (10,720,515) |
| (8,707,144) | - | (8,707,144) | - | (8,707,144) |
| (1,760,555) | - | (1,760,555) | - | (1,760,555) |
| <u>(214,042,429)</u> | <u>-</u> | <u>(214,042,429)</u> | <u>-</u> | <u>(214,042,429)</u> |
| - | (1,349,905) | (1,349,905) | - | (1,349,905) |
| - | (3,358,352) | (3,358,352) | - | (3,358,352) |
| - | (12,614,048) | (12,614,048) | - | (12,614,048) |
| - | (271,874) | (271,874) | - | (271,874) |
| - | <u>(17,594,179)</u> | <u>(17,594,179)</u> | - | <u>(17,594,179)</u> |
| <u>(214,042,429)</u> | <u>(17,594,179)</u> | <u>(231,636,608)</u> | <u>-</u> | <u>(231,636,608)</u> |
| - | - | - | 72,548,794 | 72,548,794 |
| 148,286,904 | - | 148,286,904 | - | 148,286,904 |
| 77,632,502 | 9,778,788 | 87,411,290 | 11,026,550 | 98,437,840 |
| - | 2,236,792 | 2,236,792 | - | 2,236,792 |
| - | 4,772,049 | 4,772,049 | - | 4,772,049 |
| 1,112,638 | - | 1,112,638 | - | 1,112,638 |
| 12,656,286 | - | 12,656,286 | - | 12,656,286 |
| 7,581,588 | - | 7,581,588 | - | 7,581,588 |
| 1,802,844 | - | 1,802,844 | - | 1,802,844 |
| 3,336,248 | 503,400 | 3,839,648 | (1,942,872) | 1,896,776 |
| 3,834,014 | 859,859 | 4,693,873 | 5,096,937 | 9,790,810 |
| 299,945 | - | 299,945 | - | 299,945 |
| <u>(19,854,929)</u> | <u>19,854,929</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>236,688,040</u> | <u>38,005,817</u> | <u>274,693,857</u> | <u>14,180,615</u> | <u>288,874,472</u> |
| 22,645,611 | 20,411,638 | 43,057,249 | 86,729,409 | 129,786,658 |
| 504,138,200 | 87,126,514 | 591,264,714 | 1,236,064,177 | 1,827,328,891 |
| <u>\$ 526,783,811</u> | <u>\$ 107,538,152</u> | <u>\$ 634,321,963</u> | <u>\$ 1,322,793,586</u> | <u>\$ 1,957,115,549</u> |

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

| | <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 | \$ 231,994 | \$ 1,521,777 | \$ 1,320,099 | \$ 1,073,155 | \$ 1,817,541 | \$ 5,964,566 |
| Investments | 70,989,001 | 48,942,752 | 112,240,519 | 1,431,601 | 17,004,339 | 250,608,212 |
| Accounts receivable | 1,166,806 | 183,197 | 3,594,669 | 101,767 | 2,771,677 | 7,818,116 |
| Taxes receivable | 134,249,387 | 26,120,687 | - | - | - | 160,370,074 |
| Notes receivable | 1,461,991 | - | - | 11,443,566 | 4,821,029 | 17,726,586 |
| Due from other funds | 1,751,145 | - | 6,750,000 | - | 145,000 | 8,646,145 |
| Due from component unit | 2,809,500 | - | - | - | - | 2,809,500 |
| Inventories | 276,635 | - | 122,362 | - | 438,443 | 837,440 |
| Prepaid items | 28,717 | - | - | - | - | 28,717 |
| Total assets | <u>\$ 212,965,176</u> | <u>\$ 76,768,413</u> | <u>\$ 124,027,649</u> | <u>\$ 14,050,089</u> | <u>\$ 26,998,029</u> | <u>\$ 454,809,356</u> |
| Liabilities | | | | | | |
| Accounts payable | \$ 2,628,580 | \$ - | \$ 3,723,607 | \$ 229,724 | \$ 1,398,982 | \$ 7,980,893 |
| Accrued liabilities | 2,101,502 | - | 2,945,516 | 4,240 | 236,476 | 5,287,734 |
| Customer deposits | - | - | - | - | 656,696 | 656,696 |
| Due to other funds | 9,609,500 | - | - | - | 1,978,345 | 11,587,845 |
| Due to other governmental agencies | 348,983 | - | 35,756 | - | 15,237 | 399,976 |
| Total liabilities | <u>14,688,565</u> | <u>-</u> | <u>6,704,879</u> | <u>233,964</u> | <u>4,285,736</u> | <u>25,913,144</u> |
| Deferred Inflows of Resources | | | | | | |
| Unavailable revenue - property taxes | 109,761,282 | 25,996,428 | - | - | - | 135,757,710 |
| Unavailable revenue - other | - | - | 1,891,762 | 12,153,279 | 4,945,477 | 18,990,518 |
| Total deferred inflows of resources | <u>109,761,282</u> | <u>25,996,428</u> | <u>1,891,762</u> | <u>12,153,279</u> | <u>4,945,477</u> | <u>154,748,228</u> |
| Fund Balances | | | | | | |
| Non-spendable | 305,352 | - | 122,362 | - | 1,062,508 | 1,490,222 |
| Restricted | - | - | - | 1,662,846 | 9,697,542 | 11,360,388 |
| Committed | 45,875,083 | 50,771,985 | 115,308,646 | - | 6,426,880 | 218,382,594 |
| Assigned | 11,777,563 | - | - | - | 579,886 | 12,357,449 |
| Unassigned | 30,557,331 | - | - | - | - | 30,557,331 |
| Total fund balances | <u>88,515,329</u> | <u>50,771,985</u> | <u>115,431,008</u> | <u>1,662,846</u> | <u>17,766,816</u> | <u>274,147,984</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 212,965,176</u> | <u>\$ 76,768,413</u> | <u>\$ 124,027,649</u> | <u>\$ 14,050,089</u> | <u>\$ 26,998,029</u> | <u>\$ 454,809,356</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, 2018**

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

| | |
|--|-----------------------|
| Fund balance - governmental funds | \$274,147,984 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the balance sheets of the governmental funds. | 338,477,549 |
| 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. | 6,484,246 |
| 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. | 143,355,190 |
| 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. | (265,077) |
| Pension and other postemployment benefit obligation amounts not reported in the funds: | |
| Net pension liability | (199,687,620) |
| Other postemployment benefits obligation | (11,251,754) |
| Deferred outflows of resources related to pensions | 61,398,785 |
| Deferred outflows of resources related to other postemployment benefits | 358,020 |
| Deferred inflows of resources related to pensions | (6,075,207) |
| Deferred inflows of resources related to other postemployment benefits | (234,637) |
| 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 | (67,199,460) |
| Discounts and premiums (net) | (4,422,363) |
| Compensated absences | (8,301,845) |
| | (79,923,668) |
| Net position - governmental activities | <u>\$ 526,783,811</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, 2018

| | General Fund | Debt Service | Capital Projects | Special Revenue Fund Miscellaneous Community Development Funds | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|----------------------|-----------------------|---|--------------------------|--------------------------|
| Revenues: | | | | | | |
| Taxes, assessments, interest & penalties | \$ 186,914,030 | \$ 24,848,497 | \$ - | \$ - | \$ 5,998,375 | \$ 217,760,902 |
| Licenses, permits & inspection charges | 316,887 | - | - | - | 2,734,734 | 3,051,621 |
| Intergovernmental | 32,659,765 | - | 5,661,171 | 956,449 | 4,242,616 | 43,520,001 |
| Charge for services | 2,000,906 | - | - | 579,532 | 2,432,972 | 5,013,410 |
| Fines & forfeitures | 1,056,275 | - | - | - | 3,133,567 | 4,189,842 |
| Other | 1,344,411 | 985,707 | 2,481,741 | 124,993 | 1,727,886 | 6,664,738 |
| Total revenues | <u>224,292,274</u> | <u>25,834,204</u> | <u>8,142,912</u> | <u>1,660,974</u> | <u>20,270,150</u> | <u>280,200,514</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Administration | 4,481,284 | - | - | - | 288,522 | 4,769,806 |
| Finance | 4,035,847 | - | - | - | 199,998 | 4,235,845 |
| Information Systems | 4,249,510 | - | - | - | - | 4,249,510 |
| Community Development | 2,806,870 | - | - | 1,653,820 | 2,308,136 | 6,768,826 |
| South Knoxville Waterfront | 340,513 | - | - | - | - | 340,513 |
| Parks & Recreation | 7,588,414 | - | - | - | 111,609 | 7,700,023 |
| Mass Transit | 12,457,870 | - | - | - | - | 12,457,870 |
| Engineering | 6,529,233 | - | - | - | 8,528,227 | 15,057,460 |
| Public Services | 24,270,735 | - | - | - | 11,273,408 | 35,544,143 |
| Law | 2,176,741 | - | - | - | 950,018 | 3,126,759 |
| Police | 53,750,694 | - | - | - | 2,444,716 | 56,195,410 |
| Emergency Management | 394,341 | - | - | - | 45,779 | 440,120 |
| Fire | 38,915,343 | - | - | - | 7,700 | 38,923,043 |
| Legislative | 982,163 | - | - | - | 3,169 | 985,332 |
| Civil Service | 1,091,377 | - | - | - | - | 1,091,377 |
| City Elections | 316,843 | - | - | - | - | 316,843 |
| Knoxville Partnership | 636,960 | - | - | - | - | 636,960 |
| Metropolitan Planning Commission | 1,106,650 | - | - | - | - | 1,106,650 |
| Knoxville Zoological Park | 1,300,940 | - | - | - | - | 1,300,940 |
| Community Agency Grants | 1,362,261 | - | - | - | - | 1,362,261 |
| Community Action Committee | 848,890 | - | - | - | - | 848,890 |
| Tax Increment Payments | 1,987,547 | - | - | - | - | 1,987,547 |
| Other general government | 16,835,020 | - | - | - | - | 16,835,020 |
| Capital & grant projects | - | - | 36,657,398 | - | - | 36,657,398 |
| Debt service: | | | | | | |
| Principal retirement | - | 4,742,180 | - | - | - | 4,742,180 |
| Interest payments on bonds & notes | - | 1,788,612 | - | - | - | 1,788,612 |
| Total expenditures | <u>188,466,046</u> | <u>6,530,792</u> | <u>36,657,398</u> | <u>1,653,820</u> | <u>26,161,282</u> | <u>259,469,338</u> |
| Excess (deficiency) of revenues over (under) expenditures | 35,826,228 | 19,303,412 | (28,514,486) | 7,154 | (5,891,132) | 20,731,176 |
| Other financing sources (uses) | | | | | | |
| Bond proceeds | - | - | 15,665,932 | - | - | 15,665,932 |
| Transfers in | 1,442,170 | - | 39,067,690 | - | 10,864,965 | 51,374,825 |
| Transfers out | (45,092,433) | (19,238,550) | (587,410) | - | (8,845,670) | (73,764,063) |
| Total other financing sources (uses) | <u>(43,650,263)</u> | <u>(19,238,550)</u> | <u>54,146,212</u> | <u>-</u> | <u>2,019,295</u> | <u>(6,723,306)</u> |
| Net change in fund balances | (7,824,035) | 64,862 | 25,631,726 | 7,154 | (3,871,837) | 14,007,870 |
| Fund balances - beginning | <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> |
| Fund balances - ending | <u>\$ 88,515,329</u> | <u>\$ 50,771,985</u> | <u>\$ 115,431,008</u> | <u>\$ 1,662,846</u> | <u>\$ 17,766,816</u> | <u>\$ 274,147,984</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, 2018**

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

| | |
|---|----------------------|
| Net change in fund balances - total governmental funds | \$ 14,007,870 |
| 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 (\$26,383,612) exceeds depreciation expenses (\$17,246,719). | 9,136,893 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (136,632) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (10,923,752) |
| 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. | 28,057 |
| Negative pension expense not reported in the funds | 810,705 |
| Other postemployment benefit income (expense) not reported in the funds | (17,029) |
| The internal service fund is used by management to charge the costs of fleet maintenance. | 4,784,594 |
| The internal service fund is used by management to charge the costs of risk management. | 1,372,540 |
| The internal service fund is used by management to charge the costs of employee health insurance. | 963,288 |
| The internal service fund is used by management to charge the costs of equipment replacement. | 2,576,291 |
| The internal service fund is used by management to charge the costs of City buildings. | <u>42,786</u> |
| Change in net position - governmental activities | <u>\$ 22,645,611</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, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Adjustment to Budgetary Basis</u> | <u>Actual on Budgetary Basis</u> | <u>Budgetary Basis Variance With Final Budget</u> |
|--|----------------------------|-------------------------|----------------------|--|--------------------------------------|---|
| Revenues | | | | | | |
| Property taxes - | | | | | | |
| Current | \$ 98,507,070 | \$ 98,507,070 | \$ 99,639,695 | \$ - | \$ 99,639,695 | \$ 1,132,625 |
| Prior years | 5,123,610 | 5,123,610 | 4,532,026 | - | 4,532,026 | (591,584) |
| Business taxes | 7,285,860 | 7,285,860 | 7,514,280 | - | 7,514,280 | 228,420 |
| Local shared sales tax | 42,231,610 | 42,231,610 | 40,883,513 | - | 40,883,513 | (1,348,097) |
| Alcoholic beverage taxes | 12,742,380 | 12,742,380 | 12,655,286 | - | 12,655,286 | (87,094) |
| Payments in lieu of taxes | 19,705,910 | 19,705,910 | 19,887,386 | - | 19,887,386 | 181,476 |
| Franchise fees | 1,968,680 | 1,968,680 | 1,802,844 | - | 1,802,844 | (165,836) |
| Intergovernmental - | | | | | | |
| Federal | 931,280 | 931,280 | 1,043,278 | - | 1,043,278 | 111,998 |
| State - | | | | | | |
| Sales tax | 15,812,890 | 15,812,890 | 15,244,462 | - | 15,244,462 | (568,428) |
| Income tax | 4,900,000 | 4,900,000 | 11,552,233 | - | 11,552,233 | 6,652,233 |
| Other | 3,876,070 | 3,876,070 | 4,719,792 | - | 4,719,792 | 843,722 |
| Local | 100,000 | 100,000 | 100,000 | - | 100,000 | - |
| Licenses and permits | 342,050 | 342,050 | 315,887 | - | 315,887 | (26,163) |
| Fines & forfeits | 553,420 | 553,420 | 1,056,275 | - | 1,056,275 | 502,855 |
| Charges for services | 1,856,750 | 1,856,750 | 2,000,906 | - | 2,000,906 | 144,156 |
| Other - | | | | | | |
| Interest | 276,350 | 276,350 | 747,950 | - | 747,950 | 471,600 |
| Rents & concessions | 115,310 | 115,310 | 96,649 | - | 96,649 | (18,661) |
| Miscellaneous | 436,260 | 1,408,325 | 499,812 | - | 499,812 | (908,513) |
| Appropriated fund balance | 18,292,900 | 21,638,566 | - | - | - | (2,638,566) |
| Total revenues | <u>235,058,400</u> | <u>239,376,131</u> | <u>224,292,274</u> | <u>-</u> | <u>224,292,274</u> | <u>(15,083,857)</u> |
| Expenditures | | | | | | |
| Current - | | | | | | |
| Administration | 4,817,310 | 4,839,369 | 4,481,284 | 5,343 | 4,486,627 | 352,742 |
| Finance | 4,825,940 | 4,516,603 | 4,035,847 | - | 4,035,847 | 480,756 |
| Information systems | 4,537,200 | 4,575,277 | 4,249,510 | 5,261 | 4,254,771 | 320,506 |
| Community development | 4,795,980 | 6,070,067 | 2,806,870 | 922,729 | 3,729,599 | 2,340,468 |
| South Knoxville Waterfront | 472,530 | 470,530 | 340,513 | - | 340,513 | 130,017 |
| Parks & recreation | 7,552,540 | 7,609,123 | 7,588,414 | 2,127 | 7,590,541 | 18,582 |
| Mass transit | 10,457,870 | 12,457,870 | 12,457,870 | - | 12,457,870 | - |
| Public services | 24,490,460 | 24,647,455 | 24,270,735 | 6,094 | 24,276,829 | 370,626 |
| Engineering | 6,422,210 | 6,696,134 | 6,529,233 | 100,887 | 6,630,120 | 66,014 |
| Law | 2,284,010 | 2,314,300 | 2,176,741 | 24,358 | 2,201,099 | 113,201 |
| Police | 53,455,670 | 53,775,044 | 53,750,694 | 10,746 | 53,761,440 | 13,604 |
| Emergency management | 408,380 | 408,380 | 394,341 | - | 394,341 | 14,039 |
| Fire | 39,122,280 | 38,938,548 | 38,915,343 | 7,150 | 38,922,493 | 16,055 |
| Legislative | 1,052,720 | 1,061,582 | 982,163 | - | 982,163 | 79,419 |
| Civil service | 1,104,790 | 1,120,548 | 1,091,377 | 20,928 | 1,112,305 | 8,243 |
| Nondepartmental - | | | | | | |
| City elections | 250,000 | 316,850 | 316,843 | - | 316,843 | 7 |
| Knoxville partnership | 636,960 | 636,960 | 636,960 | - | 636,960 | - |
| Metropolitan planning commission | 1,106,650 | 1,106,650 | 1,106,650 | - | 1,106,650 | - |
| Knoxville zoological gardens | 1,300,940 | 1,300,940 | 1,300,940 | - | 1,300,940 | - |
| Community agency grants | 1,200,000 | 1,362,261 | 1,362,261 | - | 1,362,261 | - |
| Community action committee | 848,890 | 848,890 | 848,890 | - | 848,890 | - |
| Tax increment payments | 2,197,380 | 2,197,380 | 1,987,547 | - | 1,987,547 | 209,833 |
| Other general government | 19,200,020 | 19,200,020 | 16,835,020 | - | 16,835,020 | 2,365,000 |
| Total expenditures | <u>192,540,730</u> | <u>196,470,781</u> | <u>188,466,046</u> | <u>1,105,623</u> | <u>189,571,669</u> | <u>6,899,112</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>42,517,670</u> | <u>42,905,350</u> | <u>35,826,228</u> | <u>(1,105,623)</u> | <u>34,720,605</u> | <u>(8,184,745)</u> |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | 7,220,450 | 7,051,050 | 1,442,170 | - | 1,442,170 | 5,608,880 |
| Transfers out | <u>(49,738,120)</u> | <u>(49,956,400)</u> | <u>(45,092,433)</u> | <u>-</u> | <u>(45,092,433)</u> | <u>4,863,967</u> |
| Total other financing sources (uses) | <u>(42,517,670)</u> | <u>(42,905,350)</u> | <u>(43,650,263)</u> | <u>-</u> | <u>(43,650,263)</u> | <u>744,913</u> |
| Net changes in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>(7,824,035)</u> | <u>(1,105,623)</u> | <u>(8,929,658)</u> | <u>\$ (8,929,658)</u> |
| Fund balance - beginning | | | <u>96,339,364</u> | <u>(2,197,593)</u> | <u>94,141,771</u> | |
| Fund balance - ending | | | <u>\$ 88,515,329</u> | <u>\$ (3,303,216)</u> | <u>\$ 85,212,113</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, 2018

| | Budget | | Actual | Variance |
|--|------------------|------------------|---------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenues | | | | |
| Intergovernmental | \$ 740,010 | \$ 740,010 | \$ 956,449 | \$ 216,439 |
| Charges for services | 370,830 | 603,830 | 579,532 | (24,298) |
| Appropriated fund balance | 306,700 | 306,700 | - | (306,700) |
| Other | - | 12,614 | 124,993 | 112,379 |
| Total revenues | <u>1,417,540</u> | <u>1,663,154</u> | <u>1,660,974</u> | <u>(2,180)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Community Development | <u>1,417,540</u> | <u>1,663,154</u> | <u>1,653,820</u> | <u>9,334</u> |
| Total expenditures | <u>1,417,540</u> | <u>1,663,154</u> | <u>1,653,820</u> | <u>9,334</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>-</u> | <u>-</u> | <u>7,154</u> | <u>7,154</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>7,154</u> | <u>\$ 7,154</u> |
| Fund balances - beginning | | | <u>1,655,692</u> | |
| Fund balances - ending | | | <u>\$ 1,662,846</u> | |

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

| | Enterprise Funds | | | Internal Service Funds |
|---|-----------------------------------|---------------------------------|-----------------------|------------------------------|
| | Knoxville Convention Center | Other Nonmajor Activities | Total | |
| Assets | | | | |
| Current assets: | | | | |
| Cash & temporary investments | \$ 581,798 | \$ 1,110,449 | \$ 1,692,247 | \$ 2,929,460 |
| Investments | 45,134,484 | 20,005,288 | 65,139,772 | 127,326,312 |
| Accounts receivable | 3,109,499 | 526,590 | 3,636,089 | 294,622 |
| Due from other funds | 8,950,000 | 3,905,000 | 12,855,000 | 24,700 |
| Inventories | 125,264 | 25,981 | 151,245 | 1,108,434 |
| Prepaid items | 20,984 | 40,813 | 61,797 | - |
| Total current assets | <u>57,922,029</u> | <u>25,614,121</u> | <u>83,536,150</u> | <u>131,683,528</u> |
| Noncurrent assets: | | | | |
| Land & site improvements | 2,952,020 | 4,384,283 | 7,336,303 | - |
| Building, building improvements and infrastructure | 184,425,837 | 52,754,540 | 237,180,377 | 257,391 |
| Equipment | 5,522,954 | 4,256,143 | 9,779,097 | 97,475,599 |
| Construction in progress | 1,937,474 | 532,534 | 2,470,008 | 958,735 |
| Less: accumulated depreciation | <u>(80,462,924)</u> | <u>(37,971,020)</u> | <u>(118,433,944)</u> | <u>(60,151,328)</u> |
| Total capital assets (net of accumulated depreciation): | 114,375,361 | 23,956,480 | 138,331,841 | 38,540,397 |
| Equity interest in joint venture | 11,718 | 19,052 | 30,770 | 1,639,984 |
| Total noncurrent assets | <u>114,387,079</u> | <u>23,975,532</u> | <u>138,362,611</u> | <u>40,180,381</u> |
| Total assets | <u>172,309,108</u> | <u>49,589,653</u> | <u>221,898,761</u> | <u>171,863,909</u> |
| Deferred outflows of resources | | | | |
| Pensions | - | - | - | 1,478,425 |
| Interest rate swap | 228,187 | - | 228,187 | - |
| Total deferred outflows of resources | <u>228,187</u> | <u>-</u> | <u>228,187</u> | <u>1,478,425</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 1,122,251 | 1,423,749 | 2,546,000 | 2,508,344 |
| Accrued liabilities | 263,559 | 789,121 | 1,052,680 | 314,261 |
| Customer deposits | 158,894 | - | 158,894 | 103,131 |
| Unearned revenue | 104,169 | 193,641 | 297,810 | - |
| Due to other funds | 8,075,000 | 43,000 | 8,118,000 | 1,820,000 |
| Net pension liability | - | - | - | 4,892,559 |
| Long-term debt due within one year | 5,693,937 | - | 5,693,937 | - |
| Estimated claims liability | - | - | - | 5,100,000 |
| Total current liabilities | <u>15,417,810</u> | <u>2,449,511</u> | <u>17,867,321</u> | <u>14,738,295</u> |
| Noncurrent liabilities: | | | | |
| Long-term debt due in more than one year | 95,435,751 | - | 95,435,751 | - |
| Estimated claims liability | - | - | - | 15,100,000 |
| Derivative instrument - interest rate swap | 228,187 | - | 228,187 | - |
| Total noncurrent liabilities | <u>95,663,938</u> | <u>-</u> | <u>95,663,938</u> | <u>15,100,000</u> |
| Total liabilities | <u>111,081,748</u> | <u>2,449,511</u> | <u>113,531,259</u> | <u>29,838,295</u> |
| Deferred inflows of resources | | | | |
| Pensions | - | 1,057,537 | 1,057,537 | 148,849 |
| Total deferred inflows of resources | <u>-</u> | <u>1,057,537</u> | <u>1,057,537</u> | <u>148,849</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 13,245,673 | 23,956,480 | 37,202,153 | 38,540,397 |
| Unrestricted | 48,209,874 | 22,126,125 | 70,335,999 | 104,814,793 |
| Total net position | <u>\$ 61,455,547</u> | <u>\$ 46,082,605</u> | <u>\$ 107,538,152</u> | <u>\$ 143,355,190</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, 2018

| | Enterprise Funds | | | Internal Service Funds |
|---|-----------------------------------|---------------------------------|-----------------------|------------------------------|
| | Knoxville Convention Center | Other Nonmajor Activities | Total | |
| Operating revenues | | | | |
| Charges for services | \$ 5,435,822 | \$ 8,575,124 | \$ 14,010,946 | \$ 46,797,895 |
| Total operating revenues | <u>5,435,822</u> | <u>8,575,124</u> | <u>14,010,946</u> | <u>46,797,895</u> |
| Operating expenses | | | | |
| Personal services | - | 171,755 | 171,755 | 4,447,905 |
| Materials & supplies | 2,106 | 1,195,050 | 1,197,156 | 4,304,579 |
| Depreciation & amortization | 4,254,751 | 1,921,628 | 6,176,379 | 6,940,803 |
| Other operating expenses | 12,732,449 | 10,266,822 | 22,999,271 | 26,607,583 |
| Total operating expenses | <u>16,989,306</u> | <u>13,555,255</u> | <u>30,544,561</u> | <u>42,300,870</u> |
| Operating income (loss) | <u>(11,553,484)</u> | <u>(4,980,131)</u> | <u>(16,533,615)</u> | <u>4,497,025</u> |
| Nonoperating revenues (expense) | | | | |
| Interest income | 627,211 | 232,648 | 859,859 | 1,706,366 |
| Intergovernmental revenue | 17,067,386 | 1,220,243 | 18,287,629 | 249,500 |
| Other revenues (expenses) | (58,822) | 503,400 | 444,578 | 554,058 |
| Interest expense | (2,501,742) | - | (2,501,742) | - |
| Total nonoperating revenues (expenses) | <u>15,134,033</u> | <u>1,956,291</u> | <u>17,090,324</u> | <u>2,509,924</u> |
| Income (loss) before transfers and capital contributions | 3,580,549 | (3,023,840) | 556,709 | 7,006,949 |
| Transfers in | 9,799,919 | 10,182,740 | 19,982,659 | 2,600,113 |
| Transfers out | - | (127,730) | (127,730) | (65,804) |
| Capital contributions | - | - | - | 198,241 |
| Change in net position | 13,380,468 | 7,031,170 | 20,411,638 | 9,739,499 |
| Net position, beginning of year | <u>48,075,079</u> | <u>39,051,435</u> | <u>87,126,514</u> | <u>133,615,691</u> |
| Net position, end of year | <u>\$ 61,455,547</u> | <u>\$ 46,082,605</u> | <u>\$ 107,538,152</u> | <u>\$ 143,355,190</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, 2018

| | Enterprise Funds | | | Internal Service Funds |
|--|-----------------------------------|---------------------------------|---------------------|------------------------------|
| | Knoxville Convention Center | Other Nonmajor Activities | Total | |
| Operating activities | | | | |
| Cash received from customers and users | \$ 5,108,379 | \$ 8,506,676 | \$ 13,615,055 | \$ - |
| Receipts from interfund services provided | - | - | - | 46,842,366 |
| Cash paid to suppliers | (12,814,990) | (10,760,701) | (23,575,691) | (10,412,441) |
| Cash paid to employees | - | (173,637) | (173,637) | (3,679,340) |
| Cash paid for interfund services used | - | - | - | (2,083,063) |
| Payments of claims and insurance | - | - | - | (17,948,923) |
| Net cash provided by (used in) operating activities | <u>(7,706,611)</u> | <u>(2,427,662)</u> | <u>(10,134,273)</u> | <u>12,718,599</u> |
| Noncapital financing activities | | | | |
| Transfers from other funds | 9,989,919 | 8,035,884 | 18,025,803 | 3,854,287 |
| Transfers to other funds | - | (2,468,874) | (2,468,874) | - |
| Tax and intergovernmental revenues | 17,008,564 | 1,723,643 | 18,732,207 | 803,558 |
| Net cash provided by (used in) noncapital financing activities | <u>26,998,483</u> | <u>7,290,653</u> | <u>34,289,136</u> | <u>4,657,845</u> |
| Capital and related financing activities | | | | |
| Principal paid on general obligation bond maturities | (5,493,737) | - | (5,493,737) | - |
| Interest paid | (2,501,742) | - | (2,501,742) | - |
| Acquisition and construction of capital assets | (1,358,019) | (1,195,241) | (2,553,260) | (14,724,954) |
| Capital contributions | - | - | - | 198,241 |
| Net cash provided by (used in) capital and related financing activities | <u>(9,353,498)</u> | <u>(1,195,241)</u> | <u>(10,548,739)</u> | <u>(14,526,713)</u> |
| Investing activities | | | | |
| Sales/(purchases) of investments, net | (12,518,575) | (5,537,464) | (18,056,039) | (5,213,639) |
| Investment earnings | 627,211 | 232,648 | 859,859 | 1,706,366 |
| Net change in equity investment in joint venture | 8,861 | 8,087 | 16,948 | 114,113 |
| Net cash provided by (used in) investing activities | <u>(11,882,503)</u> | <u>(5,296,729)</u> | <u>(17,179,232)</u> | <u>(3,393,160)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(1,944,129)</u> | <u>(1,628,979)</u> | <u>(3,573,108)</u> | <u>(543,429)</u> |
| Cash and cash equivalents | | | | |
| Beginning of year | <u>2,525,927</u> | <u>2,739,428</u> | <u>5,265,355</u> | <u>3,472,889</u> |
| End of year | <u>\$ 581,798</u> | <u>\$ 1,110,449</u> | <u>\$ 1,692,247</u> | <u>\$ 2,929,460</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, 2018

| | 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) | \$ (11,553,484) | \$ (4,980,131) | \$ (16,533,615) | \$ 4,497,025 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 4,254,751 | 1,921,628 | 6,176,379 | 6,940,803 |
| Pension expense (negative expense) | - | (264,386) | (264,386) | 747,199 |
| Change in assets and liabilities | | | | |
| (Increase) decrease in receivables | (347,238) | (54,027) | (401,265) | 44,471 |
| (Increase) decrease in prepayments | 16,806 | (25,705) | (8,899) | - |
| (Increase) decrease in inventories | (16,390) | (2,452) | (18,842) | (87,684) |
| Increase (decrease) in accounts payable | (27,406) | 814,747 | 787,341 | 343,016 |
| Increase (decrease) in accrued expenses | (53,445) | 171,588 | 118,143 | (2,469,362) |
| Increase (decrease) in deferred revenue | (10,831) | (8,924) | (19,755) | - |
| Increase (decrease) in customer deposits | 30,626 | - | 30,626 | 103,131 |
| Increase (decrease) in estimated liability for litigation and claims | - | - | - | 2,600,000 |
| Total adjustments | <u>3,846,873</u> | <u>2,552,469</u> | <u>6,399,342</u> | <u>8,221,574</u> |
| Net cash provided by (used in) operating activities | <u>\$ (7,706,611)</u> | <u>\$ (2,427,662)</u> | <u>\$ (10,134,273)</u> | <u>\$ 12,718,599</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, 2018

| | City Employees' Pension Trust Fund | Combined Agency Funds |
|---|---|-----------------------------|
| Assets | | |
| Cash | \$ 1,548 | \$ 1,166,626 |
| Cash equivalents | 6,821,386 | - |
| United States government securities | 95,056,941 | - |
| State & municipal government securities | 1,123,228 | 119,956 |
| International securities | 139,015,120 | - |
| Corporate bond & indentures | 42,492,483 | - |
| Real estate investment trusts | 89,470,031 | - |
| Domestic equity securities | 163,148,015 | - |
| Alternative assets | 53,292,543 | - |
| Pending sales proceeds | 267,997 | - |
| Other receivables | 232 | 269,673 |
| Accrued interest & dividends | 1,197,249 | - |
| Due from other funds | - | 143,200 |
| Equipment, furniture & fixtures | 28,889 | - |
| Accumulated depreciation | (25,998) | - |
| Total assets | <u>\$ 591,889,664</u> | <u>\$ 1,699,455</u> |
| Liabilities | | |
| Accounts payable | 544,891 | - |
| Investment purchases pending | 756,800 | - |
| Health care claims liability | - | 1,556,255 |
| Due to other funds | - | 143,200 |
| Total liabilities | <u>\$ 1,301,691</u> | <u>\$ 1,699,455</u> |
| Net Position Restricted for Pensions | <u>\$ 590,587,973</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, 2018**

| | City Employees' Pension Trust Fund |
|--|---|
| Additions | |
| Employee contributions | \$ 4,214,055 |
| Employer contributions | 25,719,853 |
| Total contributions | <u>29,933,908</u> |
| Investment earnings: | |
| Interest and dividends | 8,225,560 |
| Net appreciation/(depreciation) in the fair value of investments | 32,838,044 |
| Other income | 362,770 |
| Total investment earnings (loss) | <u>41,426,374</u> |
| Less investment expense | <u>(3,867,064)</u> |
| Net investment earnings (loss) | <u>37,559,310</u> |
| Total additions (net) | <u>67,493,218</u> |
| Deductions | |
| Benefits paid | 46,640,954 |
| Refunds | 853,221 |
| Administration expenses | 707,932 |
| Total deductions | <u>48,202,107</u> |
| Change in net position | 19,291,111 |
| Total net position - beginning | <u>571,296,862</u> |
| Total net position - ending | <u>\$ 590,587,973</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, 2018

| | Component Units | | | |
|--|---------------------------------|---|------------------------------|-----------------------------|
| | Knoxville Utilities Board | Metropolitan Knoxville Airport Authority | Knoxville Area Transit | Total Component Units |
| Assets | | | | |
| Cash and cash equivalents | \$ 128,217,924 | \$ 17,065,629 | \$ 189,718 | \$ 145,473,271 |
| Investments | 106,287,708 | 33,160,279 | 1,567,582 | 141,015,569 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts | 82,097,279 | 9,832,633 | 8,694,155 | 100,624,067 |
| TVA conservation program | 4,301,001 | - | - | 4,301,001 |
| Other | 123,231 | 66,716 | - | 189,947 |
| Inventories | 23,191,810 | - | 1,326,342 | 24,518,152 |
| Prepaid items | 7,903,924 | 800,513 | - | 8,704,437 |
| Deferred charges | - | 906,355 | - | 906,355 |
| Restricted assets: | | | | |
| Temporarily restricted: | | | | |
| Bond funds | 33,506,454 | 1,117,806 | - | 34,624,260 |
| Receivables | - | 820,000 | - | 820,000 |
| Other | 21,446 | - | - | 21,446 |
| Net pension asset | 19,778,372 | - | - | 19,778,372 |
| Net OPEB asset | 3,751,068 | - | - | 3,751,068 |
| Other assets | 15,381,807 | - | - | 15,381,807 |
| Capital assets: | | | | |
| Land and site improvements | - | 158,944,524 | 2,757,150 | 161,701,674 |
| Buildings and improvements | - | 171,666,530 | 32,648,049 | 204,314,579 |
| Utility plant in service | 2,616,728,074 | - | - | 2,616,728,074 |
| Equipment, furniture and fixtures | - | 15,135,396 | 38,541,440 | 53,676,836 |
| Construction in progress | 153,685,841 | 74,299,232 | - | 227,985,073 |
| Less accumulated depreciation | (872,419,331) | (210,217,264) | (31,499,499) | (1,114,136,094) |
| Total assets | <u>2,322,556,608</u> | <u>273,598,349</u> | <u>54,224,937</u> | <u>2,650,379,894</u> |
| Deferred outflows of resources | | | | |
| Pensions | 1,947,863 | - | - | 1,947,863 |
| OPEB | 662,384 | - | - | 662,384 |
| Unamortized bond refundings | 22,933,336 | 1,222,222 | - | 24,155,558 |
| Total deferred outflows of resources | <u>25,543,583</u> | <u>1,222,222</u> | <u>-</u> | <u>26,765,805</u> |
| Liabilities | | | | |
| Accounts payable | 52,901,978 | 4,172,570 | 826,222 | 57,900,770 |
| Matured principal & interest on bonds | 14,092,280 | - | - | 14,092,280 |
| Accrued liabilities | 22,420,724 | 1,363,334 | 394,065 | 24,178,123 |
| Due to primary government | - | - | 2,809,500 | 2,809,500 |
| Customer deposits, plus accrued interest | 19,239,531 | - | - | 19,239,531 |
| Accrued interest | - | 8,670 | - | 8,670 |
| Noncurrent liabilities: | | | | |
| Long-term debt due within one year | 36,845,000 | 5,350,000 | - | 42,195,000 |
| Long-term debt due in more than one year | 1,062,950,000 | 57,045,000 | - | 1,119,995,000 |
| Other liabilities | 24,185,865 | - | - | 24,185,865 |
| Unamortized premiums/discounts | 34,146,236 | - | - | 34,146,236 |
| Net pension liability | 280,341 | - | - | 280,341 |
| Derivative instruments - interest rate swaps | - | 607,009 | - | 607,009 |
| Total liabilities | <u>1,267,061,955</u> | <u>68,546,583</u> | <u>4,029,787</u> | <u>1,339,638,325</u> |
| Deferred inflows of resources | | | | |
| Pensions | 13,937,341 | - | - | 13,937,341 |
| OPEB | 321,637 | - | - | 321,637 |
| Deferred revenue | - | - | 454,810 | 454,810 |
| Total deferred inflows of resources | <u>14,258,978</u> | <u>-</u> | <u>454,810</u> | <u>14,713,788</u> |
| Net position | | | | |
| Net investment in capital assets | 794,382,860 | 146,198,639 | 42,447,140 | 983,028,639 |
| Restricted for: | | | | |
| Debt service | 19,414,174 | - | - | 19,414,174 |
| Other | 21,446 | 1,937,806 | - | 1,959,252 |
| Unrestricted | 252,960,778 | 58,137,543 | 7,293,200 | 318,391,521 |
| Total net position | <u>\$ 1,066,779,258</u> | <u>\$ 206,273,988</u> | <u>\$ 49,740,340</u> | <u>\$ 1,322,793,586</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, 2018

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, 2018

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 16) 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, 2018

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, 2018

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, 2018

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 ten 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 \$2,501,742 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, 2018

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* and *other postretirement benefits* 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* and *other postretirement benefits* 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, 2018

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, 2018, the City met the minimum general fund balance policy. See Note 13.

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, 2018

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 20. 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 20.

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. 75, Accounting and Financial Reporting 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 21 and 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. 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 adoption resulted in a restatement of net position (see Note 3).

The City adopted 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. 85, Omnibus 2017, required for fiscal periods beginning after June 15, 2017, in fiscal 2018. This Statement enhances consistency in the application of accounting and financial reporting requirements.

The City adopted GASB Statement No. 86, Certain Debt Extinguishment Issues, required for fiscal periods beginning after June 15, 2017, in fiscal 2018. 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.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. 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.

The City plans to adopt GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, required for fiscal periods beginning after June 15, 2018, in fiscal 2019. This Statement improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

The City plans to adopt GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, required for fiscal periods beginning after December 15, 2019, in fiscal 2021. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.

The City plans to adopt GASB Statement No. 90, Majority Equity Interests, required for fiscal periods beginning after December 15, 2018, in fiscal 2020. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units.

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3 – RESTATEMENT OF NET POSITION

The City adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“OPEB”), for the year ended June 30, 2018. The Statement establishes accounting and financial reporting requirements that, among other things, require the City to recognize a liability equal to the total OPEB liability. The impact on the financial statements was a decrease to beginning net position as follows:

| | Statement of Activities Governmental Activities | Statement of Activities Component Units |
|--|--|--|
| Net position - beginning of the year, as previously reported | \$ 514,734,039 | \$ 1,231,541,482 |
| Adjustment to report OPEB liability | (10,595,839) | 4,522,695 |
| Net position - beginning of the year, as restated | <u>\$ 504,138,200</u> | <u>\$ 1,236,064,177</u> |

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

The Mayor is authorized to transfer budgeted amounts within departments within any fund. All other transfers or supplemental appropriations must be enacted by City Council. Other management is not authorized to make such changes. Appropriations lapse at each fiscal year-end.

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2018.

| | |
|------------------------|-------------|
| General Fund | \$1,026,776 |
| Special Revenue Funds | 1,202,855 |
| Enterprise Funds | 7,602,885 |
| Internal Service Funds | 437,681 |
| Capital Projects Fund | 1,510,000 |

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, 2018**

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

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

| | Revenues, Transfers In and Capital Contributions | | | Expenses and Transfers Out | | |
|--|---|---------------|----------------------------|----------------------------|---------------|----------------------------|
| | Budget | Actual | Variance | Budget | Actual | Variance |
| | | | Favorable (Unfavorable) | | | Favorable (Unfavorable) |
| <i>Enterprise Funds</i> | | | | | | |
| Knoxville Convention Center | \$ 27,435,258 | \$ 32,930,338 | \$ 5,495,080 | \$ 27,435,258 | \$ 19,549,870 | \$ 7,885,388 |
| Metro Parking | 14,267,710 | 12,498,230 | (1,769,480) | 14,267,710 | 5,404,654 | 8,863,056 |
| Public Assembly Facilities | 7,453,477 | 7,091,936 | (361,541) | 7,453,477 | 7,023,822 | 429,655 |
| City Golf Courses | 1,422,150 | 1,123,989 | (298,161) | 1,422,150 | 1,254,509 | 167,641 |
| <i>Knoxville Area Transit (Component Unit)</i> | | | | | | |
| | 25,098,800 | 33,101,236 | 8,002,436 | 25,098,800 | 32,131,744 | (7,032,944) |
| <i>Internal Service Funds</i> | | | | | | |
| Fleet Maintenance | 16,014,481 | 18,461,578 | 2,447,097 | 16,014,481 | 13,676,984 | 2,337,497 |
| Risk Management | 7,194,129 | 7,513,424 | 319,295 | 7,194,129 | 6,140,884 | 1,053,245 |
| Employee Health Insurance | 21,274,601 | 19,367,855 | (1,906,746) | 21,274,601 | 18,404,567 | 2,870,034 |
| Equipment Replacement | 3,930,270 | 4,928,838 | 998,568 | 3,930,270 | 2,352,547 | 1,577,723 |
| City Buildings | 1,844,200 | 1,837,627 | (6,573) | 1,844,200 | 1,794,841 | 49,359 |

NOTE 5 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds except the City Employees' Pension Trust Fund (Pension Trust Fund) and the Knoxville Utilities Board and Metropolitan Knoxville Airport Authority component unit enterprise funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash". Deficits in pooled cash are reported as interfund liabilities. See Note 10 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, 2018

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

Investment Policies

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limit investments to terms of no more than four years. As of June 30, 2018, the average weighted maturity of the City's portfolio was 137 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, 2018, the City held securities in various municipal bonds of \$38 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, 2018

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

As of June 30, 2018, 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) | \$ 18,279,917 | \$ 7,480,003 | \$ 4,936,114 | \$ 5,863,800 |
| Private Equity Funding Corporation (PEFCO) | 4,495,058 | 1,525,954 | 1,487,250 | 1,481,854 |
| Federal Farm Credit Bureau (FFCB) | 21,952,006 | 6,959,741 | 6,426,965 | 8,565,300 |
| Federal Home Loan Mortgage Corporation (FHLMC) | 5,398,688 | 1,980,706 | 2,000,220 | 1,417,762 |
| Tennessee Valley Authority | 7,478,014 | 6,992,314 | 485,700 | - |
| Other Governmental Bonds | 54,124,698 | 18,034,539 | 24,329,986 | 11,760,173 |
| Certificates of Deposit | 9,767,633 | 5,351,577 | 1,731,375 | 2,684,681 |
| Bankers Acceptance | 1,991,787 | 1,991,787 | | |
| Corporate Equities | 257,246 | 257,246 | - | - |
| Tennessee Local Government Investment Pool | 319,329,249 | 319,329,249 | - | - |
| | <u>\$ 443,074,296</u> | <u>\$ 369,903,116</u> | <u>\$ 41,397,610</u> | <u>\$ 31,773,570</u> |
| Fiduciary Activities: | | | | |
| Tennessee Local Government Investment Pool | | | | |
| | <u>\$ 119,956</u> | <u>\$ 119,956</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:

| | <u>Knoxville Utilities Board</u> | <u>Metropolitan Knoxville Airport Authority</u> | <u>Knoxville Area Transit</u> | <u>City Employees' Pension Trust Fund</u> |
|--|--------------------------------------|---|-----------------------------------|---|
| Deposits: | | | | |
| Bank balances | \$ 135,001,960 | \$ 18,183,435 | \$ 189,718 | \$ 1,548 |
| Carrying amounts: | | | | |
| Deposits (net of outstanding checks) in financial institutions | \$ 128,217,924 | \$ 18,183,435 | \$ 189,718 | \$ 1,548 |
| Certificates of deposit | 6,784,036 | - | - | - |
| Total deposits - carrying value | <u>\$ 135,001,960</u> | <u>\$ 18,183,435</u> | <u>\$ 189,718</u> | <u>\$ 1,548</u> |

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 5 - 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 | \$ - | \$ - | \$ - | \$ 6,821,386 | \$ 6,821,386 | \$ 6,821,386 |
| United States government securities | 123,579,815 | 33,160,279 | - | 95,056,941 | 251,797,035 | 251,797,035 |
| Domestic equity securities | - | - | - | 163,148,015 | 163,148,015 | 163,148,015 |
| Corporate bonds | - | - | - | 42,492,483 | 42,492,483 | 42,492,483 |
| State and municipal government securities | - | - | - | 1,123,228 | 1,123,228 | 1,123,228 |
| Real estate investment trusts | - | - | - | 89,470,031 | 89,470,031 | 89,470,031 |
| Alternative assets | - | - | - | 53,292,543 | 53,292,543 | 53,292,543 |
| International securities | - | - | - | 139,015,120 | 139,015,120 | 139,015,120 |
| Total classified investments | 123,579,815 | 33,160,279 | - | 590,419,747 | 747,159,841 | 747,159,841 |
| Investments not categorized: | | | | | | |
| Investments in state treasurer's investment pool | 8,994,072 | - | 1,567,582 | - | 10,561,654 | 10,561,654 |
| Total investments | \$ 132,573,887 | \$ 33,160,279 | \$ 1,567,582 | \$ 590,419,747 | \$ 757,721,495 | \$ 757,721,495 |
| Total deposits and investments | \$ 267,575,847 | \$ 51,343,714 | \$ 1,757,300 | \$ 590,421,295 | | |

| | Knoxville Utilities Board | Metropolitan Knoxville Airport Authority | Knoxville Area Transit | City Employees' Pension Trust Fund |
|-------------------------------------|------------------------------|--|---------------------------|--|
| Cash and cash equivalents | \$ 128,217,924 | \$ 17,065,629 | \$ 189,718 | \$ 1,548 |
| Investments | 106,287,708 | 33,160,279 | 1,567,582 | 590,419,747 |
| Unused bond proceeds | - | 1,117,806 | - | - |
| Bond funds | 33,506,454 | - | - | - |
| Other temporarily restricted assets | 21,446 | - | - | - |
| | 268,033,532 | 51,343,714 | 1,757,300 | 590,421,295 |
| Less accrued interest | (457,685) | - | - | - |
| Total deposits and investments | \$ 267,575,847 | \$ 51,343,714 | \$ 1,757,300 | \$ 590,421,295 |

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, 2018

NOTE 6 - 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, 2018:

| | June 30, 2018 | 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 | \$ 57,603,683 | \$ 57,603,683 | \$ - | \$ - |
| State and Municipal Bonds | 54,124,698 | 15,738,306 | 38,386,392 | - |
| Bankers Acceptance | 1,991,787 | 1,991,787 | - | - |
| Equity Securities | 257,246 | 257,246 | - | - |
| Certificates of Deposit | 9,767,633 | 9,767,633 | - | - |
| | <u>\$ 123,745,047</u> | <u>\$ 85,358,655</u> | <u>\$ 38,386,392</u> | <u>\$ -</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 6 - FAIR VALUE MEASUREMENT - Continued

| | June 30, 2018 | 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) |
| Fiduciary Activities: | | | | |
| Investments by Fair Value Level | | | | |
| Debt Securities: | | | | |
| U.S. Treasury Securities | \$ 43,152,329 | \$ 43,152,329 | \$ - | \$ - |
| U.S. Government Backed Securities | 1,970,730 | 1,970,730 | - | - |
| Commercial Mortgage-Backed Securities | 2,908,072 | - | 2,908,072 | - |
| Asset Backed Securities | 2,898,125 | - | 2,898,125 | - |
| Residential Mortgage-Backed Securities | 12,135,605 | - | 12,135,605 | - |
| Corporate Bonds | 39,658,264 | 39,658,264 | - | - |
| Municipal Bonds | 1,175,944 | 1,175,944 | - | - |
| TIPS | 19,252,347 | 19,252,347 | - | - |
| Mutual Funds: | | | | |
| U.S. Aggregate Bond Index | 21,406,352 | 21,406,352 | - | - |
| Total Debt Securities | 144,557,768 | 126,615,966 | 17,941,802 | - |
| Equity Securities: | | | | |
| Consumer Discretionary | 20,649,696 | 20,649,696 | - | - |
| Consumer Staples | 479,755 | 479,755 | - | - |
| Energy | 6,243,861 | 6,243,861 | - | - |
| Financials | 18,370,219 | 18,370,219 | - | - |
| Healthcare | 6,180,941 | 6,180,941 | - | - |
| Industrials | 4,655,107 | 4,655,107 | - | - |
| Information Technology | 14,507,258 | 14,507,258 | - | - |
| Materials | 1,905,319 | 1,905,319 | - | - |
| Reit Financials | 1,969,066 | 1,969,066 | - | - |
| Telecommunications Services | 287,708 | 287,708 | - | - |
| Utilities | 884,533 | 884,533 | - | - |
| Mutual Funds: | | | | |
| Large Cap Growth | 47,921,587 | 47,921,587 | - | - |
| Total Equity Securities | \$ 124,055,050 | \$ 124,055,050 | \$ - | \$ - |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 6 - FAIR VALUE MEASUREMENT - Continued

| | June 30, 2018 | 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 | \$ 5,509,564 | \$ - | \$ - | \$ 5,509,564 |
| Diversified | 4,916,279 | - | - | 4,916,279 |
| Energy | 10,553,903 | - | - | 10,553,903 |
| International | 3,066,226 | - | - | 3,066,226 |
| Secondary Markets | 6,333,639 | - | - | 6,333,639 |
| Venture Capital | 5,392,866 | - | - | 5,392,866 |
| Total Private Equity | <u>\$ 35,772,477</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35,772,477</u> |
| Total Investments by fair value level | <u>\$ 304,385,295</u> | <u>\$ 250,671,016</u> | <u>\$ 17,941,802</u> | <u>\$ 35,772,477</u> |
| Investments measured at the net asset value (NAV) | | | | |
| Multi-strategy Hedge Fund | 14,341,706 | | | |
| Real Estate Funds | 48,009,580 | | | |
| International Equities | 125,493,122 | | | |
| Master Limited Partnerships | 27,464,938 | | | |
| Defensive Equity | 25,257,721 | | | |
| Risk Parity | 38,950,837 | | | |
| International - Emerging Market Debt | - | | | |
| Total investment measured at the NAV | <u>279,517,904</u> | | | |
| Total investments measured at fair value | 583,903,199 | | | |
| Cash held by money managers | 7,224,994 | | | |
| Total Investment Assets | <u>\$ 591,128,193</u> | | | |

(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, 2018

NOTE 6 - 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 | \$ 14,341,706 | \$ - | Semi-annual | 95 days |
| Real Estate Funds | 48,009,580 | - | Quarterly, Daily | 45 days, 1 day |
| International Equities | 125,493,122 | - | Monthly | 10 - 30 days |
| Master Limited Partnerships | 27,464,938 | - | Daily | 3 days |
| Defensive Equity | 25,257,721 | - | Monthly | 5 days |
| Risk Parity | 38,950,837 | - | Monthly | 3 days |
| Total investment measured at the NAV | <u>\$ 279,517,904</u> | <u>\$ -</u> | | |
| Private Equity: | | | | |
| Debt | \$ 5,509,564 | \$ 3,975,000 | | |
| Diversified | 4,916,279 | 5,019,320 | | |
| Energy | 10,553,903 | 1,372,921 | | |
| International | 3,066,226 | 2,185,421 | | |
| Secondary Markets | 6,333,639 | 5,635,000 | | |
| Venture Capital | 5,392,866 | 312,616 | | |
| Total Private Equity | <u>\$ 35,772,477</u> | <u>\$ 18,500,278</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, 2018**

NOTE 6 - 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 7 - RECEIVABLES

Receivables at June 30, 2018, 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 | \$ 817,281 | \$ 230,388 | \$ 33,824 | \$ 82,996 | \$ 2,317 | \$ - | \$ 1,166,806 |
| Debt service fund | - | 173,384 | - | - | 9,813 | - | 183,197 |
| Capital projects fund | 127,500 | 190,623 | 3,276,546 | - | - | - | 3,594,669 |
| Special revenue funds: | | | | | | | |
| Miscellaneous community development funds | - | - | 101,767 | - | - | - | 101,767 |
| Other governmental funds | 1,130,172 | 445 | 1,600,104 | 33,223 | 7,733 | - | 2,771,677 |
| Knoxville Convention Center | 1,656,843 | 37,762 | - | - | 1,414,894 | - | 3,109,499 |
| Other enterprise funds | - | - | 387,984 | 138,606 | - | - | 526,590 |
| Internal service funds | - | 98,422 | - | 196,200 | - | - | 294,622 |
| Total primary government | 3,731,796 | 731,024 | 5,400,225 | 451,025 | 1,434,757 | - | 11,748,827 |
| Component units: | | | | | | | |
| Knoxville Utilities Board | 4,301,001 | 123,231 | - | 79,069,510 | 3,709,393 | (681,624) | 86,521,511 |
| Metropolitan Knoxville Airport Authority | - | 66,716 | 8,975,806 | 1,676,827 | - | - | 10,719,349 |
| Knoxville Area Transit | - | - | 8,694,155 | - | - | - | 8,694,155 |
| Total reporting entity | \$ 8,032,797 | \$ 920,971 | \$ 23,070,186 | \$ 81,197,362 | \$ 5,144,150 | \$ (681,624) | \$ 117,683,842 |
| Fiduciary Activities: | | | | | | | |
| City Employees' Pension Trust Fund | \$ - | \$ 1,197,249 | \$ - | \$ - | \$ 232 | \$ - | \$ 1,197,481 |
| Combined Agency Funds | - | - | - | - | 269,673 | - | 269,673 |
| Total fiduciary activities | \$ - | \$ 1,197,249 | \$ - | \$ - | \$ 269,905 | \$ - | \$ 1,467,154 |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - NOTES AND LEASES RECEIVABLE

Notes and leases receivable consisted of the following:

| | |
|--|----------------------|
| Governmental Funds: | |
| Notes Receivable | |
| General Fund | \$ 1,461,991 |
| Special Revenue Fund - Miscellaneous Community Development Funds | 11,443,566 |
| Other Governmental Funds - | |
| Community Development Block Grant Funds | 1,921,029 |
| Miscellaneous Special Revenue Funds | <u>2,900,000</u> |
| Total Notes Receivable | <u>\$ 17,726,586</u> |

The \$11,443,566 due to the Miscellaneous to Community Development Funds and the \$4,821,029 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 \$16,264,595 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, 2018, minimum future base rentals to be received on noncancellable leases are as follows:

Year Ended June 30.

| | |
|------------|---------------------|
| 2019 | \$ 8,054,876 |
| 2020 | 1,978,882 |
| 2021 | 1,260,272 |
| 2022 | 773,616 |
| 2023 | 756,429 |
| Thereafter | <u>12,726,385</u> |
| Total | <u>\$25,550,460</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 \$508,000 are included in other noncurrent assets in the accompanying statement of net position as of June 30, 2018. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$2,508,091 for the year ended June 30, 2018.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2018 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 | \$ 84,139,422 | \$ 238,292 | \$ - | \$ 84,377,714 |
| Artwork | 37,819 | 69,000 | - | 106,819 |
| Construction in progress | 31,279,224 | 5,875,719 | (24,953,322) | 12,201,621 |
| Total nondepreciable capital assets | <u>115,456,465</u> | <u>6,183,011</u> | <u>(24,953,322)</u> | <u>96,686,154</u> |
| <i>Depreciable:</i> | | | | |
| Buildings and building improvements | 73,718,641 | 820,905 | - | 74,539,546 |
| Equipment, furniture and fixtures | 100,770,700 | 14,445,316 | (6,338,078) | 108,877,938 |
| Infrastructure and site improvements | 379,085,850 | 45,201,513 | (625,599) | 423,661,764 |
| Total depreciable capital assets | <u>553,575,191</u> | <u>60,467,734</u> | <u>(6,963,677)</u> | <u>607,079,248</u> |
| <i>Accumulated depreciation:</i> | | | | |
| Buildings and building improvements | (30,705,513) | (2,383,375) | - | (33,088,888) |
| Equipment, furniture and fixtures | (67,449,995) | (8,049,067) | 6,338,078 | (69,160,984) |
| Infrastructure and site improvements | (210,817,576) | (13,755,080) | 75,072 | (224,497,584) |
| Total accumulated depreciation | <u>(308,973,084)</u> | <u>(24,187,522)</u> | <u>6,413,150</u> | <u>(326,747,456)</u> |
| Total depreciable capital assets, net | <u>244,602,107</u> | <u>36,280,212</u> | <u>(550,527)</u> | <u>280,331,792</u> |
| Governmental activities capital assets, net | <u>\$ 360,058,572</u> | <u>\$ 42,463,223</u> | <u>\$ (25,503,849)</u> | <u>\$ 377,017,946</u> |
| Business-type activities: | | | | |
| <i>Nondepreciable:</i> | | | | |
| Land & site improvements | \$ 7,336,303 | \$ - | \$ - | \$ 7,336,303 |
| Artwork | 764,875 | - | - | 764,875 |
| Construction in progress | 2,017,060 | 2,470,008 | (2,017,060) | 2,470,008 |
| Total nondepreciable capital assets | <u>10,118,238</u> | <u>2,470,008</u> | <u>(2,017,060)</u> | <u>10,571,186</u> |
| <i>Depreciable:</i> | | | | |
| Buildings and building improvements | 207,539,634 | 749,033 | - | 208,288,667 |
| Equipment, furniture and fixtures | 7,793,629 | 1,301,333 | (80,740) | 9,014,222 |
| Infrastructure and site improvements | 28,841,760 | 2,596,738 | (2,546,788) | 28,891,710 |
| Total depreciable capital assets | <u>244,175,023</u> | <u>4,647,104</u> | <u>(2,627,528)</u> | <u>246,194,599</u> |
| <i>Accumulated depreciation:</i> | | | | |
| Buildings and building improvements | (93,764,918) | (4,592,127) | - | (98,357,045) |
| Equipment, furniture and fixtures | (5,633,241) | (512,388) | 80,736 | (6,064,893) |
| Infrastructure and site improvements | (12,940,142) | (1,071,864) | - | (14,012,006) |
| Total accumulated depreciation | <u>(112,338,301)</u> | <u>(6,176,379)</u> | <u>80,736</u> | <u>(118,433,944)</u> |
| Total depreciable capital assets, net | <u>131,836,722</u> | <u>(1,529,275)</u> | <u>(2,546,792)</u> | <u>127,760,655</u> |
| Business-type activities capital assets, net | <u>\$ 141,954,960</u> | <u>\$ 940,733</u> | <u>\$ (4,563,852)</u> | <u>\$ 138,331,841</u> |
| Fiduciary activities: | | | | |
| Knoxville Employees' Pension Plan | | | | |
| <i>Depreciable: Equipment, furniture and fixtures</i> | \$ 33,804 | \$ - | \$ (4,915) | \$ 28,889 |
| <i>Accumulated Depreciation</i> | (27,749) | (3,164) | 4,915 | (25,998) |
| Total Knoxville Employees' Pension Plan | <u>\$ 6,055</u> | <u>\$ (3,164)</u> | <u>\$ -</u> | <u>\$ 2,891</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 9 - CAPITAL ASSETS - Continued

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

Governmental Activities

| | |
|-----------------------|----------------------|
| General | \$ 4,801,477 |
| Public Safety | 6,351,385 |
| Physical Environment | 10,895,766 |
| Economic Development | 65,998 |
| Parks and Recreation | 1,773,584 |
| Health and Sanitation | <u>299,312</u> |
| | <u>\$ 24,187,522</u> |

Business-type Activities

| | |
|-----------------------------|---------------------|
| Knoxville Convention Center | \$ 4,254,751 |
| Metro Parking | 1,287,272 |
| Public Assembly Facilities | 577,677 |
| Municipal Golf Courses | <u>56,679</u> |
| | <u>\$ 6,176,379</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 9 - CAPITAL ASSETS - Continued

Capital asset activity for component units for the year ended June 30, 2018 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> | \$ 141,763,046 | \$ 155,166,276 | \$ (143,243,481) | \$ 153,685,841 |
| <i>Depreciable:</i> | | | | |
| Pumping and treatment plant | 305,945,038 | 15,992,521 | (2,620,577) | 319,316,982 |
| Distribution & collection plant | 2,037,856,559 | 121,060,622 | (42,617,469) | 2,116,299,712 |
| General plant | 178,606,088 | 8,201,012 | (5,695,720) | 181,111,380 |
| Total depreciable assets | 2,522,407,685 | 145,254,155 | (50,933,766) | 2,616,728,074 |
| Accumulated depreciation | (838,877,792) | (80,244,970) | 46,703,431 | (872,419,331) |
| Total depreciable capital assets, net | 1,683,529,893 | 65,009,185 | (4,230,335) | 1,744,308,743 |
| Total Knoxville Utilities Board | \$ 1,825,292,939 | \$ 220,175,461 | \$ (147,473,816) | \$ 1,897,994,584 |
| Metropolitan Knoxville Airport Authority | | | | |
| <i>Nondepreciable:</i> | | | | |
| Land | \$ 38,858,400 | \$ 962,018 | \$ - | \$ 39,820,418 |
| Construction in progress | 51,337,130 | 26,233,321 | (3,271,219) | 74,299,232 |
| Total nondepreciable capital assets | 90,195,530 | 27,195,339 | (3,271,219) | 114,119,650 |
| <i>Depreciable:</i> | | | | |
| Land improvements | 117,571,521 | 1,552,585 | - | 119,124,106 |
| Buildings and building improvements | 170,365,708 | 1,350,822 | (50,000) | 171,666,530 |
| Equipment, furniture and fixtures | 14,993,557 | 261,167 | (119,328) | 15,135,396 |
| Total depreciable capital assets | 302,930,786 | 3,164,574 | (169,328) | 305,926,032 |
| <i>Accumulated depreciation:</i> | | | | |
| Land improvements | (88,918,286) | (2,979,949) | - | (91,898,235) |
| Buildings and building improvements | (102,418,096) | (5,546,579) | 50,000 | (107,914,675) |
| Equipment, furniture and fixtures | (9,697,807) | (799,317) | 92,770 | (10,404,354) |
| Total accumulated depreciation | (201,034,189) | (9,325,845) | 142,770 | (210,217,264) |
| Total depreciable capital assets, net | 101,896,597 | (6,161,271) | (26,558) | 95,708,768 |
| Total Metropolitan Knoxville Airport Authority | \$ 192,092,127 | \$ 21,034,068 | \$ (3,297,777) | \$ 209,828,418 |
| Knoxville Area Transit | | | | |
| <i>Nondepreciable:</i> | | | | |
| Land | \$ 2,199,236 | \$ - | \$ - | \$ 2,199,236 |
| Artwork | 49,000 | - | - | 49,000 |
| Total nondepreciable capital assets | 2,248,236 | - | - | 2,248,236 |
| <i>Depreciable:</i> | | | | |
| Buildings and building improvements | 32,637,878 | - | (38,829) | 32,599,049 |
| Infrastructure and site improvements | 557,914 | - | - | 557,914 |
| Equipment, vehicles, furniture and fixtures | 35,320,754 | 3,853,349 | (632,663) | 38,541,440 |
| Total depreciable capital assets | 68,516,546 | 3,853,349 | (671,492) | 71,698,403 |
| <i>Accumulated depreciation:</i> | | | | |
| Buildings and building improvements | (9,824,212) | (1,026,725) | 38,829 | (10,812,108) |
| Infrastructure and site improvements | (11,560) | (25,969) | - | (37,529) |
| Equipment, vehicles, furniture and fixtures | (18,559,916) | (2,722,609) | 632,663 | (20,649,862) |
| Total accumulated depreciation | (28,395,688) | (3,775,303) | 671,492 | (31,499,499) |
| Total depreciable capital assets, net | 40,120,858 | 78,046 | - | 40,198,904 |
| Total Knoxville Area Transit | \$ 42,369,094 | \$ 78,046 | \$ - | \$ 42,447,140 |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2018 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> | \$ 1,751,145 | \$ 9,609,500 | \$ (7,858,355) | \$ 2,809,500 | \$ - |
| <i>Special Revenue Fund:</i> | | | | | |
| Community Development Block Grant | - | 100,000 | (100,000) | - | - |
| Abandoned Vehicles | - | 25,000 | (25,000) | - | - |
| City Inspections | - | 15,000 | (15,000) | - | - |
| City Court | 5,000 | - | 5,000 | - | - |
| Miscellaneous Grants | 40,000 | 997,900 | (957,900) | - | - |
| Miscellaneous Special Revenue | 100,000 | 240,445 | (140,445) | - | - |
| Solid Waste | - | 600,000 | (600,000) | - | - |
| <i>Capital Projects Fund</i> | 6,750,000 | - | 6,750,000 | - | - |
| <i>Internal Service Funds:</i> | | | | | |
| Risk Management | - | 300,000 | (300,000) | - | - |
| Health Insurance | - | 1,520,000 | (1,520,000) | - | - |
| Equipment Replacement | 24,700 | - | 24,700 | - | - |
| Total governmental activities | <u>\$ 8,670,845</u> | <u>\$ 13,407,845</u> | <u>\$ (4,737,000)</u> | <u>\$ 2,809,500</u> | <u>\$ -</u> |
| Business-Type Activities | | | | | |
| Knoxville Convention Center | 8,950,000 | 8,075,000 | 875,000 | - | - |
| Public Assembly Facilities | 3,790,000 | - | 3,790,000 | - | - |
| Metro Parking | - | 43,000 | (43,000) | - | - |
| Municipal Golf Courses | 115,000 | - | 115,000 | - | - |
| Total business-type activities | <u>12,855,000</u> | <u>8,118,000</u> | <u>4,737,000</u> | <u>-</u> | <u>-</u> |
| Fiduciary Funds | | | | | |
| City Choice Plus Fund | - | 143,200 | (143,200) | - | - |
| Health Savings | 143,200 | - | 143,200 | - | - |
| | <u>143,200</u> | <u>143,200</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Component Units: | | | | | |
| Knoxville Area Transit | - | - | - | - | 2,809,500 |
| | <u>\$ 21,669,045</u> | <u>\$ 21,669,045</u> | <u>\$ -</u> | <u>\$ 2,809,500</u> | <u>\$ 2,809,500</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 11 - LONG-TERM DEBT

Bonds and note payable at June 30, 2018, are comprised of the following issues:

| | General Obligation Bonds and Note Payable | | |
|---|---|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Primary Government | | | |
| General Obligation Bonds Series 2009 - VI-L-1 through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate | \$ - | \$ 6,990,000 | \$ 6,990,000 |
| 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% | 2,790,000 | - | 2,790,000 |
| General Obligation Refunding Bonds Series 2012 maturing through 2025 at varying rates of interest ranging from 1.0% to 5.0% | 18,834,460 | 33,230,540 | 52,065,000 |
| General Obligation Bonds Series 2014 maturing through 2034 at varying rates of interest ranging from 2.8% to 3.2% | 28,050,000 | - | 28,050,000 |
| General Obligation Bonds Series 2018 maturing through 2028 at varying rates of interest ranging from 3.0% to 5.0% | <u>14,625,000</u> | <u>-</u> | <u>14,625,000</u> |
| Total General Obligation Bonds | 64,299,460 | 100,190,540 | 164,490,000 |
| 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>\$ 67,199,460</u> | <u>\$ 100,190,540</u> | <u>\$ 167,390,000</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 11 - LONG-TERM DEBT - Continued

| | Revenue Bonds |
|--|-------------------------|
| Component Units: | |
| <i>Knoxville Utilities Board:</i> | |
| Electric Revenue Bonds Series W to II, maturing through 2048 at varying rates of interest ranging from 1.45% to 6.35% | \$ 294,450,000 |
| Water Revenue Bonds Series U to GG maturing through 2047 at varying rates of interest ranging from 2.0% to 5.0% | 179,165,000 |
| Gas Revenue Bonds Series P to X, maturing through 2047 at varying rates of interest ranging from 2.0% to 6.2% | 113,290,000 |
| Waste Water Revenue Bonds Series 2008, 2010, 2010C, 2012A, 2012B, 2013A, 2014A, 2015A, 2015B, 2016, 2017A, 2017B maturing through 2050 at varying rates of interest ranging from 1.18% to 6.5% | 512,890,000 |
| | \$ 1,099,795,000 |
| <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) | \$ 52,580,000 |
| Airport Revenue Refunding Note Series 2017A, maturing through 2026, bearing a fixed interest rate of 1.95% | 9,815,000 |
| | \$ 62,395,000 |

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, 2018, 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 |
| | Principal | Interest | Principal | Interest |
| 2019 | \$ 6,236,980 | \$ 2,092,058 | \$ 5,558,020 | \$ 3,210,896 |
| 2020 | 6,676,380 | 1,882,498 | 5,838,620 | 2,950,070 |
| 2021 | 5,983,420 | 1,629,042 | 5,631,580 | 2,929,984 |
| 2022 | 6,369,660 | 1,338,371 | 5,920,340 | 3,129,977 |
| 2023 | 6,590,640 | 1,207,403 | 6,049,360 | 3,279,921 |
| 2024-2028 | 21,572,380 | 3,679,309 | 27,497,620 | 14,029,541 |
| 2029-2033 | 11,000,000 | 1,322,563 | 43,695,000 | 4,086,225 |
| 2033-2036 | 2,770,000 | 73,125 | - | - |
| | 67,199,460 | \$ 13,224,369 | 100,190,540 | \$ 33,616,614 |
| Unamortized premium | 4,422,363 | | 939,148 | |
| Total | \$ 71,621,823 | | \$ 101,129,688 | |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 11 - LONG-TERM DEBT - Continued

| Component Units | Revenue Bonds and Local Gov't Public Improvement Bonds | |
|-----------------|---|-----------------------|
| | Principal | Interest |
| 2019 | \$ 42,195,000 | \$ 42,626,889 |
| 2020 | 44,005,000 | 40,984,268 |
| 2021 | 45,840,000 | 39,250,073 |
| 2022 | 48,010,000 | 37,361,329 |
| 2023 | 50,040,000 | 35,387,166 |
| 2024-2028 | 257,740,000 | 149,565,398 |
| 2029-2033 | 206,465,000 | 109,347,770 |
| 2034-2038 | 180,215,000 | 75,560,065 |
| 2039-2043 | 185,095,000 | 40,815,046 |
| 2044-2048 | 97,810,000 | 8,896,622 |
| 2049-2050 | 4,775,000 | 248,975 |
| | <u>\$ 1,162,190,000</u> | <u>\$ 580,043,601</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, 2018, is \$6,990,000.

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, 2018

NOTE 11 - LONG-TERM DEBT - Continued

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2018, were as follows:

| Associated Debt Issue | Outstanding Notional Amount | Effective Date | Fixed Rate Paid | Variable Rate Received | Estimated Fair Value | Swap Term Date | Counter- Party Credit Rating |
|--|-----------------------------------|-------------------|--------------------|---------------------------|-------------------------|-------------------|------------------------------------|
| Business-Type Activities General Obligation Bonds Series VI-L-1 through Public Building Authority of Sevier County | \$ 6,990,000 | 12/16/2009 | 3.955% | 70% of 1 Month LIBOR | \$ (228,187) | 6/1/2020 | A2 |

Fair Value - As of June 30, 2018, the swap had a negative fair value of \$228,187. 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, 2018, were as follows:

| Associated Debt Issue | Changes in Fair Value | | Fair Value at June 30, 2018 | | June 30, 2018 Notional Amount |
|--|-------------------------------------|------------|--------------------------------|--------------|-------------------------------------|
| | Classification | Amount | Classification | Amount | |
| Business -Type Activities Hedging Derivative Loan Payable to the Public Building Authority of Sevier County - Series VI-L1 | Deferred Outflow of Resources | \$ 360,900 | Debt | \$ (228,187) | \$ 6,990,000 |

Credit Risk - As of June 30, 2018, 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, 2018, the senior debt of Wells Fargo was rated A2 by Moody's Investor Services.

Basis Risk - The City, in 2012, converted both Series A-4-A and Series VI-L-1 variable rate debt to an index period bond. In doing this conversion the index used in the Series VI-L-1 bonds from a SIFMA based index to a LIBOR based index that exactly matches the index used in the swap. This index based bond runs for the entirety of the swap agreement and eliminates any basis risk.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 11 - 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, 2018, 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 |
|---------------------------------|---------------------|-------------------|-----------------------------------|---------------------|
| 2019 | 3,415,000 | 314,550 | (20,300) | 3,709,250 |
| 2020 | 3,575,000 | 160,875 | (10,400) | 3,725,475 |
| | <u>\$ 6,990,000</u> | <u>\$ 475,425</u> | <u>\$ (30,700)</u> | <u>\$ 7,434,725</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, 2018, 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 | \$13,010,000 | 6/28/2001 | 4.355% | 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, 2018

NOTE 11 - LONG-TERM DEBT - Continued

Investment Derivative Instrument Risks

The Authority has an investment derivative associated with the Series V-A-1 bond. Accordingly, the \$584,247 decrease in its fair value in fiscal year 2018 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 \$607,009 has been reported as a long-term liability at June 30, 2018.

Credit risk: As of June 30, 2018, 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 Baa1/BBB+ by Moody's and Standard & Poor's, respectively, as of June 30, 2018, with its Credit Support Provider, Deutsche Bank, rated A3/BBB+/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.

Scheduled Debt Service Requirements

As of June 30, 2018, 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 | |
| 2019 | \$ 5,350,000 | \$ 998,179 | \$ 321,242 | \$ 6,669,421 |
| 2020 | 5,580,000 | 910,021 | 215,453 | 6,705,474 |
| 2021 | 5,825,000 | 818,176 | 104,426 | 6,747,602 |
| 2022 | 6,190,000 | 722,210 | - | 6,912,210 |
| 2023 | 6,455,000 | 620,619 | - | 7,075,619 |
| Thereafter | 32,995,000 | 1,487,698 | - | 34,482,698 |
| | <u>\$ 62,395,000</u> | <u>\$ 5,556,903</u> | <u>\$ 641,121</u> | <u>\$ 68,593,024</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 11 - 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, 2017 these bonds became subject to a 6.6 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. During fiscal year 2018, KUB's Electric Division issued Series II 2017 bonds to fund electric system capital improvements. In 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, \$27.5 million at June 30, 2018, and the trust account assets are not included in the financial statements.

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, 2017, these bonds became subject to a 6.6 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 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. During fiscal year 2018, KUB's Gas Division issued Series X 2017 bonds to fund gas 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 11 - LONG-TERM DEBT - Continued

KUB's Water Division also issued Series FF 2017 bonds to retire outstanding Series S 2005 bonds. During fiscal year 2018, KUB's Water Division issued GG 2017 bonds to fund water system capital improvements. In 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, 2018, and the trust account assets are not included in the financial statements.

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, 2017, these bonds became subject to a 6.6 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, 2017, these bonds became subject to a 6.6 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. During fiscal year 2018, KUB's Wastewater Division issued Series 2017B bonds to fund wastewater system capital improvements.

Metropolitan Knoxville Airport Authority

During 2000, the Authority's Board of Commissioners adopted a Master Resolution allowing the Authority to issue Airport Revenue Obligations. The Authority has pledged revenues, as defined in the Master Resolution, to repay the long-term debt issued under the Master Resolution for the term of the debt. For the year ended June 30, 2018, debt service on all debt issues was approximately 51% of the pledged revenues.

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.

Renewal and Extension Fund, into which the Authority may deposit any monies 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, 2018

NOTE 11 - 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, 2018:

| | Balance June 30, 2017 | Additions and Transfers | Reductions and Transfers | Balance June 30, 2018 | Due Within One Year |
|--|--------------------------|-------------------------------|--------------------------------|--------------------------|------------------------|
| Primary Government | | | | | |
| <i>Government Activities:</i> | | | | | |
| General obligation bonds | \$ 54,416,640 | \$ 14,625,000 | \$ 4,742,180 | \$ 64,299,460 | \$ 6,236,980 |
| Add unamortized amounts for issuance premiums | 3,950,947 | 1,040,361 | 568,945 | 4,422,363 | 673,039 |
| | 58,367,587 | 15,665,361 | 5,311,125 | 68,721,823 | 6,910,019 |
| HUD section 108 promissory note | 2,900,000 | - | - | 2,900,000 | - |
| Estimated claims liability | 20,100,000 | 15,939,222 | 15,839,222 | 20,200,000 | 5,100,000 |
| Compensated absences payable | 8,317,451 | 174,351 | 189,957 | 8,301,845 | 174,351 |
| Net pension liability | 212,563,619 | 87,313,053 | 95,296,493 | 204,580,179 | - |
| Other postemployment benefit obligation, as restated | 11,111,342 | 140,412 | - | 11,251,754 | - |
| Total governmental activities long-term liabilities | <u>\$ 313,359,999</u> | <u>\$ 119,232,399</u> | <u>\$ 116,636,797</u> | <u>\$ 315,955,601</u> | <u>\$ 12,184,370</u> |
| <i>Business-type Activities:</i> | | | | | |
| General obligation bonds | \$ 105,548,360 | \$ - | \$ 5,357,820 | \$ 100,190,540 | \$ 5,558,020 |
| Add unamortized amounts for issuance premiums | 1,075,065 | - | 135,917 | 939,148 | 135,917 |
| | 106,623,425 | - | 5,493,737 | 101,129,688 | 5,693,937 |
| Compensated absences payable | 4,743 | 157 | - | 4,900 | 4,900 |
| Derivative instrument - interest rate swaps | 589,087 | - | 360,900 | 228,187 | - |
| Total business-type activities long-term liabilities | <u>\$ 107,217,255</u> | <u>\$ 157</u> | <u>\$ 5,854,637</u> | <u>\$ 101,362,775</u> | <u>\$ 5,698,837</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 approximately \$165,000 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

All bonds and loans are backed by the full faith and credit of the City. 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, 2018, principal and interest payments on all debt issues were approximately 11% of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately \$220 million, based on market interest rates effective on June 30, 2018.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 11 - LONG-TERM DEBT - Continued

| | Balance June 30, 2017 | Additions and Transfers | Reductions and Transfers | Defeased | Balance June 30, 2018 | Due Within One Year |
|--|--------------------------|-------------------------------|--------------------------------|-------------|--------------------------|------------------------|
| Component Units | | | | | | |
| <i>Knoxville Utilities Board:</i> | | | | | | |
| Revenue bonds | \$ 1,037,500,000 | \$ 97,000,000 | \$ 34,705,000 | \$ - | \$ 1,099,795,000 | \$ 36,845,000 |
| Other long-term liabilities: | | | | | | |
| TVA conservation program | 6,236,061 | 329,922 | 2,134,764 | - | 4,431,219 | 1,500,000 |
| Compensated absences | 9,074,278 | 16,585,797 | 17,162,115 | - | 8,497,960 | 3,000,000 |
| Customer advances for construction | 3,295,196 | 2,792,954 | 1,160,313 | - | 4,927,837 | 17,000 |
| Other | 124,777 | 247,352 | 216,718 | - | 155,411 | 35,000 |
| Total Knoxville Utilities Board | <u>1,056,230,312</u> | <u>116,956,025</u> | <u>55,378,910</u> | <u>-</u> | <u>1,117,807,427</u> | <u>41,397,000</u> |
| <i>Metropolitan Knoxville Airport Authority:</i> | | | | | | |
| Revenue/general obligation bonds | 67,520,000 | - | 5,125,000 | - | 62,395,000 | 5,350,000 |
| Total Metropolitan Knoxville Airport Authority | <u>67,520,000</u> | <u>-</u> | <u>5,125,000</u> | <u>-</u> | <u>62,395,000</u> | <u>5,350,000</u> |
| Total component units | <u>\$ 1,123,750,312</u> | <u>\$ 116,956,025</u> | <u>\$ 60,503,910</u> | <u>\$ -</u> | <u>\$ 1,180,202,427</u> | <u>\$ 46,747,000</u> |

Conduit Debt

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

The bonds were issued pursuant to a lease agreement between the Authority and Northwest Airlines, Inc. ("Northwest") dated July 12, 2001, and subsequently amended. Northwest has subsequently been acquired by Delta Air Lines (Delta). 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, 2018.

NOTE 12 - 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, 2018 were \$1,538,120.

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> |
|-------|------------------|
| 2019 | \$326,280 |
| 2020 | <u>229,300</u> |
| Total | <u>\$555,580</u> |

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 13 - FUND BALANCES

Detail fund balances are as follows:

| | General Fund | Debt Service Fund | Capital Projects Fund | Special Revenue Funds | | Total |
|------------------------------|---------------------|----------------------|--------------------------|---|----------------------|-----------------------|
| | | | | Miscellaneous Community Development Fund | Other Funds | |
| Fund Balances: | | | | | | |
| Nonspendable: | | | | | | |
| Inventory | \$ 276,635 | \$ - | \$ 122,362 | \$ - | \$ 438,443 | \$ 837,440 |
| Prepays | 28,717 | - | - | - | - | 28,717 |
| Permanent Fund Principal | - | - | - | - | 624,065 | 624,065 |
| Restricted for: | | | | | | |
| Street Improvements | - | - | - | - | 1,966,959 | 1,966,959 |
| Community Development | - | - | - | 1,662,846 | - | 1,662,846 |
| Law Enforcement | - | - | - | - | 3,627,912 | 3,627,912 |
| Parks & Recreation | - | - | - | - | 219,899 | 219,899 |
| Solid Waste Operations | - | - | - | - | 3,554,746 | 3,554,746 |
| Krutch Park | - | - | - | - | 328,026 | 328,026 |
| Committed to: | | | | | | |
| Debt Service | - | 50,771,985 | - | - | - | 50,771,985 |
| Economic Stabilization | 45,436,786 | - | - | - | - | 45,436,786 |
| Other Capital Projects | - | - | 115,308,646 | - | - | 115,308,646 |
| Abandoned Vehicle Operations | - | - | - | - | 774,269 | 774,269 |
| City Inspections Operations | - | - | - | - | 603,325 | 603,325 |
| City Court Operations | - | - | - | - | 1,013,133 | 1,013,133 |
| Animal Control Operations | - | - | - | - | 647,061 | 647,061 |
| Finance & Accountability | 438,297 | - | - | - | - | 438,297 |
| Law Enforcement | - | - | - | - | 2,286,821 | 2,286,821 |
| Storm Water Operations | - | - | - | - | 1,102,271 | 1,102,271 |
| Assigned to: | | | | | | |
| Administration | 45,698 | - | - | - | - | 45,698 |
| Appropriated Fund Balance | 8,183,280 | - | - | - | - | 8,183,280 |
| Community Development | 3,229,004 | - | - | - | - | 3,229,004 |
| Law Enforcement | - | - | - | - | 579,086 | 579,086 |
| Solid Waste Operations | - | - | - | - | 800 | 800 |
| Parks & Recreation | 319,581 | - | - | - | - | 319,581 |
| Unassigned | <u>30,557,331</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>30,557,331</u> |
| Total Fund Balances | <u>\$88,515,329</u> | <u>\$50,771,985</u> | <u>\$ 115,431,008</u> | <u>\$ 1,662,846</u> | <u>\$ 17,766,816</u> | <u>\$ 274,147,984</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 14 - 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.

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Estimated maximum claims liability, beginning of year | \$ 2,500,000 | \$ 2,500,000 |
| Provision for incurred claims | 13,196,167 | 13,021,629 |
| Payments made on claims | <u>(13,196,167)</u> | <u>(13,021,629)</u> |
| Estimated maximum 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 and Knoxville Area Transit. The City is currently the defendant in numerous lawsuits. Of these claims, the City has booked a contingent liability in the Risk Management Fund of \$17,700,000 for those lawsuits and claims. The City feels this is adequate to settle any of those potential claims.

An analysis of claims activity for the years ended June 30, 2018 and 2017 is as follows:

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Estimated maximum claims liability, beginning of year | \$ 17,600,000 | \$ 17,600,000 |
| Provision for incurred claims | 2,743,055 | 2,313,218 |
| Payments made on claims | <u>(2,643,055)</u> | <u>(2,313,218)</u> |
| Estimated maximum claims liability, end of year | <u>\$ 17,700,000</u> | <u>\$ 17,600,000</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 14 - RISK MANAGEMENT - Continued

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2018, 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, 2018, the amount of these liabilities was \$1,822,689. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2018 and 2017 is as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Estimated maximum claims liability, beginning of year | \$ 1,891,790 | \$ 1,758,352 |
| Provision for incurred claims | 15,713,123 | 16,041,816 |
| Payments made on claims | <u>(15,782,224)</u> | <u>(15,908,378)</u> |
| Estimated maximum claims liability, end of year | <u>\$ 1,822,689</u> | <u>\$ 1,891,790</u> |

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, 2018**

NOTE 15 - 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 16 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Knoxville Zoo - The City entered into a new agreement on July 1, 2016, with Knoxville Zoological Gardens, Inc. DBA "Zoo Knoxville" whereby Zoo Knoxville shall lease the Zoo to provide for its operation and management. Under terms of the agreement, the City shall grant Zoo Knoxville \$1,250,000 as an annual allocation with a \$50,000 annual increase for each year thereafter. This agreement lasts through June 30, 2021 with an option to extend for an additional five years.

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. Currently the City and Billy Casper Golf, LLC are in their second 5 year renewal option which will expire on December 31, 2022. Under the terms of the amended agreement, Billy Casper Golf receives a base fee of \$9,500 per month and incentive fees when net annual income exceeds \$50,000. To date, the City has only been liable for the base monthly fees under the agreement.

Parking Garages - The City entered into an agreement with the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) on August 11, 2005 to manage and operate the State Street, Main Avenue, and Market Square Parking Garages and 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 July 1, 2015 and calls for an annual management fee of \$147,750 to be paid to IJAMS. This agreement has two each five year renewal options.

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 City entered into a new contract with SMG for a 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 the initial year of the contract. Thereafter, the fee may increase upward by the consumer price index with a ceiling of 3% during 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, 2018

NOTE 17 - 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, 2018, 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, 2018:

| | <u>Spent to Date</u> | <u>Contractual Commitment Remaining at June 30, 2018</u> |
|-------------------------------------|----------------------|--|
| Access Improvements | \$ 555,454 | \$ 231,974 |
| Bridge Maintenance | 697,283 | 1,221,897 |
| Building Facilities | 70,507 | 52,193 |
| Building Improvements | 214,443 | 42,197 |
| Crosswalk Replacement | - | 131,359 |
| Cumberland Avenue Improvements | 18,143,439 | 499,248 |
| Downtown Improvements | 1,595,778 | 3,826,887 |
| Drainage Improvements | 981,416 | 822,503 |
| Greenway Improvements | 598,173 | 1,170,825 |
| Information Systems Upgrades | 77,603 | 193,681 |
| Lakeshore Park Improvements | 613,525 | 1,235 |
| Magnolia Warehouse Redevelopment | 804,943 | 12,646 |
| Multimodal Improvements | 250,748 | 91,752 |
| New Sidewalk | 274,054 | 334,339 |
| Park Improvements | 285,873 | 191,085 |
| Paving Program | 6,547,520 | 7,890,236 |
| Pedestrian & Bicycle Infrastructure | - | 437,588 |
| Ramp Replacement | 819,151 | 343,838 |
| Roadway Improvements | 2,102,884 | 4,334,666 |
| Sidewalk Improvements | 1,556,257 | 1,530,366 |
| South Knoxville Waterfront | 3,147,099 | 99,194 |
| Street Lighting | 15,685 | 15,175 |
| Streetscapes | 1,636,393 | 632,623 |
| Urban Wilderness | 135,575 | 90,484 |
| Water Quality Improvements | 482,401 | 72,864 |
| | <u>\$ 41,606,204</u> | <u>\$ 24,270,855</u> |
| Total | | |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 17 - 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, 2018 were as follows:

| | <u>Outstanding Encumbrances</u> |
|---|-------------------------------------|
| General Fund | \$ 1,105,623 |
| Capital Projects | 19,694,652 |
| Miscellaneous CD Funds | |
| Miscellaneous Community Development Funds | 9,369 |
| Other Governmental Funds | |
| Miscellaneous Special Revenue Funds | 4,970 |
| Solid Waste | 800 |
| Miscellaneous Grants Funds | 342,368 |
| | 348,138 |
| | \$ 21,157,782 |

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 Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB's gas system customers. The amount of over/(under) recovered cost was \$1,466,723 at June 30, 2018.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 17 - 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 over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to the KUB's electric customers. The amount of over/(under) recovered cost was \$4,706,715 at June 30, 2018.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2018, the Gas Division of the Knoxville Utilities Board hedged 50% of its total gas purchases via gas supply contracts. As of June 30, 2018, the Gas Division had hedged the price on approximately 7% of its anticipated gas purchases for fiscal year 2019.

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>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|----------------|----------------------|---------------------|---------------------|---------------------|-------------------|
| Demand: | | | | | |
| Transportation | \$ 13,337,708 | \$ 3,838,936 | \$ - | \$ - | \$ - |
| Storage | <u>4,415,996</u> | <u>2,079,592</u> | <u>1,290,120</u> | <u>1,290,120</u> | <u>967,590</u> |
| Demand total | <u>\$ 17,753,704</u> | <u>\$ 5,918,528</u> | <u>\$ 1,290,120</u> | <u>\$ 1,290,120</u> | <u>\$ 967,590</u> |
| Commodity: | | | | | |
| Baseload | <u>\$ 11,471,426</u> | <u>\$ 1,619,500</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for ConocoPhillips, Shell Energy and BP Energy Company are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for BP Energy Company, Sequent, CNX Gas, and NJR Energy Services are based upon firm supply obligations and the applicable New York Mercantile Exchange ("NYMEX") strip prices at June 30, 2018.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 17 - 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 also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements is estimated to be approximately \$58 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 types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2018, the Wastewater Division had issued \$530 million in bonds to fund system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases effective October 2014, October 2015 and October 2016 and three 5 percent rate increases effective July 2017, July 2018, and July 2019. 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 manholes and gravity mains, smoke testing 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 368.8 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, 2018, the Wastewater Division had completed its 14th full year under the Consent Decree, spending \$536.9 million on capital investments to meet Consent Decree requirements.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 18 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on five major airlines and their regional affiliates in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for \$4,865,199 in aviation area revenue during 2018 and maintenance facility rent from a regional affiliate accounted for \$1,099,780 of air cargo revenue in 2018. In addition, a significant portion of terminal area revenue is directly and indirectly generated from four of these airlines' passengers, which accounted for approximately 97% of total passengers in 2018. As of June 30, 2018, 91% of trade accounts receivable are due from these major airlines.

NOTE 19 - 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, 2018

NOTE 19 – TRANSFERS - Continued

| Transfers To: | Transfers From: | | | | | | | | | | | | Total | |
|-------------------------------------|-------------------------|---------------------|------------------|--------------------|--------------------|--------------------|-------------------------------------|------------------|------------------|--------------------------------|-----------------|----------------------------|------------------|---------------------|
| | Governmental Activities | | | | | | | | | Business-type Activities | | Internal Service Funds | | |
| | General Fund | Debt Service | Capital Projects | State Street Aid | Abandoned Vehicles | City Court | Miscellaneous Special Revenue Funds | Storm Water | Solid Waste | Knoxville Civic Revitalization | Metro Parking | Public Assembly Facilities | | Fleet Maintenance |
| Primary Government: | | | | | | | | | | | | | | |
| <i>Governmental Activities:</i> | | | | | | | | | | | | | | |
| General Fund | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,442,170 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,442,170 |
| Capital Projects Fund | 15,925,440 | 19,238,550 | - | 2,677,500 | 85,000 | - | 166,200 | 300,000 | 675,000 | - | - | - | - | 39,067,690 |
| Storm Water | 3,036,460 | - | - | - | - | - | - | - | - | - | - | - | - | 3,036,460 |
| Solid Waste | 7,738,980 | - | - | - | - | - | - | - | - | - | - | - | - | 7,738,980 |
| Miscellaneous Special Revenue Funds | 89,525 | - | - | - | - | - | - | - | - | - | - | - | - | 89,525 |
| <i>Business-type Activities:</i> | | | | | | | | | | | | | | |
| Convention Center | 7,178,038 | - | - | - | - | - | - | - | 2,621,881 | - | - | - | - | 9,799,919 |
| Metro Parking | 7,500,000 | - | - | - | - | - | - | - | - | - | - | - | - | 7,500,000 |
| Public Assembly Facilities | 2,542,880 | - | - | - | - | - | - | - | - | - | - | - | - | 2,542,880 |
| City Golf Courses | 76,460 | - | - | - | - | - | - | - | - | - | - | 63,400 | - | 139,860 |
| <i>Internal Service Funds:</i> | | | | | | | | | | | | | | |
| Fleet Maintenance | 455,194 | - | - | - | - | - | 65,000 | 5,419 | 96,190 | - | 41,116 | - | - | 662,919 |
| Equipment Replacement | 549,456 | - | 587,410 | - | - | - | 550,266 | 21,041 | 140,003 | - | - | 86,614 | 2,404 | 1,937,194 |
| | <u>\$45,092,433</u> | <u>\$19,238,550</u> | <u>\$587,410</u> | <u>\$2,677,500</u> | <u>\$ 85,000</u> | <u>\$1,442,170</u> | <u>\$ 781,466</u> | <u>\$326,460</u> | <u>\$911,193</u> | <u>\$ 2,621,881</u> | <u>\$41,116</u> | <u>\$86,614</u> | <u>\$ 65,804</u> | <u>\$73,957,597</u> |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 20 - 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, 2018

NOTE 20 - 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 \$1,971,970 for 2018.

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, 2018

NOTE 20 - RETIREMENT AND DISABILITY PLANS - Continued

Employees covered by the benefit terms. Membership of the Plan consisted of the following at July 1, 2017, the date of the latest actuarial valuation:

| | |
|--------------------------------|-----------|
| Active participants | 1,481 |
| Vested terminated participants | 109 |
| Retired participants | 2,089 |
| Total | 3,679 |

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 20 years remain at July 1, 2017. Projected covered payroll for the year beginning July 1, 2017 amounted to approximately \$72,616,635. The ratio of the net pension liability to the covered payroll was 281.73%.

The contributions for the year ended June 30, 2018 were based on the actuarial valuation as of July 1, 2017 (2017 contributions were based on the July 1, 2016 valuation). The table below shows the contribution rates as percentages of covered payroll.

| <u>Plan</u> | <u>2018</u> | <u>2017</u> |
|-----------------------|-------------|-------------|
| C | 17.77% | 44.11% |
| A, B, G | 7.39% | 20.62% |
| H, general government | 8.70% | 8.91% |
| H, uniformed | 11.69% | 10.36% |

In the fiscal year ended June 30, 2018, the City began making payments on the unfunded actuarial accrued liabilities separate from the Normal Cost of benefits based on current payroll, hence the decrease in the contribution rate percentages above. The amortization payments made by Plan, are as follows:

| <u>Plan</u> | <u>2018</u> | <u>2017</u> |
|------------------------------|---------------|--------------|
| C | \$ 10,135,000 | \$ - |
| A, B, G (general government) | \$ 4,370,000 | \$ - |
| A, B (education) | \$ 1,972,000 | \$ 1,718,943 |

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, 2018 and 2017 were \$143,076 and \$171,604, respectively.

Net Pension Liability

The City's net pension liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 20 - RETIREMENT AND DISABILITY PLANS – Continued

Actuarial assumptions: The total pension liability in the July 1, 2017 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 | 20 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; 7.25% per annum for all other divisions |
| Inflation | 2.5% per annum |

The assumed salary scale is based on a review of the experience study of the plan, the assumed salary increases are greater at younger ages and lower at older ages, and is based on the experience study shown below:

| | <u>General Government</u> | <u>Uniformed Bodies</u> |
|--------|---------------------------|-------------------------|
| Age 20 | 11.3% | 11.3% |
| Age 35 | 4.7% | 5.6% |
| Age 50 | 3.6% | 3.8% |
| Age 60 | 3.0% | 3.0% |

In the July 1, 2017 valuation, Mortality rates for General Government (not including Board of Education) and Uniformed Bodies were based on 110% of the RP-2000 Healthy Annuitant static table rates. Board of Education mortality rates are based on the 2016 PPA Annuitant static table.

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 - July 1, 2016.

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, 2017 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, 2018

NOTE 20 - RETIREMENT AND DISABILITY PLANS - Continued

| Asset Class | 30-Year Expected Nominal Return* | 30-Year Expected Real Return |
|--------------------------------|-------------------------------------|---------------------------------|
| Large Cap Stocks | 6.75% | 4.25% |
| Small-Mid Cap Stocks | 6.50 | 4.00 |
| Developed International Stocks | 6.75 | 4.25 |
| Emerging Markets Stocks | 8.50 | 6.00 |
| Emerging Markets Debt | 6.75 | 4.25 |
| Non-core Real Estate | 9.50 | 7.00 |
| MLPs | 9.00 | 6.50 |
| Private Energy | 10.00 | 7.50 |
| Private Equity | 9.25 | 6.75 |
| Growth Hedge Funds | 6.50 | 4.00 |
| Risk Parity | 8.50 | 6.00 |
| Defensive Equity | 6.75 | 4.25 |
| Cash | 3.00 | 0.50 |
| Core Fixed Income | 3.25 | 0.75 |
| Core Plus Fixed Income | 3.50 | 1.00 |
| Core Real Estate | 6.25 | 3.75 |
| TIPS | 3.50 | 1.00 |

*Includes 2.5% 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 7.25% (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 increased the total pension liability by approximately \$21,000,000.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 20 - 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, 2017 (July 1, 2016 measurement) | \$ 739,185,050 | \$ 526,621,431 | \$ 212,563,619 |
| Changes for the year: | | | |
| Service cost | 13,138,083 | - | 13,138,083 |
| Interest expense | 52,487,932 | - | 52,487,932 |
| Experience losses (gains) | (3,676,044) | - | (3,676,044) |
| Change of assumptions | 20,965,499 | - | 20,965,499 |
| Contributions - City | - | 23,791,166 | (23,791,166) |
| Contributions - members | - | 4,417,803 | (4,417,803) |
| Net investment income (loss) | - | 63,411,480 | (63,411,480) |
| Refunds of contributions | (844,031) | (844,031) | - |
| Benefits paid | (45,379,448) | (45,379,448) | - |
| Plan administrative expenses | - | (721,539) | 721,539 |
| Net changes | 36,691,991 | 44,675,431 | (7,983,440) |
| Balances at June 30, 2018 (July 1, 2017 measurement) | \$ 775,877,041 | \$ 571,296,862 | \$ 204,580,179 |

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 7.25 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 (6.25 percent) or 1-percentage point higher (8.25 percent) than the current rate:

| | 1% Decrease (6.25%)* | Current Rate (7.25%)* | 1% Increase (8.25%)* |
|-----------------------|-------------------------|--------------------------|-------------------------|
| Net Pension Liability | \$ 295,242,832 | \$ 204,580,179 | \$ 128,800,971 |

* 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, 2018

NOTE 20 - 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, 2018, the City recognized pension expense of \$25,391,963. At June 30, 2018, 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 | \$ 1,790,027 | \$ 6,224,056 |
| Change in assumptions | 17,970,428 | - |
| Net difference between projected and actual earnings on investments | 16,339,364 | - |
| Change in proportion between Government-wide and Business-type Activities | 1,057,537 | 1,057,537 |
| Contributions made subsequent to the measurement date | 25,719,854 | - |
| Total | \$ 62,877,210 | \$ 7,281,593 |

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, | |
|---|-------------|
| 2019 | 4,615,176 |
| 2020 | 14,422,946 |
| 2021 | 7,524,921 |
| 2022 | (1,627,129) |
| 2023 | 2,469,922 |
| Thereafter | 2,469,927 |

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, 2018, the City reported no contributions payable to the pension plan required for the year ended June 30, 2018.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 20 - 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 \$400,591 in 2018.

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 \$123,670 in 2018.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 21 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

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.

Benefits Provided

The benefit provided are identical to the medical and prescription drug benefits provided to active employees under the City of Knoxville medical plan.

If the employee has dependent medical coverage at the time of retirement and elects to continue coverage under the medical insurance program, the employee may elect to continue coverage for any dependents covered at the time of retirement until the earliest of (1) the date the retiree and/or dependent is eligible for Medicare or (2) the date the dependent is no longer an eligible dependent as defined in the City of Knoxville medical plan for active employees.

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, 2018, the City and the retirees contributed \$358,020.

Employees covered by the benefit terms

At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

| | |
|-----------------------------------|-------|
| Active participants (covered) | 1,271 |
| Active participants (not covered) | 217 |
| Retired participants (covered) | 94 |
| Total | 1,582 |

Total OPEB Liability

The City's total OPEB liability of \$11,251,754 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 21 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Actuarial assumptions and other inputs

The total OPEB liability in the January 1, 2017 actuarial valuation, measured as of June 30, 2017, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Actuarial valuation method | Entry age normal |
| Discount Rate | 3.13 percent |
| Healthcare cost trend rates | 8.0 percent to grade uniformly to 5.0 percent over a 12 year period |
| Amortization period | 20 years (closed) |
| Funding policy | Pay-as-you-go |

The discount rate was based the S&P Municipal Bond 20-Year High Grade Index as of June 30, 2017.

Mortality rates were based on the 1994 Group Annuity Mortality table for males only for general government, all others were based on 25% Group Annuity 51 Projected 1980 and 75% 1971 Group Annuity Mortality (male and female).

The assumed salary scale is based on a review of the experience study of the plan. The assumed salary increases are greater at younger ages and lower at older ages, and is based on the experience study shown below:

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

Changes in the Total OPEB liability

| | <u>Total OPEB Liability</u> |
|--|-----------------------------|
| Balances at June 30, 2017 (June 30, 2016 measurement) | \$ 11,111,342 |
| Changes for the year: | |
| Service cost | 436,576 |
| Interest expense | 349,404 |
| Experience losses (gains) | (260,708) |
| Benefits paid | (384,860) |
| Net changes | <u>140,412</u> |
| Balances at June 30, 2018 (June 30, 2017 measurement) | \$ 11,251,754 |

There are no changes in the benefit terms for the Plan.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 21 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate.

| | 1% Decrease (2.13%) | Current Rate (3.13%) | 1% Increase (4.13%) |
|----------------------|------------------------|-------------------------|------------------------|
| Total OPEB Liability | \$ 12,147,981 | \$ 11,251,754 | \$ 10,467,775 |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare costs trend rates that are 1-percentage-point lower (7.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (9.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

| | 1% Decrease 7% decreasing to 4% over 12 years | Current 8% decreasing to 5% over 12 years | 1% Increase 9% decreasing to 6% over 12 years |
|----------------------|---|---|---|
| Total OPEB Liability | \$ 10,052,473 | \$ 11,251,754 | \$ 12,669,857 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$17,029. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following resources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 234,637 |
| Contributions made subsequent to the measurement date | 358,020 | - |
| Total | \$ 358,020 | \$ 234,637 |

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

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

| For the year ending June 30, | |
|---|-----------|
| | |
| 2019 | (26,071) |
| 2020 | (26,071) |
| 2021 | (26,071) |
| 2022 | (26,071) |
| 2023 | (26,071) |
| Thereafter | (104,282) |

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 21 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Component Units

Knoxville Utilities Board

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer Other Post Employment Benefits Plan (OPEB Plan) established by the Knoxville Utilities Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. 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.

Additional information regarding the KUB Plan 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 22 - 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 | \$15,524,288 |
| Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax | 19,144,877 |
| Payments by the Knoxville Utilities Board to the City of Knoxville for services provided | 1,114,977 |
| Subsidies paid by the City to Knoxville Area Transit | 12,457,870 |

NOTE 23 - 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 an estimated \$2,992,428 abated in 2018.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 23 - TAX ABATEMENTS - Continued

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 \$1,975,967 abated in 2018.

| | City of Knoxville Tax Abatements | | |
|---|---|---------------------|---------------------|
| | PILOT | TIF | Total |
| 2018 | \$ 2,992,428 | \$ 1,975,967 | \$ 4,968,395 |
| 1 - 5 years | 11,943,242 | 9,144,320 | 21,087,562 |
| 6 - 10 years | 8,788,857 | 7,363,413 | 16,152,270 |
| 11 - 15 years | 5,237,984 | 3,872,993 | 9,110,977 |
| 16 - 20 years | 2,209,866 | 3,164,578 | 5,374,444 |
| 20 + years | 1,092,417 | 1,128,152 | 2,220,569 |
| Total Taxes Abated Over the Next 20+ years | <u>\$32,264,794</u> | <u>\$26,649,423</u> | <u>\$58,914,217</u> |

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*.

NOTE 24 – SUBSEQUENT EVENTS

Component Units

Metropolitan Knoxville Airport Authority

Subsequent to year-end, the State of Tennessee (the State) has brought four condemnation actions against the Authority under eminent domain laws to acquire certain parcels of real property owned by the Authority in connection with the Alcoa Highway Relocation Project. The State alleges it owes the Authority \$6,530,005 for these parcels, and the Authority in November 2018 received approximately \$5,300,000 of this amount for certain of the parcels. the Authority asserts the amount assessed by the State does not reflect the current fair value of the parcels and seeks a jury trial as to the amount of just compensation to be paid by the State. The lawsuits are currently in the discovery phase of litigation and no trial date has been set at this time.

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CITY OF KNOXVILLE, TENNESSEE

Required Supplementary Information
June 30, 2018

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

| | 2017 | 2016 | 2015 | 2014 |
|--|-----------------|-----------------|-----------------|-----------------|
| Total Pension Liability | | | | |
| Service cost | \$ 13.1 | \$ 13.1 | \$ 12.6 | \$ 12.3 |
| Interest | 52.5 | 51.8 | 50.9 | 49.4 |
| Differences between expected and actual experience | (3.7) | 2.1 | (6.1) | 0.9 |
| Changes in assumptions | 21.0 | - | - | - |
| Benefit payments/refunds | (46.2) | (44.7) | (43.5) | (42.3) |
| Net change in total pension liability | 36.7 | 22.3 | 13.9 | 20.3 |
| Total pension liability, beginning | 739.2 | 716.9 | 703.0 | 682.7 |
| Total pension liability, ending (a) | <u>\$ 775.9</u> | <u>\$ 739.2</u> | <u>\$ 716.9</u> | <u>\$ 703.0</u> |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | \$ 23.8 | \$ 23.9 | \$ 22.6 | \$ 15.2 |
| Contributions - employee | 4.4 | 4.4 | 4.1 | 4.0 |
| Net investment income | 63.3 | (1.0) | 7.9 | 87.1 |
| Benefit payments/refunds | (46.2) | (44.7) | (43.5) | (42.3) |
| Administrative expenses | (0.7) | (0.7) | (0.7) | (0.8) |
| Net change in plan fiduciary net position | \$ 44.6 | \$ (18.1) | \$ (9.6) | \$ 63.2 |
| Plan fiduciary net position - beginning | 526.7 | 544.8 | 554.4 | 491.2 |
| Plan fiduciary net position - ending (b) | <u>\$ 571.3</u> | <u>\$ 526.7</u> | <u>\$ 544.8</u> | <u>\$ 554.4</u> |
| Net pension liability - ending (a) - (b) | <u>\$ 204.6</u> | <u>\$ 212.5</u> | <u>\$ 172.1</u> | <u>\$ 148.6</u> |
| Plan fiduciary net position as a % of the total pension liability | 73.6% | 71.3% | 76.0% | 78.9% |
| Covered payroll | \$ 72.6 | \$ 71.5 | \$ 71.0 | \$ 69.9 |
| Net pension liability as a % of covered payroll | 281.8% | 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 20.

CITY OF KNOXVILLE, TENNESSEE

**Required Supplementary Information
June 30, 2018**

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

Unaudited - See Independent Auditor's Report

| | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014 *</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| Actuarially determined contribution | \$ 25.7 | \$ 23.8 | \$ 23.9 | \$ 22.6 | \$ 20.9 |
| Contributions in relation to the actuarially determined contribution | <u>25.7</u> | <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> | <u>\$ -</u> |
| Covered payroll | \$ 72.0 | \$ 72.6 | \$ 71.5 | \$ 71.0 | \$ 69.9 |
| Contributions as a percentage of covered payroll | 35.7% | 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, 2017</u> | <u>January 1, 2016</u> | <u>January 1, 2015</u> | <u>January 1, 2014</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Actuarially determined contribution | \$ 4,286,597 | \$ 5,243,146 | \$ 5,991,887 | \$ 5,908,541 |
| Contributions in relation to the actuarially determined contribution | <u>4,286,597</u> | <u>5,243,146</u> | <u>5,991,887</u> | <u>5,908,541</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 43,309,374 | \$ 44,437,747 | \$ 44,446,743 | \$ 44,076,351 |
| Contributions as a percentage of covered payroll | 9.90% | 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, 2018

Schedule of Changes in Total OPEB Liability and Related Ratios

Unaudited - See Independent Auditor's Report

| | <u>2018</u> |
|---|----------------------|
| Total OPEB liability | |
| Service cost | \$ 436,576 |
| Interest | 349,404 |
| Differences between expected and actual experience | (260,708) |
| Changes in assumptions | - |
| Benefit payments/refunds | <u>(384,860)</u> |
| Net change in total OPEB liability | 140,412 |
| Total OPEB liability-beginning | <u>11,111,342</u> |
| Total OPEB liability-ending | <u>\$ 11,251,754</u> |
| Covered-employee payroll | \$ 76,085,183 |
| Total OPEB liability as a percentage of covered-employee payroll | 14.8% |

Notes to Schedule

There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, related to this OPEB plan.

The amounts reported for each fiscal year end were determined as of the prior fiscal year end.

This schedule is presented to illustrate information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

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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. |
|-------------------------------|---|

CITY OF KNOXVILLE, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

Special Revenue Funds

| Assets | State Street Aid | Community Development Block Grants | Abandoned Vehicles | City Inspections | City Court | Miscellaneous Grants |
|---|---------------------------------|---|-------------------------------|-----------------------------|-----------------------|---------------------------------|
| Cash & cash equivalents | \$ 374 | \$ 2,538 | \$ 5,074 | \$ 2,791 | \$ 695,788 | \$ 131,409 |
| Investments | 1,198,693 | - | 854,968 | 690,988 | 392,999 | - |
| Accounts receivable | 1,053,565 | 241,564 | 2,570 | 5,901 | 32,748 | 1,325,727 |
| Notes receivable | - | 1,921,029 | - | - | - | - |
| Inventories | 390,586 | 47,857 | - | - | - | - |
| Due from other funds | - | - | - | - | 5,000 | 40,000 |
| Total assets | <u>\$ 2,643,218</u> | <u>\$ 2,212,988</u> | <u>\$ 862,612</u> | <u>\$ 699,680</u> | <u>\$ 1,126,535</u> | <u>\$ 1,497,136</u> |
| Liabilities | | | | | | |
| Accounts payable | \$ 285,673 | \$ 98,993 | \$ 49,461 | \$ 15,788 | \$ 84,687 | \$ 242,526 |
| Accrued liabilities | - | 19,648 | 13,882 | 65,567 | 23,079 | 10,004 |
| Customer deposits | - | 25,461 | - | - | - | - |
| Due to other funds | - | 100,000 | 25,000 | 15,000 | - | 997,900 |
| Due to other governmental agencies | - | - | - | - | 5,636 | - |
| Total liabilities | <u>285,673</u> | <u>244,102</u> | <u>88,343</u> | <u>96,355</u> | <u>113,402</u> | <u>1,250,430</u> |
| Deferred inflows of resources | | | | | | |
| Unavailable revenue - other | - | 1,921,029 | - | - | - | 124,448 |
| Total deferred inflows of resources | <u>-</u> | <u>1,921,029</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>124,448</u> |
| Fund balances | | | | | | |
| Non-spendable | 390,586 | 47,857 | - | - | - | - |
| Restricted | 1,966,959 | - | - | - | - | 122,258 |
| Committed | - | - | 774,269 | 603,325 | 1,013,133 | - |
| Assigned | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - |
| Total fund balances | <u>2,357,545</u> | <u>47,857</u> | <u>774,269</u> | <u>603,325</u> | <u>1,013,133</u> | <u>122,258</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,643,218</u> | <u>\$ 2,212,988</u> | <u>\$ 862,612</u> | <u>\$ 699,680</u> | <u>\$ 1,126,535</u> | <u>\$ 1,497,136</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 |
| \$ - | \$ 370,483 | \$ 266,073 | \$ 32,208 | \$ - | \$ 1,506,738 | \$ 310,803 | \$ 1,817,541 |
| 646,861 | 6,997,542 | 948,550 | 4,632,896 | - | 16,363,497 | 640,842 | 17,004,339 |
| 200 | 87,372 | 275 | 21,309 | - | 2,771,231 | 446 | 2,771,677 |
| - | 2,900,000 | - | - | - | 4,821,029 | - | 4,821,029 |
| - | - | - | - | - | 438,443 | - | 438,443 |
| - | 100,000 | - | - | - | 145,000 | - | 145,000 |
| <u>\$ 647,061</u> | <u>\$ 10,455,397</u> | <u>\$ 1,214,898</u> | <u>\$ 4,686,413</u> | <u>\$ -</u> | <u>\$ 26,045,938</u> | <u>\$ 952,091</u> | <u>\$ 26,998,029</u> |
| \$ - | \$ 70,394 | \$ 40,197 | \$ 511,263 | \$ - | \$ 1,398,982 | \$ - | \$ 1,398,982 |
| - | 12,262 | 72,430 | 19,604 | - | 236,476 | - | 236,476 |
| - | 631,235 | - | - | - | 656,696 | - | 656,696 |
| - | 240,445 | - | 600,000 | - | 1,978,345 | - | 1,978,345 |
| - | 9,601 | - | - | - | 15,237 | - | 15,237 |
| - | <u>963,937</u> | <u>112,627</u> | <u>1,130,867</u> | - | <u>4,285,736</u> | - | <u>4,285,736</u> |
| - | 2,900,000 | - | - | - | 4,945,477 | - | 4,945,477 |
| - | <u>2,900,000</u> | - | - | - | <u>4,945,477</u> | - | <u>4,945,477</u> |
| - | - | - | - | - | 438,443 | 624,065 | 1,062,508 |
| - | 3,725,553 | - | 3,554,746 | - | 9,369,516 | 328,026 | 9,697,542 |
| 647,061 | 2,286,821 | 1,102,271 | - | - | 6,426,880 | - | 6,426,880 |
| - | 579,086 | - | 800 | - | 579,886 | - | 579,886 |
| - | - | - | - | - | - | - | - |
| <u>647,061</u> | <u>6,591,460</u> | <u>1,102,271</u> | <u>3,555,546</u> | - | <u>16,814,725</u> | <u>952,091</u> | <u>17,766,816</u> |
| <u>\$ 647,061</u> | <u>\$ 10,455,397</u> | <u>\$ 1,214,898</u> | <u>\$ 4,686,413</u> | <u>\$ -</u> | <u>\$ 26,045,938</u> | <u>\$ 952,091</u> | <u>\$ 26,998,029</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, 2018

| | Special Revenue Funds | | | | | |
|--|---------------------------------|---|-------------------------------|-----------------------------|-----------------------|---------------------------------|
| | State Street Aid | Community Development Block Grants | Abandoned Vehicles | City Inspections | City Court | Miscellaneous Grants |
| Revenues | | | | | | |
| Taxes, assessments, interest & penalties | \$ 5,998,375 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses, permits & inspection charges | - | - | - | 2,734,734 | - | - |
| Intergovernmental | - | 1,720,907 | - | - | 347,765 | 2,035,458 |
| Charges for services | - | - | 431,788 | - | 37,100 | - |
| Fines & forfeitures | - | - | - | - | 1,953,565 | - |
| Other | 453,424 | 183,454 | 434,046 | 9,155 | 21,178 | 45,286 |
| Total revenues | 6,451,799 | 1,904,361 | 865,834 | 2,743,889 | 2,359,608 | 2,080,744 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| Administration | - | - | - | - | - | 288,522 |
| Finance | - | - | - | - | - | - |
| Community Development | - | 1,904,361 | - | - | - | 330,636 |
| Parks and Recreation | - | - | - | - | - | - |
| Engineering | 4,501,997 | - | 899,816 | - | - | 76,417 |
| Public Services | - | - | - | 2,666,143 | - | - |
| Law | - | - | - | - | 950,018 | - |
| Police | - | - | - | - | - | 1,370,305 |
| Emergency Management | - | - | - | - | - | 14,708 |
| Fire | - | - | - | - | - | - |
| Legislative | - | - | - | - | - | - |
| Total expenditures | 4,501,997 | 1,904,361 | 899,816 | 2,666,143 | 950,018 | 2,080,588 |
| Excess (deficiency) of revenues over (under) expenditures | 1,949,802 | - | (33,982) | 77,746 | 1,409,590 | 156 |
| Other financing sources (uses) | | | | | | |
| Transfers in | - | - | - | - | - | - |
| Transfers out | (2,677,500) | - | (85,000) | - | (1,442,170) | - |
| Total other financing sources (uses) | (2,677,500) | - | (85,000) | - | (1,442,170) | - |
| Net changes in fund balances | (727,698) | - | (118,982) | 77,746 | (32,580) | 156 |
| Fund balances - beginning | 3,085,243 | 47,857 | 893,251 | 525,579 | 1,045,713 | 122,102 |
| Fund balances - ending | \$ 2,357,545 | \$ 47,857 | \$ 774,269 | \$ 603,325 | \$ 1,013,133 | \$ 122,258 |

| 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 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,998,375 | \$ - | \$ 5,998,375 |
| - | - | - | - | - | 2,734,734 | - | 2,734,734 |
| - | 115,744 | - | 22,742 | - | 4,242,616 | - | 4,242,616 |
| 36,138 | 68,007 | 203,504 | 1,456,437 | 199,998 | 2,432,972 | - | 2,432,972 |
| - | 1,180,002 | - | - | - | 3,133,567 | - | 3,133,567 |
| 8,174 | 320,138 | 13,278 | 213,495 | 2,204 | 1,703,832 | 24,054 | 1,727,886 |
| 44,312 | 1,683,891 | 216,782 | 1,692,674 | 202,202 | 20,246,096 | 24,054 | 20,270,150 |
| - | - | - | - | - | 288,522 | - | 288,522 |
| - | - | - | - | 199,998 | 199,998 | - | 199,998 |
| - | 73,139 | - | - | - | 2,308,136 | - | 2,308,136 |
| - | 111,609 | - | - | - | 111,609 | - | 111,609 |
| - | - | 3,049,997 | - | - | 8,528,227 | - | 8,528,227 |
| 16,490 | - | - | 8,590,775 | - | 11,273,408 | - | 11,273,408 |
| - | - | - | - | - | 950,018 | - | 950,018 |
| - | 1,074,411 | - | - | - | 2,444,716 | - | 2,444,716 |
| - | 31,071 | - | - | - | 45,779 | - | 45,779 |
| - | 7,700 | - | - | - | 7,700 | - | 7,700 |
| - | 3,169 | - | - | - | 3,169 | - | 3,169 |
| 16,490 | 1,301,099 | 3,049,997 | 8,590,775 | 199,998 | 26,161,282 | - | 26,161,282 |
| 27,822 | 382,792 | (2,833,215) | (6,898,101) | 2,204 | (5,915,186) | 24,054 | (5,891,132) |
| - | 89,525 | 3,036,460 | 7,738,980 | - | 10,864,965 | - | 10,864,965 |
| - | (781,466) | (326,460) | (911,193) | (2,621,881) | (8,845,670) | - | (8,845,670) |
| - | (691,941) | 2,710,000 | 6,827,787 | (2,621,881) | 2,019,295 | - | 2,019,295 |
| 27,822 | (309,149) | (123,215) | (70,314) | (2,619,677) | (3,895,891) | 24,054 | (3,871,837) |
| 619,239 | 6,900,609 | 1,225,486 | 3,625,860 | 2,619,677 | 20,710,616 | 928,037 | 21,638,653 |
| \$ 647,061 | \$ 6,591,460 | \$ 1,102,271 | \$ 3,555,546 | \$ - | \$ 16,814,725 | \$ 952,091 | \$ 17,766,816 |

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, 2018

| | <u>Budget</u> | | <u>Actual</u> | Variance |
|--|--------------------|--------------------|---------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | | With |
| | | | | Final Budget |
| Revenues: | | | | |
| Taxes, assessments, interest & penalties | \$ 5,025,000 | \$ 5,025,000 | \$ 5,998,375 | \$ 973,375 |
| Appropriated fund balance | 2,000,000 | 2,600,000 | - | (2,600,000) |
| Other | 7,500 | 7,500 | 453,424 | 445,924 |
| Total revenues | <u>7,032,500</u> | <u>7,632,500</u> | <u>6,451,799</u> | <u>(1,180,701)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Engineering | 4,355,000 | 4,955,000 | 4,501,997 | 453,003 |
| Total expenditures | <u>4,355,000</u> | <u>4,955,000</u> | <u>4,501,997</u> | <u>453,003</u> |
| Excess (deficiency) of revenues | | | | |
| over (under) expenditures | <u>2,677,500</u> | <u>2,677,500</u> | <u>1,949,802</u> | <u>(727,698)</u> |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(2,677,500)</u> | <u>(2,677,500)</u> | <u>(2,677,500)</u> | - |
| Total other financing sources (uses) | <u>(2,677,500)</u> | <u>(2,677,500)</u> | <u>(2,677,500)</u> | - |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | (727,698) | <u>\$ (727,698)</u> |
| Fund balance - beginning | | | <u>3,085,243</u> | |
| Fund balance - ending | | | <u>\$ 2,357,545</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, 2018

| | Budget | | Actual | Variance |
|--|------------------|------------------|------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenues | | | | |
| Intergovernmental | \$ 1,324,340 | \$ 1,324,340 | \$ 1,720,907 | \$ 396,567 |
| Appropriated fund balance | 431,200 | 431,200 | - | (431,200) |
| Other | 150,000 | 191,134 | 183,454 | (7,680) |
| Total revenues | <u>1,905,540</u> | <u>1,946,674</u> | <u>1,904,361</u> | <u>(42,313)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Community Development | 1,905,540 | 1,946,674 | 1,904,361 | 42,313 |
| Total expenditures | <u>1,905,540</u> | <u>1,946,674</u> | <u>1,904,361</u> | <u>42,313</u> |
| Excess (deficiency) of revenues over (under) expenditures | - | - | - | - |
| Net changes in fund balances | <u>\$ -</u> | <u>\$ -</u> | - | <u>\$ -</u> |
| Fund balances - beginning | | | <u>47,857</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, 2018

| | Budget | | Actual | Variance |
|--|-----------------|-----------------|-------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenues: | | | | |
| Charges for services: | \$ 458,500 | \$ 458,500 | \$ 431,788 | \$ (26,712) |
| Appropriated fund balance | 85,000 | 125,000 | - | (125,000) |
| Other | 387,700 | 407,700 | 434,046 | 26,346 |
| Total revenues | <u>931,200</u> | <u>991,200</u> | <u>865,834</u> | <u>(125,366)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Engineering | 846,200 | 904,940 | 899,816 | 5,124 |
| Total expenditures | <u>846,200</u> | <u>904,940</u> | <u>899,816</u> | <u>5,124</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>85,000</u> | <u>86,260</u> | <u>(33,982)</u> | <u>(120,242)</u> |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(85,000)</u> | <u>(86,260)</u> | <u>(85,000)</u> | <u>1,260</u> |
| Net changes in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>(118,982)</u> | <u>\$ (118,982)</u> |
| Fund balance - beginning | | | <u>893,251</u> | |
| Fund balance - ending | | | <u>\$ 774,269</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, 2018

| | <u>Budget Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|--|-----------------------|------------------|-------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | | <u>With</u> |
| | | | | <u>Final Budget</u> |
| Revenues | | | | |
| Licenses, permits & inspection charges | \$ 2,805,370 | \$ 2,805,370 | \$ 2,734,734 | \$ (70,636) |
| Appropriated fund balance | (105,920) | (105,920) | - | 105,920 |
| Other | 2,000 | 6,129 | 9,155 | 3,026 |
| Total revenues | <u>2,701,450</u> | <u>2,705,579</u> | <u>2,743,889</u> | <u>38,310</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public Services | 2,701,450 | 2,705,579 | 2,666,143 | 39,436 |
| Total expenditures | <u>2,701,450</u> | <u>2,705,579</u> | <u>2,666,143</u> | <u>39,436</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>-</u> | <u>-</u> | <u>77,746</u> | <u>77,746</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>77,746</u> | <u>\$ 77,746</u> |
| Fund balance - beginning | | | <u>525,579</u> | |
| Fund balance - ending | | | <u>\$ 603,325</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, 2018

| | Budget | | Actual | Variance |
|--|--------------------|--------------------|---------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenue | | | | |
| Intergovernmental | \$ 478,080 | \$ 478,080 | \$ 347,765 | \$ (130,315) |
| Charges for services | 29,590 | 29,590 | 37,100 | 7,510 |
| Fines & forfeitures | 2,684,290 | 2,684,290 | 1,953,565 | (730,725) |
| Other | 19,650 | 19,658 | 21,178 | 1,520 |
| Total revenues | <u>3,211,610</u> | <u>3,211,618</u> | <u>2,359,608</u> | <u>(852,010)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Law | 1,069,440 | 1,069,448 | 950,018 | 119,430 |
| Total expenditures | <u>1,069,440</u> | <u>1,069,448</u> | <u>950,018</u> | <u>119,430</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>2,142,170</u> | <u>2,142,170</u> | <u>1,409,590</u> | <u>(732,580)</u> |
| Other financing sources (uses) | | | | |
| Transfers out | (2,142,170) | (2,142,170) | (1,442,170) | 700,000 |
| Total other financing sources (uses) | <u>(2,142,170)</u> | <u>(2,142,170)</u> | <u>(1,442,170)</u> | <u>700,000</u> |
| Net changes in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>(32,580)</u> | <u>\$ (32,580)</u> |
| Fund balance - beginning | | | <u>1,045,713</u> | |
| Fund balance - ending | | | <u>\$ 1,013,133</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, 2018

| | Budget | | Actual | Variance |
|--|---------------|---------------|-------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenues | | | | |
| Charges for services | \$ 40,000 | \$ 40,000 | \$ 36,138 | \$ (3,862) |
| Other | 1,500 | 1,500 | 8,174 | 6,674 |
| Total revenues | <u>41,500</u> | <u>41,500</u> | <u>44,312</u> | <u>2,812</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public services | 41,500 | 41,500 | 16,490 | 25,010 |
| Total expenditures | <u>41,500</u> | <u>41,500</u> | <u>16,490</u> | <u>25,010</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>-</u> | <u>-</u> | <u>27,822</u> | <u>27,822</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>27,822</u> | <u>\$ 27,822</u> |
| Fund balances - beginning | | | <u>619,239</u> | |
| Fund balances - ending | | | <u>\$ 647,061</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, 2018

| | Budget | | Actual | Variance |
|--|------------------|------------------|---------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenues | | | | |
| Intergovernmental | \$ 87,500 | \$ 87,500 | \$ 115,744 | \$ 28,244 |
| Charges for services | 62,500 | 62,500 | 68,007 | 5,507 |
| Fines & forfeitures | 1,502,440 | 1,502,440 | 1,180,002 | (322,438) |
| Appropriated fund balance | 544,160 | 544,730 | - | (544,730) |
| Other | 184,750 | 324,801 | 320,138 | (4,663) |
| Total revenues | <u>2,381,350</u> | <u>2,521,971</u> | <u>1,683,891</u> | <u>(838,080)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 9,000 | 9,000 | - | 9,000 |
| Community Development | 28,500 | 63,940 | 73,139 | (9,199) |
| Parks and Recreation | 82,000 | 129,798 | 111,609 | 18,189 |
| Public services | 4,000 | 4,000 | - | 4,000 |
| Police | 1,488,310 | 1,492,441 | 1,074,411 | 418,030 |
| Emergency Management | - | 31,149 | 31,071 | 78 |
| Fire | 19,500 | 19,063 | 7,700 | 11,363 |
| Legislative | 35,000 | 35,000 | 3,169 | 31,831 |
| Total expenditures | <u>1,666,310</u> | <u>1,784,391</u> | <u>1,301,099</u> | <u>483,292</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>715,040</u> | <u>737,580</u> | <u>382,792</u> | <u>(354,788)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 109,000 | 89,530 | 89,525 | (5) |
| Transfers out | (824,040) | (827,110) | (781,466) | 45,644 |
| Total other financing sources (uses) | <u>(715,040)</u> | <u>(737,580)</u> | <u>(691,941)</u> | <u>45,639</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | (309,149) | <u>\$ (309,149)</u> |
| Fund balances - beginning | | | <u>6,900,609</u> | |
| Fund balances - ending | | | <u>\$ 6,591,460</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, 2018

| | Budget | | Actual | Variance |
|--|--------------------|--------------------|---------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenues | | | | |
| Charges for services | \$ 224,000 | \$ 224,000 | \$ 203,504 | \$ (20,496) |
| Appropriated fund balance | 300,000 | 300,000 | - | (300,000) |
| Other | 2,000 | 6,202 | 13,278 | 7,076 |
| Total revenues | <u>526,000</u> | <u>530,202</u> | <u>216,782</u> | <u>(313,420)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Engineering | <u>3,262,460</u> | <u>3,240,172</u> | <u>3,049,997</u> | <u>190,175</u> |
| Total expenditures | <u>3,262,460</u> | <u>3,240,172</u> | <u>3,049,997</u> | <u>190,175</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(2,736,460)</u> | <u>(2,709,970)</u> | <u>(2,833,215)</u> | <u>(123,245)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 3,036,460 | 3,036,460 | 3,036,460 | - |
| Transfers out | <u>(300,000)</u> | <u>(326,490)</u> | <u>(326,460)</u> | <u>30</u> |
| Total other financing sources (uses) | <u>2,736,460</u> | <u>2,709,970</u> | <u>2,710,000</u> | <u>30</u> |
| Net changes in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>(123,215)</u> | <u>\$ (123,215)</u> |
| Fund balance - beginning | | | <u>1,225,486</u> | |
| Fund balance - ending | | | <u>\$ 1,102,271</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, 2018

| | Budget | | Actual | Variance |
|--|--------------------|--------------------|---------------------|----------------------|
| | Original | Final | | With Final Budget |
| Revenues | | | | |
| Charges for services | \$ 1,010,000 | \$ 1,010,000 | \$ 1,456,437 | \$ 446,437 |
| Intergovernmental | 82,000 | 82,000 | 22,742 | (59,258) |
| Appropriated fund balance | 365,000 | 365,000 | - | (365,000) |
| Other | 180,000 | 358,163 | 213,495 | (144,668) |
| Total revenues | <u>1,637,000</u> | <u>1,815,163</u> | <u>1,692,674</u> | <u>(122,489)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public Services | <u>9,010,980</u> | <u>8,642,943</u> | <u>8,590,775</u> | <u>52,168</u> |
| Total expenditures | <u>9,010,980</u> | <u>8,642,943</u> | <u>8,590,775</u> | <u>52,168</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(7,373,980)</u> | <u>(6,827,780)</u> | <u>(6,898,101)</u> | <u>(70,321)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 7,738,980 | 7,738,980 | 7,738,980 | - |
| Transfers out | <u>(365,000)</u> | <u>(911,200)</u> | <u>(911,193)</u> | <u>7</u> |
| Total other financing sources (uses) | <u>7,373,980</u> | <u>6,827,780</u> | <u>6,827,787</u> | <u>7</u> |
| Net changes in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>(70,314)</u> | <u>\$ (70,314)</u> |
| Fund balance - beginning | | | <u>3,625,860</u> | |
| Fund balance - ending | | | <u>\$ 3,555,546</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, 2018

Assets

| | | |
|-------------------------|----|-------------------|
| Cash & cash equivalents | \$ | 1,521,777 |
| Investments | | 48,942,752 |
| Accounts receivable | | 183,197 |
| Taxes receivable | | 26,120,687 |
| Total assets | \$ | <u>76,768,413</u> |

Deferred inflows of resources

| | | |
|--------------------------------------|--|-------------------|
| Unavailable revenue - property taxes | | <u>25,996,428</u> |
| Total deferred inflows of resources | | <u>25,996,428</u> |

Fund balances

| | | |
|--------------------|--|-------------------|
| Committed | | <u>50,771,985</u> |
| Total fund balance | | <u>50,771,985</u> |

| | | |
|---|----|-------------------|
| Total liabilities, deferred inflows of resources and fund balance | \$ | <u>76,768,413</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, 2018

| | <u>Budget</u> | | <u>Actual</u> | <u>Variance</u> |
|--|---------------------|---------------------|----------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | | <u>With</u> |
| | | | | <u>Final Budget</u> |
| Revenues | | | | |
| Taxes, assessments, interest & penalties | \$ 25,081,370 | \$ 25,081,370 | \$ 24,848,497 | \$ (232,873) |
| Other | 687,990 | 687,990 | 985,707 | 297,717 |
| Total revenues | <u>25,769,360</u> | <u>25,769,360</u> | <u>25,834,204</u> | <u>64,844</u> |
| Expenditures | | | | |
| Current: | | | | |
| Debt service: | | | | |
| Principal retirement | 4,742,180 | 4,742,180 | 4,742,180 | - |
| Interest payments on bonds & notes | 1,788,630 | 1,788,630 | 1,788,612 | 18 |
| Total expenditures | <u>6,530,810</u> | <u>6,530,810</u> | <u>6,530,792</u> | <u>18</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>19,238,550</u> | <u>19,238,550</u> | <u>19,303,412</u> | <u>64,862</u> |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(19,238,550)</u> | <u>(19,238,550)</u> | <u>(19,238,550)</u> | - |
| Total other financing sources (uses) | <u>(19,238,550)</u> | <u>(19,238,550)</u> | <u>(19,238,550)</u> | - |
| Net changes in fund balances | <u>\$ -</u> | <u>\$ -</u> | 64,862 | <u>\$ 64,862</u> |
| Fund balance - beginning | | | <u>50,707,123</u> | |
| Fund balance - ending | | | <u>\$ 50,771,985</u> | |

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2018

Assets

| | | |
|-------------------------|----|--------------------|
| Cash & cash equivalents | \$ | 1,320,099 |
| Investments | | 112,240,519 |
| Accounts receivable | | 3,594,669 |
| Inventory | | 122,362 |
| Due from other funds | | 6,750,000 |
| Total assets | \$ | <u>124,027,649</u> |

Liabilities

| | | |
|------------------------------------|----|------------------|
| Accounts payable | \$ | 3,723,607 |
| Accrued liabilities | | 2,945,516 |
| Due to other governmental agencies | | 35,756 |
| Total liabilities | | <u>6,704,879</u> |

Deferred inflows of resources

| | | |
|-------------------------------------|--|------------------|
| Unavailable revenue - other | | <u>1,891,762</u> |
| Total deferred inflows of resources | | <u>1,891,762</u> |

Fund balance

| | | |
|---|----|--------------------|
| Nonspendable | | 122,362 |
| Committed | | <u>115,308,646</u> |
| Total fund balance | | <u>115,431,008</u> |
| Total liabilities, deferred inflows of resources and fund balance | \$ | <u>124,027,649</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, 2018

| | <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 | \$ 31,489,277 | \$ 5,661,171 | \$ 37,150,448 | \$ 62,141,418 | \$ (24,990,970) |
| Other | 27,907,000 | 2,481,741 | 30,388,741 | 23,375,724 | 7,013,017 |
| Total revenues | <u>59,396,277</u> | <u>8,142,912</u> | <u>67,539,189</u> | <u>85,517,142</u> | <u>(17,977,953)</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Capital & grant projects | 282,892,186 | 36,657,398 | 319,549,584 | 404,791,542 | (85,241,958) |
| Total expenditures | <u>282,892,186</u> | <u>36,657,398</u> | <u>319,549,584</u> | <u>404,791,542</u> | <u>(85,241,958)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(223,495,909)</u> | <u>(28,514,486)</u> | <u>(252,010,395)</u> | <u>(319,274,400)</u> | <u>67,264,005</u> |
| Other financing sources (uses) | | | | | |
| Bonds proceeds | 31,080,000 | 15,665,932 | 46,745,932 | 55,566,237 | (8,820,305) |
| Debt issue premium | 527,039 | - | 527,039 | - | 527,039 |
| Transfers in | 215,309,846 | 39,067,690 | 254,377,536 | 263,708,163 | (9,330,627) |
| Transfers out | (4,613,492) | (587,410) | (5,200,902) | - | (5,200,902) |
| Total other financing sources (uses) | <u>242,303,393</u> | <u>54,146,212</u> | <u>296,449,605</u> | <u>319,274,400</u> | <u>(22,824,795)</u> |
| Net changes in fund balance | <u>\$ 18,807,484</u> | 25,631,726 | <u>\$ 44,439,210</u> | <u>\$ -</u> | <u>\$ 44,439,210</u> |
| Fund balance - beginning | | <u>89,799,282</u> | | | |
| Fund balance - ending | | <u>\$ 115,431,008</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, 2018

| Assets | Metro Parking | Public Assembly Facilities | Municipal Golf Courses | Total Nonmajor Enterprise Funds |
|--|--------------------------|---|---------------------------------------|--|
| Current assets | | | | |
| Cash & temporary investments | \$ 6,483 | \$ 862,091 | \$ 241,875 | \$ 1,110,449 |
| Investments | 13,457,320 | 6,483,135 | 64,833 | 20,005,288 |
| Accounts receivable | 387,984 | 138,606 | - | 526,590 |
| Due from other funds | - | 3,790,000 | 115,000 | 3,905,000 |
| Inventories | - | - | 25,981 | 25,981 |
| Prepaid items | - | 10,594 | 30,219 | 40,813 |
| Total current assets | <u>13,851,787</u> | <u>11,284,426</u> | <u>477,908</u> | <u>25,614,121</u> |
| Noncurrent assets | | | | |
| Land & site improvements | 2,079,796 | 1,831,368 | 473,119 | 4,384,283 |
| Building & building improvements | 29,743,644 | 21,996,312 | 1,014,584 | 52,754,540 |
| Equipment | 1,037,160 | 2,665,271 | 553,712 | 4,256,143 |
| Construction in progress | 413,609 | 118,925 | - | 532,534 |
| Less: accumulated depreciation | <u>(17,695,202)</u> | <u>(19,610,521)</u> | <u>(665,297)</u> | <u>(37,971,020)</u> |
| Total capital assets (net of accumulated depreciation) | 15,579,007 | 7,001,355 | 1,376,118 | 23,956,480 |
| Equity interest in joint venture | 19,052 | - | - | 19,052 |
| Total noncurrent assets | <u>15,598,059</u> | <u>7,001,355</u> | <u>1,376,118</u> | <u>23,975,532</u> |
| Total assets | <u>29,449,846</u> | <u>18,285,781</u> | <u>1,854,026</u> | <u>49,589,653</u> |
| Deferred outflows of resources | | | | |
| Pensions | - | - | - | - |
| Total deferred outflows of resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | 861,031 | 444,239 | 118,479 | 1,423,749 |
| Accrued liabilities | 10,360 | 778,761 | - | 789,121 |
| Unearned revenue | - | 175,153 | 18,488 | 193,641 |
| Due to other funds | 43,000 | - | - | 43,000 |
| Total current liabilities | <u>914,391</u> | <u>1,398,153</u> | <u>136,967</u> | <u>2,449,511</u> |
| Total liabilities | <u>914,391</u> | <u>1,398,153</u> | <u>136,967</u> | <u>2,449,511</u> |
| Deferred inflows of resources | | | | |
| Pensions | - | 1,057,537 | - | 1,057,537 |
| Total deferred inflows of resources | <u>-</u> | <u>1,057,537</u> | <u>-</u> | <u>1,057,537</u> |
| Net position | | | | |
| Net investment in capital assets | 15,579,007 | 7,001,355 | 1,376,118 | 23,956,480 |
| Unrestricted | 12,956,448 | 8,828,736 | 340,941 | 22,126,125 |
| Total net position | <u>\$ 28,535,455</u> | <u>\$ 15,830,091</u> | <u>\$ 1,717,059</u> | <u>\$ 46,082,605</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, 2018

| | Metro Parking | Public Assembly Facilities | Municipal Golf Courses | Total Nonmajor Enterprise Funds |
|---|----------------------|----------------------------------|------------------------------|---------------------------------------|
| Operating revenues | | | | |
| Charges for services | \$ 4,013,633 | \$ 3,578,856 | \$ 982,635 | \$ 8,575,124 |
| Total operating revenues | <u>4,013,633</u> | <u>3,578,856</u> | <u>982,635</u> | <u>8,575,124</u> |
| Operating expenses | | | | |
| Personal services | 171,755 | - | - | 171,755 |
| Materials & supplies | 1,000,325 | 191,925 | 2,800 | 1,195,050 |
| Depreciation & amortization | 1,287,272 | 577,677 | 56,679 | 1,921,628 |
| Other operating expenses | <u>2,904,186</u> | <u>6,167,606</u> | <u>1,195,030</u> | <u>10,266,822</u> |
| Total operating expenses | <u>5,363,538</u> | <u>6,937,208</u> | <u>1,254,509</u> | <u>13,555,255</u> |
| Operating income (loss) | <u>(1,349,905)</u> | <u>(3,358,352)</u> | <u>(271,874)</u> | <u>(4,980,131)</u> |
| Nonoperating revenue (expense) | | | | |
| Interest income | 133,008 | 98,146 | 1,494 | 232,648 |
| Intergovernmental revenue | 846,554 | 373,689 | - | 1,220,243 |
| Other revenues | <u>5,035</u> | <u>498,365</u> | <u>-</u> | <u>503,400</u> |
| Total nonoperating revenue (expense) | <u>984,597</u> | <u>970,200</u> | <u>1,494</u> | <u>1,956,291</u> |
| Income (loss) before transfers and capital contributions | (365,308) | (2,388,152) | (270,380) | (3,023,840) |
| Transfers in | 7,500,000 | 2,542,880 | 139,860 | 10,182,740 |
| Transfers out | <u>(41,116)</u> | <u>(86,614)</u> | <u>-</u> | <u>(127,730)</u> |
| Change in net position | 7,093,576 | 68,114 | (130,520) | 7,031,170 |
| Fund balances - beginning | <u>21,441,879</u> | <u>15,761,977</u> | <u>1,847,579</u> | <u>39,051,435</u> |
| Fund balances - ending | <u>\$ 28,535,455</u> | <u>\$ 15,830,091</u> | <u>\$ 1,717,059</u> | <u>\$ 46,082,605</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, 2018

| | <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 | \$ 3,931,028 | \$ 3,595,549 | \$ 980,099 | \$ 8,506,676 |
| Cash paid to suppliers | (3,062,064) | (6,495,994) | (1,202,643) | (10,760,701) |
| Cash paid to employees | (173,637) | - | - | (173,637) |
| Net cash provided by (used in) operating activities | <u>695,327</u> | <u>(2,900,445)</u> | <u>(222,544)</u> | <u>(2,427,662)</u> |
| Noncapital financing activities | | | | |
| Transfers from other funds | 7,495,884 | - | 540,000 | 8,035,884 |
| Transfers to other funds | - | (2,243,734) | (225,140) | (2,468,874) |
| Tax and intergovernmental revenues | 851,589 | 872,054 | - | 1,723,643 |
| Net cash provided by (used in) noncapital financing activities | <u>8,347,473</u> | <u>(1,371,680)</u> | <u>314,860</u> | <u>7,290,653</u> |
| Capital and related financing activities | | | | |
| Acquisition and construction of capital assets | (846,553) | (348,688) | - | (1,195,241) |
| Net cash provided by (used in) capital and related financing activities | <u>(846,553)</u> | <u>(348,688)</u> | <u>-</u> | <u>(1,195,241)</u> |
| Investing activities | | | | |
| Sales/(purchases) of investments, net | (8,351,774) | 2,753,460 | 60,850 | (5,537,464) |
| Investment earnings | 133,008 | 98,146 | 1,494 | 232,648 |
| Net change in equity investment in joint venture | 8,087 | - | - | 8,087 |
| Net cash provided by (used in) investing activities | <u>(8,210,679)</u> | <u>2,851,606</u> | <u>62,344</u> | <u>(5,296,729)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(14,432)</u> | <u>(1,769,207)</u> | <u>154,660</u> | <u>(1,628,979)</u> |
| Cash and cash equivalents | | | | |
| Beginning of year | <u>20,915</u> | <u>2,631,298</u> | <u>87,215</u> | <u>2,739,428</u> |
| End of year | <u>\$ 6,483</u> | <u>\$ 862,091</u> | <u>\$ 241,875</u> | <u>\$ 1,110,449</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, 2018

| | <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) | \$ (1,349,905) | \$(3,358,352) | \$ (271,874) | \$ (4,980,131) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 1,287,272 | 577,677 | 56,679 | 1,921,628 |
| Pension expense (negative expense) | - | (264,386) | - | (264,386) |
| Change in assets and liabilities | | | | |
| (Increase) decrease in receivables | (82,605) | 28,578 | - | (54,027) |
| (Increase) decrease in prepayments | - | (5,497) | (20,208) | (25,705) |
| (Increase) decrease in inventories | - | - | (2,452) | (2,452) |
| Increase (decrease) in accounts payable | 842,447 | (45,547) | 17,847 | 814,747 |
| Increase (decrease) in accrued expenses | (1,882) | 173,470 | - | 171,588 |
| Increase (decrease) in deferred revenue | - | (6,388) | (2,536) | (8,924) |
| Total adjustments | <u>2,045,232</u> | <u>457,907</u> | <u>49,330</u> | <u>2,552,469</u> |
| Net cash provided by (used in) operating activities | <u>\$ 695,327</u> | <u>\$(2,900,445)</u> | <u>\$ (222,544)</u> | <u>\$ (2,427,662)</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, 2018

| Assets | Fleet Maintenance | Risk Management | Health Insurance | Equipment Replacement | City Buildings | Total |
|--|------------------------------|----------------------------|-----------------------------|----------------------------------|---------------------------|-----------------------|
| Current assets | | | | | | |
| Cash & temporary investments | \$ 1,380,697 | \$ 1,624 | \$ 4,649 | \$ 231,160 | \$ 1,311,330 | \$ 2,929,460 |
| Investments | 47,788,043 | 35,725,743 | 24,825,655 | 18,941,222 | 45,649 | 127,326,312 |
| Accounts receivable | 151,866 | 40,260 | 43,283 | - | 59,213 | 294,622 |
| Due from other funds | - | - | - | 24,700 | - | 24,700 |
| Inventories | 1,108,434 | - | - | - | - | 1,108,434 |
| Total current assets | <u>50,429,040</u> | <u>35,767,627</u> | <u>24,873,587</u> | <u>19,197,082</u> | <u>1,416,192</u> | <u>131,683,528</u> |
| Noncurrent assets | | | | | | |
| Construction in process | 957,362 | - | - | 1,373 | - | 958,735 |
| Building & building improvements | 257,391 | - | - | - | - | 257,391 |
| Equipment | 72,027,090 | 19,995 | - | 25,428,514 | - | 97,475,599 |
| Less: accumulated depreciation | (44,898,645) | (11,997) | - | (15,240,686) | - | (60,151,328) |
| Total capital assets (net of accumulated depreciation) | 28,343,198 | 7,998 | - | 10,189,201 | - | 38,540,397 |
| Equity interest in joint venture | - | - | - | - | 1,639,984 | 1,639,984 |
| Total noncurrent assets | <u>28,343,198</u> | <u>7,998</u> | <u>-</u> | <u>10,189,201</u> | <u>1,639,984</u> | <u>40,180,381</u> |
| Total assets | <u>78,772,238</u> | <u>35,775,625</u> | <u>24,873,587</u> | <u>29,386,283</u> | <u>3,056,176</u> | <u>171,863,909</u> |
| Deferred outflows of resources | | | | | | |
| Pensions | 1,107,592 | 251,096 | 119,737 | - | - | 1,478,425 |
| Total deferred outflows of resources | <u>1,107,592</u> | <u>251,096</u> | <u>119,737</u> | <u>-</u> | <u>-</u> | <u>1,478,425</u> |
| Liabilities | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable | 2,108,497 | 139,098 | 209,277 | 51,472 | - | 2,508,344 |
| Accrued liabilities | 248,194 | 35,749 | 30,318 | - | - | 314,261 |
| Customer deposits | 103,131 | - | - | - | - | 103,131 |
| Due to other funds | - | 300,000 | 1,520,000 | - | - | 1,820,000 |
| Net pension liability | 3,665,362 | 830,952 | 396,245 | - | - | 4,892,559 |
| Estimated claims liability | - | 5,100,000 | - | - | - | 5,100,000 |
| Total current liabilities | <u>6,125,184</u> | <u>6,405,799</u> | <u>2,155,840</u> | <u>51,472</u> | <u>-</u> | <u>14,738,295</u> |
| Noncurrent liabilities | | | | | | |
| Estimated claims liability | - | 12,600,000 | 2,500,000 | - | - | 15,100,000 |
| Total noncurrent liabilities | <u>-</u> | <u>12,600,000</u> | <u>2,500,000</u> | <u>-</u> | <u>-</u> | <u>15,100,000</u> |
| Total liabilities | <u>6,125,184</u> | <u>19,005,799</u> | <u>4,655,840</u> | <u>51,472</u> | <u>-</u> | <u>29,838,295</u> |
| Deferred inflows of resources | | | | | | |
| Pensions | 111,513 | 25,281 | 12,055 | - | - | 148,849 |
| Total deferred inflows of resources | <u>111,513</u> | <u>25,281</u> | <u>12,055</u> | <u>-</u> | <u>-</u> | <u>148,849</u> |
| Net position | | | | | | |
| Net investment in capital assets | 28,343,198 | 7,998 | - | 10,189,201 | - | 38,540,397 |
| Unrestricted | 45,299,935 | 16,987,643 | 20,325,429 | 19,145,610 | 3,056,176 | 104,814,793 |
| Total net position | <u>\$ 73,643,133</u> | <u>\$ 16,995,641</u> | <u>\$ 20,325,429</u> | <u>\$ 29,334,811</u> | <u>\$ 3,056,176</u> | <u>\$ 143,355,190</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, 2018

| | <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 | \$ 16,355,990 | \$ 7,057,339 | \$19,005,962 | \$ 2,542,190 | \$ 1,836,414 | \$ 46,797,895 |
| Total operating revenues | <u>16,355,990</u> | <u>7,057,339</u> | <u>19,005,962</u> | <u>2,542,190</u> | <u>1,836,414</u> | <u>46,797,895</u> |
| Operating expenses | | | | | | |
| Personal services | 3,374,059 | 749,228 | 324,618 | - | - | 4,447,905 |
| Materials & supplies | 4,219,214 | 57,904 | 21,754 | 5,707 | - | 4,304,579 |
| Depreciation & amortization | 4,590,109 | 3,999 | - | 2,346,695 | - | 6,940,803 |
| Other operating expenses | 1,427,798 | 5,326,749 | 18,058,195 | - | 1,794,841 | 26,607,583 |
| Total operating expenses | <u>13,611,180</u> | <u>6,137,880</u> | <u>18,404,567</u> | <u>2,352,402</u> | <u>1,794,841</u> | <u>42,300,870</u> |
| Operating income (loss) | <u>2,744,810</u> | <u>919,459</u> | <u>601,395</u> | <u>189,788</u> | <u>41,573</u> | <u>4,497,025</u> |
| Nonoperating revenue (expense) | | | | | | |
| Investment income (loss) | 654,656 | 456,085 | 345,749 | 248,663 | 1,213 | 1,706,366 |
| Intergovernmental revenue | 246,950 | - | - | 2,550 | - | 249,500 |
| Other revenues (expenses) | 541,063 | (3,004) | 16,144 | (145) | - | 554,058 |
| Total nonoperating revenue (expense) | <u>1,442,669</u> | <u>453,081</u> | <u>361,893</u> | <u>251,068</u> | <u>1,213</u> | <u>2,509,924</u> |
| Income (loss) before transfers and capital contributions | <u>4,187,479</u> | <u>1,372,540</u> | <u>963,288</u> | <u>440,856</u> | <u>42,786</u> | <u>7,006,949</u> |
| Transfers in | 662,919 | - | - | 1,937,194 | - | 2,600,113 |
| Transfers out | (65,804) | - | - | - | - | (65,804) |
| Capital contributions | - | - | - | 198,241 | - | 198,241 |
| Change in net position | <u>4,784,594</u> | <u>1,372,540</u> | <u>963,288</u> | <u>2,576,291</u> | <u>42,786</u> | <u>9,739,499</u> |
| Total net position, beginning | <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> |
| Total net position, ending | <u>\$ 73,643,133</u> | <u>\$ 16,995,641</u> | <u>\$20,325,429</u> | <u>\$ 29,334,811</u> | <u>\$ 3,056,176</u> | <u>\$ 143,355,190</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, 2018

| | <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 | \$ 16,250,789 | \$ 7,070,357 | \$ 19,085,680 | \$ 2,542,190 | \$ 1,893,350 | \$ 46,842,366 |
| Cash paid to suppliers | (5,000,327) | (5,384,653) | (21,754) | (5,707) | - | (10,412,441) |
| Cash paid to employees | (2,761,671) | (618,843) | (298,826) | - | - | (3,679,340) |
| Cash paid for interfund services used | - | (129,613) | (94,609) | - | (1,858,841) | (2,083,063) |
| Payments of claims and insurance | - | 100,000 | (18,048,923) | - | - | (17,948,923) |
| Net cash provided by (used in) operating activities | <u>8,488,791</u> | <u>1,037,248</u> | <u>621,568</u> | <u>2,536,483</u> | <u>34,509</u> | <u>12,718,599</u> |
| Noncapital financing activities | | | | | | |
| Transfers from other funds | 593,115 | (201,500) | 1,550,178 | 1,912,494 | - | 3,854,287 |
| Tax and intergovernmental revenues | <u>788,013</u> | <u>(3,004)</u> | <u>16,144</u> | <u>2,405</u> | <u>-</u> | <u>803,558</u> |
| Net cash provided by (used in) noncapital financing activities | <u>1,381,128</u> | <u>(204,504)</u> | <u>1,566,322</u> | <u>1,914,899</u> | <u>-</u> | <u>4,657,845</u> |
| Capital and related financing activities | | | | | | |
| Acquisition and construction of capital assets | (10,321,658) | - | - | (4,403,296) | - | (14,724,954) |
| Capital contributions | <u>-</u> | <u>-</u> | <u>-</u> | <u>198,241</u> | <u>-</u> | <u>198,241</u> |
| Net cash provided by (used in) capital and related financing activities | <u>(10,321,658)</u> | <u>-</u> | <u>-</u> | <u>(4,205,055)</u> | <u>-</u> | <u>(14,526,713)</u> |
| Investing activities | | | | | | |
| Sales/(purchases) of investments, net | 228,994 | (1,590,407) | (3,044,768) | (761,809) | (45,649) | (5,213,639) |
| Investment earnings | 654,656 | 456,085 | 345,749 | 248,663 | 1,213 | 1,706,366 |
| Net change in equity investment in joint venture | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>114,113</u> | <u>114,113</u> |
| Net cash provided by (used in) investing activities | <u>883,650</u> | <u>(1,134,322)</u> | <u>(2,699,019)</u> | <u>(513,146)</u> | <u>69,677</u> | <u>(3,393,160)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>431,911</u> | <u>(301,578)</u> | <u>(511,129)</u> | <u>(266,819)</u> | <u>104,186</u> | <u>(543,429)</u> |
| Cash and cash equivalents | | | | | | |
| Beginning 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> |
| End of year | <u>\$ 1,380,697</u> | <u>\$ 1,624</u> | <u>\$ 4,649</u> | <u>\$ 231,160</u> | <u>\$ 1,311,330</u> | <u>\$ 2,929,460</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, 2018

| | <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) | \$ 2,744,810 | \$ 919,459 | \$ 601,395 | \$ 189,788 | \$ 41,573 | \$ 4,497,025 |
| Adjustments to reconcile operating income (loss) | | | | | | |
| to net cash provided by (used in) operating | | | | | | |
| activities: | | | | | | |
| Depreciation | 4,590,109 | 3,999 | - | 2,346,695 | - | 6,940,803 |
| Pension expense (income) | 589,398 | 132,009 | 25,792 | - | - | 747,199 |
| Change in assets and liabilities | | | | | | |
| (Increase) decrease in receivables | (105,201) | 13,018 | 79,718 | - | 56,936 | 44,471 |
| (Increase) decrease in inventories | (87,684) | - | - | - | - | (87,684) |
| Increase (decrease) in accounts payable | 631,238 | (129,613) | (94,609) | - | (64,000) | 343,016 |
| Increase (decrease) in accrued expenses | 22,990 | (1,624) | (2,490,728) | - | - | (2,469,362) |
| Increase (decrease) in customer deposits | 103,131 | - | - | - | - | 103,131 |
| Increase (decrease) in estimated liability for litigation and | | | | | | |
| claims | - | 100,000 | 2,500,000 | - | - | 2,600,000 |
| Total adjustments | <u>5,743,981</u> | <u>117,789</u> | <u>20,173</u> | <u>2,346,695</u> | <u>(7,064)</u> | <u>8,221,574</u> |
| Net cash provided by (used in) operating activities | <u>\$ 8,488,791</u> | <u>\$ 1,037,248</u> | <u>\$ 621,568</u> | <u>\$ 2,536,483</u> | <u>\$ 34,509</u> | <u>\$ 12,718,599</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, 2018

| | <u>City Choice Plus</u> | <u>Employee Health Savings Fund</u> | <u>Total</u> |
|---|---------------------------------|---|---------------------|
| Assets | | | |
| Cash | \$ 42,475 | \$ 1,124,151 | \$ 1,166,626 |
| State & municipal government securities | 119,956 | - | 119,956 |
| Accounts receivable | 269,673 | - | 269,673 |
| Due from other funds | - | 143,200 | 143,200 |
| Total current assets | <u>\$ 432,104</u> | <u>\$ 1,267,351</u> | <u>\$ 1,699,455</u> |
| Liabilities | | | |
| Health care claims liability | \$ 288,904 | \$ 1,267,351 | \$ 1,556,255 |
| Due to other funds | 143,200 | - | 143,200 |
| Total liabilities | <u>\$ 432,104</u> | <u>\$ 1,267,351</u> | <u>\$ 1,699,455</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, 2018

| | <u>July 1, 2017</u> | <u>Additions</u> | <u>Deductions</u> | <u>June 30, 2018</u> |
|--|---------------------|---------------------|---------------------|----------------------|
| <u>City Choice Fund</u> | | | | |
| Assets | | | | |
| Cash | \$ 3,687 | \$ 42,475 | \$ 3,687 | \$ 42,475 |
| State & municipal government securities | 519,399 | (399,443) | - | 119,956 |
| Accounts receivable | 263,408 | 269,673 | 263,408 | 269,673 |
| Total assets | <u>\$ 786,494</u> | <u>\$ (87,295)</u> | <u>\$ 267,095</u> | <u>\$ 432,104</u> |
| Liabilities | | | | |
| Health care claims liability | \$ 271,316 | \$ 284,683 | \$ 267,095 | \$ 288,904 |
| Due to other funds | 515,178 | (371,978) | - | 143,200 |
| Total liabilities | <u>\$ 786,494</u> | <u>\$ (87,295)</u> | <u>\$ 267,095</u> | <u>\$ 432,104</u> |
| <u>Employee Health Savings Fund</u> | | | | |
| Assets | | | | |
| Cash | \$ 1,109,360 | \$ 1,124,151 | \$ 1,109,360 | \$ 1,124,151 |
| Due from other funds | - | 143,200 | - | 143,200 |
| Total assets | <u>\$ 1,109,360</u> | <u>\$ 1,267,351</u> | <u>\$ 1,109,360</u> | <u>\$ 1,267,351</u> |
| Liabilities | | | | |
| Health care claims liability | \$ 1,109,360 | \$ 1,267,351 | \$ 1,109,360 | \$ 1,267,351 |
| Total liabilities | <u>\$ 1,109,360</u> | <u>\$ 1,267,351</u> | <u>\$ 1,109,360</u> | <u>\$ 1,267,351</u> |
| <u>Total All Agency Funds</u> | | | | |
| Assets | | | | |
| Cash | \$ 1,113,047 | \$ 1,166,626 | \$ 1,113,047 | \$ 1,166,626 |
| State & municipal government securities | 519,399 | (399,443) | - | 119,956 |
| Accounts receivable | 263,408 | 269,673 | 263,408 | 269,673 |
| Due from other funds | - | 143,200 | - | 143,200 |
| Total assets | <u>\$ 1,895,854</u> | <u>\$ 1,180,056</u> | <u>\$ 1,376,455</u> | <u>\$ 1,699,455</u> |
| Liabilities | | | | |
| Health care claims liability | \$ 1,380,676 | \$ 1,552,034 | \$ 1,376,455 | \$ 1,556,255 |
| Due to other funds | 515,178 | (371,978) | - | 143,200 |
| Total liabilities | <u>\$ 1,895,854</u> | <u>\$ 1,180,056</u> | <u>\$ 1,376,455</u> | <u>\$ 1,699,455</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, 2018

Assets

Current assets:

| | |
|------------------------------|-------------------|
| Cash & temporary investments | \$ 189,718 |
| Investments | 1,567,582 |
| Accounts receivable | 8,694,155 |
| Inventories | <u>1,326,342</u> |
| Total current assets | <u>11,777,797</u> |

Noncurrent assets:

| | |
|--|---------------------|
| Land & site improvements | 2,757,150 |
| Building & building improvements | 32,648,049 |
| Equipment | 38,541,440 |
| Less: accumulated depreciation | <u>(31,499,499)</u> |
| Total capital assets (net of accumulated depreciation) | <u>42,447,140</u> |
| Total assets | <u>54,224,937</u> |

Liabilities

Current liabilities:

| | |
|---------------------------|------------------|
| Accounts payable | 826,222 |
| Accrued liabilities | 394,065 |
| Due to primary government | <u>2,809,500</u> |
| Total liabilities | <u>4,029,787</u> |

Deferred inflows of resources

| | |
|-------------------------------------|----------------|
| Deferred revenue | <u>454,810</u> |
| Total deferred inflows of resources | <u>454,810</u> |

Net position

| | |
|----------------------------------|----------------------|
| Net investment in capital assets | 42,447,140 |
| Unrestricted | <u>7,293,200</u> |
| Total net position | <u>\$ 49,740,340</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
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2018**

| | |
|---------------------------------------|----------------------|
| Operating revenues | |
| Charges for services | \$ 7,013,399 |
| Total operating revenues | <u>7,013,399</u> |
| Operating expenses | |
| Personal services | 15,998,469 |
| Materials & supplies | 3,797,799 |
| Depreciation & amortization | 3,775,303 |
| Other operating expenses | <u>7,815,497</u> |
| Total expenses | <u>31,387,068</u> |
| Operating income (loss) | <u>(24,373,669)</u> |
| Nonoperating revenue (expense) | |
| Intergovernmental revenue | 26,087,837 |
| Other expenses | <u>(744,676)</u> |
| Total nonoperating revenue (expense) | <u>25,343,161</u> |
| Change in net position | 969,492 |
| Total net position, beginning | <u>48,770,848</u> |
| Total net position, ending | <u>\$ 49,740,340</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, 2018

Operating activities

| | |
|--|---------------------|
| Cash received from customers and users | \$ 7,013,399 |
| Cash paid to suppliers | (15,638,159) |
| Cash paid to employees | <u>(15,797,121)</u> |
| Net cash provided by (used in) operating activities | <u>(24,421,881)</u> |

Noncapital financing activities

| | |
|---|-------------------|
| Transfers from primary government | (1,065,500) |
| Tax and intergovernmental revenues | <u>26,721,630</u> |
| Net cash provided by (used in) noncapital financing activities | <u>25,656,130</u> |

Capital and related financing activities

| | |
|--|--------------------|
| Acquisition of capital assets | <u>(3,853,349)</u> |
| Net cash provided by (used in) capital and related financing activities | <u>(3,853,349)</u> |

Investing activities

| | |
|--|------------------|
| Sales/(purchases) of investments, net | <u>(567,881)</u> |
| Net cash provided by (used in) investing activities | <u>(567,881)</u> |

Net increase (decrease) in cash and cash equivalents

(3,186,981)

Cash and cash equivalents

| | |
|-------------------|-------------------|
| Beginning of year | <u>3,376,699</u> |
| End of year | <u>\$ 189,718</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, 2018

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

| | |
|--|-------------------------------|
| Operating income (loss) | \$ (24,373,669) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | |
| Depreciation | 3,775,303 |
| Change in assets and liabilities | |
| (Increase) decrease in inventories | (46,601) |
| Increase (decrease) in accounts payable | (3,978,262) |
| Increase (decrease) in accrued expenses | 201,348 |
| Total adjustments | <u>(48,212)</u> |
| Net cash provided by (used in) operating activities | <u>\$ (24,421,881)</u> |

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

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STATISTICAL SECTION

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

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| <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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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 | | | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Governmental Activities | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 205,877 | \$ 213,568 | \$ 220,028 | \$ 220,585 | \$ 223,777 | \$ 231,666 | \$ 225,581 | \$ 261,956 | \$ 298,791 | \$ 305,396 |
| Restricted | 38,911 | 39,449 | 43,399 | 46,675 | 61,997 | 49,782 | 22,870 | 15,759 | 12,817 | 11,984 |
| Unrestricted | 192,241 | 218,176 | 233,442 | 237,088 | 243,367 | 260,379 | 162,267 | 186,985 | 203,126 | 209,403 |
| Total Governmental Activities Net Position | \$ 437,029 | \$ 471,193 | \$ 496,869 | \$ 504,348 | \$ 529,141 | \$ 541,827 | \$ 410,718 | \$ 464,700 | \$ 514,734 | \$ 526,783 |
| Business-type Activities | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 28,212 | \$ 26,344 | \$ 26,075 | \$ 24,881 | \$ 28,494 | \$ 29,159 | \$ 30,011 | \$ 31,484 | \$ 35,332 | \$ 37,202 |
| Unrestricted | 17,782 | 24,590 | 33,712 | 38,728 | 39,323 | 40,223 | 42,012 | 48,363 | 51,795 | 70,336 |
| Total Business-type Activities Net Position | \$ 45,994 | \$ 50,934 | \$ 59,787 | \$ 63,609 | \$ 67,817 | \$ 69,382 | \$ 72,023 | \$ 79,847 | \$ 87,127 | \$ 107,538 |
| Primary Government | | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 234,089 | \$ 239,912 | \$ 246,103 | \$ 245,466 | \$ 252,271 | \$ 260,825 | \$ 255,592 | \$ 293,440 | \$ 334,123 | \$ 342,598 |
| Restricted | 38,911 | 39,449 | 43,399 | 46,675 | 61,997 | 49,782 | 22,870 | 15,759 | 12,817 | 11,984 |
| Unrestricted | 210,023 | 242,766 | 267,154 | 275,816 | 282,690 | 300,602 | 204,279 | 235,348 | 254,921 | 279,739 |
| Total Primary Government Net Position | \$ 483,023 | \$ 522,127 | \$ 556,656 | \$ 567,957 | \$ 596,958 | \$ 611,209 | \$ 482,741 | \$ 544,547 | \$ 601,861 | \$ 634,321 |

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

| | Fiscal Year | | | | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Expenses | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| General government | \$ 8,833 | \$ 13,348 | \$ 13,495 | \$ 34,882 | \$ 23,591 | \$ 32,702 | \$ 16,347 | \$ 20,697 | \$ 24,653 | \$ 44,384 |
| Public safety | 80,936 | 81,637 | 83,059 | 85,416 | 88,381 | 89,816 | 91,659 | 95,864 | 100,752 | 95,748 |
| Physical environment | 44,421 | 45,244 | 46,977 | 48,046 | 49,230 | 51,368 | 49,559 | 51,100 | 54,041 | 53,452 |
| Transportation | 12,131 | 9,647 | 10,467 | 11,201 | 11,970 | 11,048 | 10,866 | 10,589 | 11,016 | 13,307 |
| Economic Development | 10,686 | 16,441 | 11,878 | 8,460 | 8,120 | 8,752 | 10,550 | 19,843 | 13,499 | 10,570 |
| Parks & Recreation | 11,893 | 12,858 | 12,308 | 11,827 | 10,195 | 10,345 | 10,723 | 9,586 | 9,936 | 11,474 |
| Health & Sanitation | 10,094 | 10,430 | 10,361 | 11,111 | 10,388 | 10,688 | 10,274 | 10,414 | 9,738 | 8,766 |
| Interest on long-term debt | 2,754 | 2,398 | 2,152 | 1,989 | 1,718 | 1,827 | 2,196 | 2,339 | 1,998 | 1,760 |
| Total governmental activities expenses | <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> | <u>239,461</u> |
| Business-type Activities: | | | | | | | | | | |
| Metro parking | 1,565 | 1,364 | 1,610 | 1,625 | 1,184 | 5,689 | 2,721 | 2,372 | 3,475 | 5,364 |
| Public assembly facilities | 4,356 | 4,847 | 6,539 | 4,535 | 5,212 | 5,751 | 4,563 | 3,888 | 5,584 | 6,937 |
| Knoxville Convention Center | 20,452 | 19,393 | 19,395 | 19,013 | 17,081 | 16,716 | 17,530 | 16,909 | 17,735 | 19,549 |
| Municipal Golf Courses | 1,390 | 1,368 | 1,811 | 1,440 | 1,413 | 1,427 | 1,457 | 1,597 | 1,076 | 1,255 |
| Total business-type activities | <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> | <u>33,105</u> |
| Total primary government | <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> | <u>\$ 272,566</u> |
| Program Revenues | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| General government | \$ 540 | \$ 651 | \$ 757 | \$ 817 | \$ 860 | \$ 2,339 | \$ 1,923 | \$ 1,726 | \$ 1,259 | \$ 1,228 |
| Public safety | 9,191 | 9,436 | 8,945 | 6,971 | 7,185 | 6,114 | 6,263 | 6,259 | 7,224 | 6,900 |
| Physical environment | 717 | 1,026 | 985 | 1,539 | 1,561 | 1,583 | 761 | 1,261 | 1,523 | 1,674 |
| Transportation | 688 | 760 | 955 | 640 | 551 | 635 | 729 | 630 | 406 | 443 |
| Economic Development | - | 955 | 665 | 428 | 260 | 355 | 578 | 172 | 408 | 144 |
| Parks & recreation | 694 | 689 | 537 | 531 | 494 | 583 | 630 | 642 | 669 | 754 |
| Health & sanitation | 47 | 54 | 49 | 40 | 38 | 36 | 41 | 33 | 40 | 36 |
| Operating grants and contributions | 10,387 | 15,758 | 14,811 | 10,088 | 7,517 | 8,409 | 7,710 | 7,893 | 9,103 | 6,632 |
| Capital grants and contributions | 5,161 | 4,724 | 3,777 | 3,318 | 3,556 | 4,693 | 6,658 | 11,573 | 14,262 | 7,608 |
| Total governmental activities program revenues | <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> | <u>25,419</u> |
| Business-type Activities: | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| Metro parking | 2,188 | 1,690 | 1,565 | 1,418 | 1,685 | 1,546 | 1,539 | 1,796 | 2,182 | 4,014 |
| Public assembly facilities | 1,812 | 1,400 | 1,855 | 2,090 | 1,954 | 1,952 | 1,786 | 1,630 | 2,993 | 3,579 |
| Knoxville Convention Center | 5,396 | 5,797 | 5,171 | 4,962 | 5,386 | 4,755 | 4,438 | 4,651 | 5,420 | 5,436 |
| Municipal Golf Courses | 1,105 | 1,121 | 1,195 | 1,332 | 1,193 | 1,317 | 1,082 | 1,048 | 1,043 | 982 |
| Operating grants and contributions | 1,430 | 1,435 | 1,500 | 1,750 | 1,562 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Total business-type activities program revenues | <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>13,138</u> | <u>15,511</u> |
| Total primary government program revenues | <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>\$ 48,032</u> | <u>\$ 40,930</u> |
| Net expense: | | | | | | | | | | |
| Governmental Activities | \$ 154,323 | \$ 157,950 | \$ 159,216 | \$ 188,560 | \$ 181,571 | \$ 191,799 | \$ 176,881 | \$ 190,243 | \$ 190,739 | \$ 214,042 |
| Business-type Activities | 15,832 | 15,529 | 18,069 | 15,061 | 13,110 | 18,513 | 15,926 | 14,141 | 14,732 | 17,594 |
| Total primary government net expense | <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>\$ 205,471</u> | <u>\$ 231,636</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Property taxes, interest and penalties | \$ 113,846 | \$ 117,760 | \$ 118,043 | \$ 121,124 | \$ 121,922 | \$ 123,072 | \$ 140,772 | \$ 144,263 | \$ 145,721 | \$ 148,287 |
| Intergovernmental revenues | 58,776 | 61,625 | 61,221 | 60,798 | 68,337 | 65,910 | 67,588 | 76,727 | 74,157 | 77,633 |
| Other taxes | 17,908 | 17,955 | 18,525 | 19,968 | 20,763 | 20,053 | 20,844 | 21,986 | 22,159 | 23,153 |
| Other revenue | 6,562 | 2,733 | 3,669 | 2,296 | 4,465 | 4,062 | 3,941 | 8,440 | 4,866 | 7,470 |
| Transfers | (9,561) | (10,900) | (16,352) | (8,148) | (9,123) | (8,612) | (9,653) | (7,191) | (6,129) | (19,855) |
| Total governmental activities | <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> | <u>236,688</u> |
| Business-type Activities: | | | | | | | | | | |
| Intergovernmental revenues | 375 | 4,283 | 4,539 | 4,689 | 3,198 | 4,888 | 3,451 | 7,042 | 6,983 | 9,779 |
| Other taxes | 6,418 | 5,047 | 5,218 | 5,420 | 5,211 | 5,395 | 5,921 | 6,903 | 6,756 | 7,009 |
| Other revenue | 676 | 240 | 599 | 627 | 570 | 1,182 | 1,352 | 829 | 2,143 | 1,363 |
| Transfers | 9,561 | 10,900 | 16,352 | 8,148 | 9,123 | 8,612 | 9,653 | 7,191 | 6,129 | 19,855 |
| Total business-type activities | <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>22,011</u> | <u>38,006</u> |
| Total primary government | <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>262,785</u> | <u>274,694</u> |
| Changes in Net Position | | | | | | | | | | |
| Governmental activities | \$ 33,208 | \$ 31,223 | \$ 25,890 | \$ 7,478 | \$ 24,793 | \$ 12,686 | \$ 46,611 | \$ 53,982 | \$ 50,035 | \$ 22,646 |
| Business-type activities | 1,198 | 4,941 | 8,639 | 3,823 | 4,992 | 1,564 | 4,451 | 7,824 | 7,279 | 20,412 |
| Total primary government | <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> | <u>\$ 43,058</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 | | | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2010 | 2011* | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| General Fund | | | | | | | | | | |
| Reserved | \$ 1,303 | \$ 960 | | | | | | | | |
| Unreserved | 51,036 | 59,704 | | | | | | | | |
| Nonspendable | | | \$ 425 | \$ 385 | \$ 300 | \$ 324 | \$ 443 | \$ 364 | \$ 353 | \$ 305 |
| Restricted | | | 1,989 | - | - | - | - | - | - | - |
| Committed | | | 34,631 | 39,136 | 36,771 | 40,232 | 41,469 | 42,650 | 48,086 | 45,875 |
| Assigned | | | 231 | 311 | 2,648 | 2,482 | 3,353 | 4,038 | 20,143 | 11,778 |
| Unassigned | | | 27,987 | 19,892 | 30,436 | 27,958 | 30,508 | 38,458 | 27,757 | 30,557 |
| Total general fund | <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> | <u>\$ 88,515</u> |
| All other governmental funds | | | | | | | | | | |
| Nonspendable/Restricted (Reserved/Designated) | \$ 5,312 | \$ 3,428 | | | | | | | | |
| Unreserved, reported in: | | | | | | | | | | |
| Special Revenue funds | 24,138 | 26,055 | | | | | | | | |
| Debt Service funds | 36,259 | 36,907 | | | | | | | | |
| Capital Projects funds | 55,248 | 72,654 | | | | | | | | |
| Nonspendable | | | \$ 656 | \$ 739 | \$ 737 | \$ 673 | \$ 1,076 | \$ 1,122 | \$ 856 | \$ 1,185 |
| Restricted | | | 65,277 | 60,074 | 61,133 | 63,370 | 36,908 | 24,592 | 12,193 | 11,361 |
| Committed | | | 73,913 | 84,068 | 89,885 | 93,181 | 150,904 | 150,342 | 133,869 | 172,508 |
| Assigned | | | - | - | - | - | - | - | 16,883 | 579 |
| Total all other governmental funds | <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> | <u>\$ 185,633</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 | | | | | | | | | |
|---|-----------------|------------------|-----------------|-----------------|------------------|-----------------|------------------|-------------------|-------------------|------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Revenues | | | | | | | | | | |
| Taxes, assessments, interest & penalties | \$ 169,521 | \$ 168,880 | \$ 173,425 | \$ 180,543 | \$ 183,445 | \$ 184,128 | \$ 204,089 | \$ 212,108 | \$ 212,992 | \$ 217,761 |
| Licenses, permits & inspection charges | 1,973 | 1,726 | 1,708 | 1,975 | 1,994 | 2,027 | 2,266 | 2,656 | 3,005 | 3,052 |
| Intergovernmental revenue | 31,540 | 40,729 | 37,081 | 30,040 | 37,359 | 34,586 | 36,125 | 48,074 | 45,811 | 43,520 |
| Charges for services | 6,021 | 6,997 | 6,859 | 6,502 | 6,528 | 6,263 | 7,089 | 6,118 | 6,728 | 5,013 |
| Fines & forfeitures | 5,397 | 5,924 | 5,536 | 3,637 | 4,010 | 3,256 | 3,247 | 3,147 | 3,010 | 4,190 |
| Other | 8,800 | 7,568 | 6,207 | 5,370 | 5,170 | 5,524 | 5,073 | 8,354 | 8,350 | 6,665 |
| Total revenues | 223,252 | 231,824 | 230,816 | 228,067 | 238,506 | 235,784 | 257,889 | 280,457 | 279,896 | 280,201 |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | 14,310 | 13,958 | 14,267 | 15,983 | 15,701 | 16,242 | 17,000 | 17,308 | 17,189 | 35,610 |
| Public safety | 77,449 | 79,071 | 81,613 | 85,311 | 86,986 | 89,224 | 99,871 | 102,155 | 103,510 | 95,559 |
| Physical environment | 24,435 | 21,487 | 66,819 | 59,861 | 58,565 | 61,475 | 61,478 | 63,178 | 63,287 | 63,059 |
| Parks & recreation | 907 | 906 | 907 | 7,722 | 7,621 | 7,976 | 8,422 | 8,652 | 8,721 | 9,001 |
| Economic development | 51,701 | 60,222 | 13,790 | 23,043 | 12,961 | 11,896 | 11,994 | 22,549 | 16,902 | 13,052 |
| Other | - | - | - | 486 | 91 | 68 | 248 | - | - | - |
| Capital Outlay | 24,440 | 20,864 | 19,155 | 17,497 | 19,253 | 25,892 | 36,163 | 51,710 | 53,188 | 36,657 |
| Debt Service: | | | | | | | | | | |
| Principal | 7,408 | 5,396 | 5,577 | 4,853 | 5,413 | 5,291 | 5,384 | 6,141 | 4,998 | 4,742 |
| Interest | 2,754 | 2,439 | 2,188 | 2,116 | 1,730 | 1,745 | 2,136 | 2,328 | 2,039 | 1,789 |
| Total expenditures | 203,404 | 204,343 | 204,316 | 216,872 | 208,321 | 219,809 | 242,696 | 274,021 | 269,834 | 259,469 |
| Excess of revenues over expenditures | 19,848 | 27,481 | 26,500 | 11,195 | 30,185 | 15,975 | 15,193 | 6,436 | 10,062 | 20,732 |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Net proceeds from issuance of debt | - | 13,471 | - | 411 | - | - | 31,607 | - | - | 15,666 |
| Transfers in | 40,845 | 42,809 | 39,727 | 35,497 | 36,787 | 41,982 | 45,703 | 39,296 | 44,200 | 51,374 |
| Transfers out | (54,645) | (57,350) | (60,612) | (47,607) | (49,667) | (51,648) | (56,061) | (48,827) | (55,688) | (73,764) |
| Total other financing sources (uses) | (13,800) | (1,070) | (20,885) | (11,699) | (12,880) | (9,666) | 21,249 | (9,531) | (11,488) | (6,724) |
| Net changes in fund balances | \$ 6,048 | \$ 26,411 | \$ 5,615 | \$ (504) | \$ 17,305 | \$ 6,309 | \$ 36,442 | \$ (3,095) | \$ (1,426) | \$ 14,008 |
| Debt service as a percentage of noncapital | 5.6% | 4.2% | 4.2% | 3.4% | 3.7% | 3.5% | 3.6% | 3.7% | 3.1% | 2.7% |

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 Properties | Total's | Assessed Taxable Value | Estimated Actual Value | Assessed Taxable Value | Estimated Actual Value | Assessed Taxable Value | Estimated Actual Value | Assessed Taxable Value | | |
| 2009 | 4,256,046 | 189,664 | 5,511,802 | 261,830 | 10,219,342 | 3,156,234 | 1,016,750 | 305,026 | 270,210 | 148,615 | 11,506,302 | 3,609,875 | 2.81 | 31% |
| 2010 | 4,887,267 | 204,716 | 6,601,700 | 358,028 | 12,051,711 | 3,687,218 | 1,115,939 | 334,782 | 304,404 | 167,422 | 13,472,054 | 4,189,422 | 2.46 | 31% |
| 2011 | 4,923,683 | 188,715 | 6,676,669 | 359,976 | 12,149,043 | 3,714,127 | 1,055,236 | 316,571 | 268,712 | 147,792 | 13,472,991 | 4,178,490 | 2.46 | 31% |
| 2012 | 5,067,449 | 185,806 | 6,677,256 | 365,691 | 12,296,202 | 3,770,616 | 1,071,108 | 321,529 | 286,778 | 157,728 | 13,654,088 | 4,249,873 | 2.46 | 31% |
| 2013 | 5,254,329 | 186,137 | 6,695,127 | 370,017 | 12,505,610 | 3,841,101 | 995,924 | 299,141 | 300,668 | 165,368 | 13,802,202 | 4,305,610 | 2.46 | 31% |
| 2014 | 5,657,886 | 215,437 | 6,679,425 | 465,822 | 13,018,570 | 4,002,458 | 1,155,830 | 346,877 | 283,414 | 155,878 | 14,457,814 | 4,505,213 | 2.73 | 31% |
| 2015 | 5,732,339 | 225,073 | 6,714,112 | 467,659 | 13,139,183 | 4,045,652 | 1,234,486 | 370,507 | 306,497 | 168,573 | 14,680,166 | 4,584,732 | 2.73 | 31% |
| 2016 | 5,818,821 | 229,219 | 6,752,219 | 493,767 | 13,294,026 | 4,092,562 | 1,192,171 | 357,705 | 317,769 | 174,773 | 14,803,966 | 4,625,040 | 2.73 | 31% |
| 2017 | 5,889,689 | 220,653 | 6,802,982 | 511,324 | 13,424,648 | 4,112,628 | 1,291,255 | 387,395 | 310,743 | 170,908 | 15,026,646 | 4,670,931 | 2.73 | 31% |
| 2018 | 6,845,220 | 247,220 | 7,472,331 | 810,146 | 15,374,917 | 4,687,158 | 1,368,707 | 410,613 | 310,743 | 170,908 | 17,054,367 | 5,268,679 | 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 | |
| 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 |
| 2018 | 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 | 2018 | | | 2009 | | |
|--------------------------------------|----------------------------------|---------------------------------------|------|--|---------------------------------------|------|--|
| | | Taxable Assessed Value ⁽¹⁾ | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value ⁽¹⁾ | Rank | Percentage of Total Taxable Assessed Value |
| SCRIPPS Networks, Inc | Multi media broadcasting company | \$ 38,637 | 1 | 0.83% | 15,827 | 6 | 0.45% |
| Simon Property Group/West Town Mall | Retail | 33,709 | 2 | 0.72% | \$ 25,103 | 2 | 0.72% |
| Hart TC I-II LLC | Property Managemet | 33,065 | 3 | 0.71% | | | |
| Wal-Mart Corporation | Retail | 28,850 | 4 | 0.62% | 14,932 | 7 | 0.43% |
| Metro Knoxville HMA | Medical Services | 28,234 | 5 | 0.60% | | | |
| Fort Sanders Regional Medical Center | Medical Services | 24,490 | 6 | 0.52% | | | |
| Pilot Corp. | Oil | 22,497 | 7 | 0.48% | | | |
| Comcast Cablevision | media | 20,101 | 8 | 0.43% | | | |
| Knoxville Hotel Associates LLC | Hotel Associates | 16,625 | 9 | 0.36% | | | |
| Tennessee Holding LLC | property management and leasing | 15,153 | 10 | 0.32% | | | |
| Bellsouth Telecommunications | telecommunications | | | | 52,454 | 1 | 1.50% |
| East Towne Mall | retail center | | | | 22,678 | 4 | 0.65% |
| AT&T Telecommunications | telecommunications | | | | 20,671 | 5 | 0.59% |
| Parkside Dr LLC | Property Management | | | | 25,045 | 3 | 0.71% |
| Behringer Harvard | Property Management | | | | 14,277 | 8 | 0.41% |
| SJW Land Company | Property Management | | | | 13,728 | 9 | 0.39% |
| Sprint United Management | Communications | | | | 11,619 | 10 | 0.33% |
| | | <u>\$ 261,361</u> | | <u>5.59%</u> | <u>\$ 216,334</u> | | <u>6.18%</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 |
| 2009 | 101,436 | 96,548 | 95.18% | 4,366 | 100,914 | 99.49% |
| 2010 | 102,836 | 96,254 | 93.60% | 6,053 | 102,307 | 99.49% |
| 2011 | 103,350 | 97,167 | 94.02% | 5,596 | 102,763 | 99.43% |
| 2012 | 104,330 | 99,086 | 94.97% | 4,538 | 103,624 | 99.32% |
| 2013 | 105,918 | 102,045 | 96.34% | 2,917 | 104,962 | 99.10% |
| 2014 | 107,481 | 102,862 | 95.70% | 3,331 | 106,193 | 98.80% |
| 2015 | 124,620 | 120,215 | 96.47% | 2,134 | 122,349 | 98.18% |
| 2016 | 125,854 | 120,707 | 95.91% | 3,256 | 123,963 | 98.50% |
| 2017 | 128,051 | 121,450 | 94.85% | 3,605 | 125,055 | 97.66% |
| 2018 | 130,264 | 123,792 | 95.03% | - | 123,792 | 95.03% |

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 | Total General Obligation Debt | HUD | | Debt Participation Agreement |
| | | Premiums (Discounts) | | Section 108 Note | Capital Lease | |
| 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 | - | - |
| 2018 | 64,299 | 4,422 | 68,721 | 2,900 | - | - |

Business Type Activities

| Fiscal Year | General Obligation Bonds | | | Other Business Type Activities Debt | | Total Primary Government ⁽¹⁾ | % of Personal Income ⁽²⁾ | Per Capita ⁽²⁾ |
|-------------|--------------------------|----------------------|-------------------------------|-------------------------------------|---------------|---|-------------------------------------|---------------------------|
| | Principal Outstanding | Unamortized | Total General Obligation Debt | Golf Course | | | | |
| | | Premiums (Discounts) | | Equipment Note | Capital Lease | | | |
| 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 |
| 2018 | 100,190 | 939 | 101,129 | - | - | 172,750 | 3.73% | 922.09 |

Note:

(1) Total Outstanding Debt is not reduced by available debt service reserves.

(2) Personal Income and Population estimated as reliable data is not available.

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

| Fiscal Year | General Obligation Bonds | Less: Amounts Available in | | Total | Percentage of Estimated Taxable Value of Property | Per Capita |
|----------------|-----------------------------|----------------------------------|--|---------|---|------------|
| | | Debt Service Fund | | | | |
| 2009 | 212,589 | 38,134 | | 174,455 | 4.83% | 975.70 |
| 2010 | 211,444 | 38,644 | | 172,800 | 4.12% | 966.04 |
| 2011 | 202,475 | 42,532 | | 159,943 | 3.83% | 894.17 |
| 2012 | 194,452 | 45,811 | | 148,641 | 3.50% | 822.31 |
| 2013 | 176,201 | 46,833 | | 129,368 | 3.00% | 715.69 |
| 2014 | 166,049 | 48,856 | | 117,193 | 2.60% | 639.46 |
| 2015 | 180,795 | 50,252 | | 130,543 | 2.84% | 712.30 |
| 2016 | 170,120 | 51,242 | | 118,878 | 2.54% | 641.57 |
| 2017 | 159,965 | 50,707 | | 109,258 | 2.08% | 586.65 |
| 2018 | 164,490 | 50,772 | | 113,718 | 2.16% | 606.99 |

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> |
|--------------------|----------------------|--|---|---------------------|--------------------------------------|
| 2009 | 751,042 | 640,292 | 110,750 | 44,117 | 2.51 |
| 2010 | 672,927 | 573,375 | 99,552 | 45,681 | 2.18 |
| 2011 | 724,318 | 620,009 | 104,309 | 47,009 | 2.22 |
| 2012 | 695,034 | 589,320 | 105,714 | 54,859 | 1.93 |
| 2013 | 744,281 | 628,079 | 116,202 | 55,257 | 2.10 |
| 2014 | 752,561 | 629,663 | 122,898 | 61,316 | 2.00 |
| 2015 | 764,621 | 630,919 | 133,702 | 62,541 | 2.14 |
| 2016 | 734,750 | 594,027 | 140,723 | 67,518 | 2.08 |
| 2017 | 771,636 | 624,645 | 146,991 | 71,785 | 2.05 |
| 2018 | 819,607 | 635,579 | 184,028 | 75,488 | 2.44 |

**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> |
|--------------------|--|--|---|---------------------|--------------------------------------|
| 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 |
| 2018 | 35,416 | 21,709 | 13,707 | 6,907 | 1.98 |

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2018
(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 | \$ 67,199 | 100.00% | \$ 67,199 |
| Overlapping Debt: | | | |
| Knox County | 408,630 | 44.45% | 181,636 |
| Knox County Schools | 263,917 | 44.45% | 117,311 |
| Total Overlapping Debt | 672,547 | | 298,947 |
| Total Direct and Overlapping Debt | \$ 739,746 | | \$ 366,146 |

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

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 | | |
| 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 | 187,347 | 38,507,100 | 43,903 | 33.0 | 88.2% | 55.6% | 30.5% | 11.6% | 59,364 | 2.6% |
| 2018(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 | 2018 | | | 2009 | | |
|--|-------------------------|------|-------------------------------------|---------------------|------|-------------------------------------|
| | Number of Employees (1) | Rank | Percentage of Total Area Employment | Number of Employees | Rank | Percentage of Total Area Employment |
| U.S. Department of Energy (Oak Ridge/Y-12) | 11,986 | 1 | 2.86% | 8,000 | 3 | 3.58% |
| Covenant Health | 10,304 | 2 | 2.46% | | | |
| Knox County Schools | 7,241 | 3 | 1.73% | | | |
| The University of Tennessee, Knoxville | 6,609 | 4 | 1.58% | 9,317 | 1 | 4.17% |
| Wal-Mart Stores, Inc. | 5,951 | 5 | 1.42% | | | |
| University of Tennessee Medical Center | 4,941 | 6 | 1.18% | 3,225 | 4 | 1.44% |
| Oak Ridge National Laboratory | 4,327 | 7 | 1.03% | | | |
| Tennova Healthcare | 3,997 | 8 | 0.95% | | | |
| The Dollywood Company | 3,000 | 9 | 0.72% | | | |
| DENSO Manufacturing Tennessee, Inc. | 3,800 | 10 | 0.91% | 2,100 | 9 | 0.94% |
| Mercy Health Partners | | | | 8,141 | 2 | 3.65% |
| St. Mary's Health System (acquired by Tennova) | | | | | | |
| Knox County Government | | | | 2,500 | 6 | 1.12% |
| City of Knoxville Government | | | | 2,820 | 5 | 1.26% |
| Clayton Homes | | | | 2,500 | 7 | 1.12% |
| Sea Ray Boats, Inc. | | | | 1,450 | 10 | 65.00% |
| Aluminum Company of America (ALCOA) | | | | 2,300 | 8 | 1.03% |
| Sea Ray Boats, Inc. | | | | | | |
| Total Knoxville MSA Laborforce (2) | 419,522 | | | 319,558 | | |

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

(2) Source: Federal Reserve Bank of St. Louis, Civilian Labor Force in Knoxville, TN (**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, | | | | | | | | | |
|----------------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Administration | 26.0 | 27.5 | 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 | 87.5 | 96.0 | 87.5 | 87.5 | 88.5 | 89.0 | 91.5 | 92.5 | 92.5 | 92.0 |
| Fleet Services | 56.0 | 56.0 | 55.0 | 55.0 | 54.0 | 54.0 | 54.0 | 54.0 | 54.0 | 54.0 |
| Inspections | 31.0 | 31.0 | 29.0 | 29.0 | 29.0 | 29.0 | 29.0 | 29.0 | 40.0 | 40.0 |
| Public Services | 306.0 | 305.0 | 305.0 | 305.0 | 305.0 | 305.0 | 305.0 | 305.0 | 292.0 | 292.0 |
| Community Development | 25.5 | 25.5 | 25.5 | 23.5 | 23.5 | 23.5 | 21.5 | 21.5 | 21.5 | 20.0 |
| Recreation | 58.0 | 57.0 | 54.0 | 54.0 | 53.0 | 52.5 | 51.5 | 52.0 | 51.0 | 51.0 |
| Law | 13.0 | 14.0 | 13.0 | 13.0 | 12.5 | 19.0 | 21.0 | 21.0 | 21.0 | 21.0 |
| Police | | | | | | | | | | |
| Sworn | 416.0 | 416.0 | 416.0 | 416.0 | 416.0 | 416.0 | 416.0 | 416.0 | 416.0 | 416.0 |
| Civilian | 110.0 | 109.0 | 109.0 | 109.0 | 109.0 | 109.0 | 109.0 | 109.0 | 109.0 | 109.0 |
| Emergency Management | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Subtotal | <u>529.0</u> | <u>528.0</u> | <u>528.0</u> | <u>528.0</u> | <u>528.0</u> | <u>528.0</u> | <u>528.0</u> | <u>528.0</u> | <u>528.0</u> | <u>528.0</u> |
| Fire | | | | | | | | | | |
| Sworn | 328.0 | 327.0 | 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>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> | <u>337.0</u> |
| Legislative | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 8.0 |
| City Court | 13.5 | 13.5 | 13.5 | 13.5 | 14.5 | 14.5 | 14.5 | 14.5 | 14.5 | 14.0 |
| Civil Service | 13.0 | 12.0 | 12.0 | 12.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Public Assembly Facilities | 35.5 | 35.5 | 36.0 | 36.0 | 36.0 | 36.0 | 34.5 | 34.5 | - | - |
| GRAND TOTAL | <u><u>1,622.0</u></u> | <u><u>1,628.0</u></u> | <u><u>1,610.5</u></u> | <u><u>1,608.0</u></u> | <u><u>1,612.5</u></u> | <u><u>1,616.0</u></u> | <u><u>1,615.5</u></u> | <u><u>1,618.0</u></u> | <u><u>1,582.5</u></u> | <u><u>1,583.5</u></u> |

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

| Department | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Public Safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Arrests | 24,008 | 16,702 | 16,648 | 15,898 | 14,376 | 11,484 | 11,900 | 12,453 | 10,604 | 10,691 |
| Citations | 131,619 | 156,053 | 135,680 | 107,501 | 105,635 | 96,147 | 88,731 | 68,374 | 49,585 | 45,462 |
| Fire | | | | | | | | | | |
| Fire Inspections | 4,051 | 3,481 | 3,692 | 3,518 | 4,547 | 4,144 | 3,968 | 3,162 | 3,366 | 3,438 |
| Alarms Attended | 21,131 | 20,214 | 20,463 | 20,688 | 21,227 | 21,644 | 20,788 | 22,346 | 21,647 | 14,107 |
| First Responder Calls | 11,349 | 10,032 | 10,442 | 10,954 | 10,816 | 10,546 | 9,214 | 10,307 | 9,573 | 10,623 |
| Engineering | | | | | | | | | | |
| Miles of Streets Resurfaced | 44 | 38 | 42 | 48 | 55 | 46 | 43 | 40 | 59 | 50 |
| Parks & Recreation | | | | | | | | | | |
| Recreation Center Participants | 537,486 | 596,748 | 620,469 | 551,101 | 527,224 | 495,231 | 472,613 | 480,993 | 496,683 | 440,977 |
| Service | | | | | | | | | | |
| Pothole Repairs (by tons of asphalt) | 383 | 496 | 561 | 398 | 430 | 357 | 204 | 197 | 480 | 945 |

Sources: Various city departments

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

| Department | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Public Safety | | | | | | | | | | |
| Safety Building - Police | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Fire Halls | 18 | 18 | 18 | 18 | 19 | 19 | 19 | 19 | 19 | 19 |
| Operations & Engineering | | | | | | | | | | |
| Street Lights | 29,801 | 29,649 | 29,569 | 29,711 | 30,145 | 30,211 | 30,232 | 30,250 | 30,299 | 30,314 |
| Miles of Streets Maintained | 1,274 | 1,277 | 1,277 | 1,277 | 1,278 | 1,178 | 1,179 | 1,179 | 1,175 | 1,175 |
| Parks & Recreation | | | | | | | | | | |
| Recreation Centers | 13 | 13 | 12 | 12 | 12 | 12 | 12 | 14 | 16 | 16 |
| Parks | 81 | 80 | 81 | 81 | 82 | 82 | 81 | 81 | 93 | 94 |
| Park Acreage | 1,858 | 1,963 | 1,963 | 1,963 | 2,000 | 2,000 | 2,828 | 2,828 | 3,102 | 3,102 |
| Swimming Pools | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Tennis Courts | 68 | 68 | 68 | 68 | 67 | 67 | 47 | 47 | 45 | 45 |
| Miles of Greenway | 43 | 44 | 66 | 66 | 85 | 86 | 86 | 86 | 113 | 113 |
| Golf Courses | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Pickleball Courts | - | - | - | - | - | - | - | 10 | 10 | 10 |
| Metro Parking | | | | | | | | | | |
| Parking Garages | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 6 |
| Parking Lots | 5 | 5 | 7 | 8 | 8 | 8 | 8 | 8 | 9 | 10 |
| Total Spaces | 3,827 | 3,827 | 4,296 | 4,312 | 4,289 | 4,529 | 4,529 | 4,688 | 4,673 | 5,515 |
| Fleet | | | | | | | | | | |
| Garages | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Number of Vehicles Maintained | 1,496 | 1,527 | 1,630 | 1,515 | 1,532 | 1,538 | 1,552 | 1,562 | 1,510 | 1,524 |

Sources: Various City Departments

COMPLIANCE SECTION

CITY OF KNOXVILLE, TENNESSEE
SINGLE AUDIT REPORT AND FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018

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CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2018

| Grantor Agency | Program Title | CFDA # | Grant # | Receivable (Deferral) 6/30/2017 | Cash Receipts | Expenditures | Receivable (Deferral) 6/30/2018 | Amount Passed Through to Subrecipients |
|---|---|--------|-----------------|---------------------------------|------------------|------------------|---------------------------------|--|
| U.S. Department of Housing and Urban Development | | | | | | | | |
| FEDERAL ASSISTANCE | | | | | | | | |
| <u>Direct assistance</u> | | | | | | | | |
| | Community Development Block Grant | 14.218 | B-14-MC-47-0005 | \$ - | \$ 206,937 | \$ 206,937 | \$ - | \$ - |
| | Community Development Block Grant | 14.218 | B-15-MC-47-0005 | - | 150,304 | 150,304 | - | - |
| | Community Development Block Grant | 14.218 | B-16-MC-47-0005 | 272,749 | 579,462 | 306,713 | - | 866,000 |
| | Community Development Block Grant | 14.218 | B-17-MC-47-0005 | - | 998,843 | 1,240,407 | 241,564 | - |
| | Community Development Block Grant/Section 108 | 14.218 | B-15-MC-47-0005 | (232,117) | 43,781 | 288,328 | 12,430 | - |
| | | 14.218 | | <u>40,632</u> | <u>1,979,327</u> | <u>2,192,689</u> | <u>253,994</u> | <u>866,000</u> |
| | Home Grant 2013 | 14.239 | M13-MC-47-0201 | - | 177,222 | 177,222 | - | - |
| | Home Grant 2014 | 14.239 | M14-MC-47-0201 | - | 270,321 | 270,321 | - | - |
| | Home Grant 2015 | 14.239 | M15-MC-47-0201 | - | 70,539 | 70,539 | - | - |
| | Home Grant 2016 | 14.239 | M16-MC-47-0201 | (493,767) | 132,107 | 625,874 | - | - |
| | Home Grant 2017 | 14.239 | M17-MC-47-0201 | - | 827,147 | 1,174,335 | (709,712) | - |
| | | 14.239 | | <u>(493,767)</u> | <u>1,477,336</u> | <u>1,261,391</u> | <u>(709,712)</u> | <u>-</u> |
| <u>Passed through from</u> | | | | | | | | |
| Tennessee Housing Development Agency | Emergency Shelter (THDA) | 14.231 | ESG-16-38 | 28,036 | 28,036 | - | - | - |
| | Emergency Shelter (THDA) | 14.231 | ESG-17-12 | - | 87,739 | 189,506 | 101,767 | 185,000 |
| | | 14.231 | | <u>28,036</u> | <u>115,775</u> | <u>189,506</u> | <u>101,767</u> | <u>185,000</u> |
| | Lead Hazard Control Grant | 14.900 | TNLHB0564-13 | 232,379 | 232,379 | - | - | - |
| | Healthy Homes Grant | 14.900 | TNLHB0564-13(B) | 37,408 | 37,408 | - | - | - |
| | | 14.900 | | <u>269,787</u> | <u>269,787</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total U.S. Department of Housing and Urban Development | | | | <u>(155,312)</u> | <u>3,842,225</u> | <u>3,643,586</u> | <u>(353,951)</u> | <u>1,051,000</u> |
| U.S. Department of Interior | | | | | | | | |
| <u>Passed through from</u> | | | | | | | | |
| State of Tennessee, Wildlife Resources Agency | TWRA grant for new Transient Facility for Boats | 15.616 | 328.01-00829 | - | - | 224,800 | 224,800 | - |
| Total U.S. Department of Interior | | | | <u>-</u> | <u>-</u> | <u>224,800</u> | <u>224,800</u> | <u>-</u> |
| U.S. Department of Justice | | | | | | | | |
| <u>Direct assistance</u> | | | | | | | | |
| | Knoxville's Enhanced Training & Svcs to End Abuse | 16.528 | 2015-EW-AX-K009 | 27,401 | 60,475 | 94,184 | 61,110 | 89,853 |
| Department of Justice | Equitable Sharing Program/MLARS | 16.922 | | (669,111) | 81,149 | 104,792 | (645,468) | - |
| <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 | 362,638 | 441,470 | 78,832 | - | - |
| | TN ICAC Forensic Hiring Program for the Wounded Veteran | 16.543 | 2015-MC-FX-K050 | 14,563 | 46,436 | 46,783 | 14,910 | - |
| | Tennessee 2016 ICAC Federal Grant | 16.543 | 2016-MC-FX-K052 | 41,206 | 41,183 | 333,706 | 333,729 | - |
| | | 16.543 | | <u>418,407</u> | <u>529,089</u> | <u>459,321</u> | <u>348,639</u> | <u>-</u> |
| | 2016-2018 Knoxville Victim's Services (VOCA) | 16.575 | Contract 26743 | 38,151 | 94,965 | 82,049 | 25,235 | - |
| | VOCA - Knoxville Family Justice Center Navigator | 16.575 | 2015-VA-GX-0018 | 9,913 | 9,913 | - | - | - |
| | | 16.575 | | <u>48,064</u> | <u>104,878</u> | <u>82,049</u> | <u>25,235</u> | <u>-</u> |
| | 2013 Byrne/Justice Assistance Grant Program | 16.579 | 2013-DJ-BX-0335 | 1,142 | 43,187 | 42,045 | - | - |
| | 2014 Byrne/Justice Assistance Grant Program | 16.579 | 2014-DJ-BX-0564 | 23,753 | 79,884 | 56,131 | - | - |
| | | 16.579 | | <u>24,895</u> | <u>123,071</u> | <u>98,176</u> | <u>-</u> | <u>-</u> |
| | JAG Family Justice Center TA Provider | 16.738 | Edison 22561 | 50,703 | 16,511 | - | 34,192 | - |
| | Byrne Justice Assistance Grant - Knoxville TCCRP | 16.738 | Contract 27197 | 73,146 | 163,871 | 148,970 | 58,245 | 15,009 |
| | 2015 Knoxville Knox County JAG Grant | 16.738 | 2015-DJ-BX-0591 | - | - | 39,030 | 39,030 | - |
| | 2016 Knoxville Knox County JAG Grant | 16.738 | 2016-DJ-BX-0707 | 14,638 | 81,292 | 77,551 | 10,897 | - |
| | 2017 Knoxville Knox County JAG Grant | 16.738 | 31774 | - | 15,932 | 56,774 | 40,842 | 8,000 |
| | | 16.738 | | <u>138,487</u> | <u>277,606</u> | <u>322,325</u> | <u>183,206</u> | <u>23,009</u> |
| Total U.S. Department of Justice | | | | <u>(11,857)</u> | <u>1,176,268</u> | <u>1,160,847</u> | <u>(27,278)</u> | <u>112,862</u> |

See independent auditor's report.

**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2018**

| Grantor Agency | Program Title | CFDA # | Grant # | Receivable (Deferral) 06/30/17 | Cash Receipts | Expenditures | Receivable (Deferral) 06/30/18 | 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 | 138 | 4,107 | 8,280 | 4,311 | - |
| | 2012 STP Grant | 20.507 | TN-95-X048-00 | 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 | - | - | - |
| | 2015 Formula Grant | 20.507 | TN-2017-012-00 | 12,940 | 60,248 | 47,452 | 144 | - |
| | 2017 Formula Grant | 20.507 | TN-90-X2017; TN-2018-006 | 4,428,287 | 4,871,413 | 443,126 | - | - |
| | 2018 Formula Grant | 20.507 | TN-90-X2018 | - | - | 4,716,721 | 4,716,721 | - |
| | CMAQ PM 2.5 Grant to purchase buses | 20.507 | TN-2017-033.01-00 | - | - | 2,143,328 | 2,143,328 | - |
| | | <u>20.507</u> | | <u>8,033,888</u> | <u>8,528,291</u> | <u>7,358,907</u> | <u>6,864,504</u> | <u>-</u> |
| | 2013 & 2014 5339 (MAP 21) Grant | 20.526 | TN-34-0005-00 | 177,044 | 547,499 | 383,095 | 12,640 | - |
| | 2015 5339 (MAP 21) Grant | 20.526 | TN-34-0014-00 | - | 501,833 | 514,645 | 12,812 | - |
| | | <u>20.526</u> | | <u>177,044</u> | <u>1,049,332</u> | <u>897,740</u> | <u>25,452</u> | <u>-</u> |
| Total Federal Transit Cluster | | | | <u>8,210,932</u> | <u>9,577,623</u> | <u>8,256,647</u> | <u>6,889,956</u> | <u>-</u> |
| <u>Direct assistance</u> | | | | | | | | |
| Public Transportation Research | 5312 Rides to Wellness Grant in Knoxville | 20.514 | TN-2017-017-00 | - | 4,880 | 57,978 | 53,098 | - |
| <u>Passed through from</u> | | | | | | | | |
| Tennessee Department of Transportation | Jackson Avenue Ramps | 20.205 | Contract 050113; BRZE-9109(103); Pi | 228,633 | 220,487 | 217,513 | 225,659 | - |
| Tennessee Department of Transportation | Cumberland Avenue Streetscapes & Pedestrian Improvements | 20.205 | STP-M-9109(115); Pin 110692.00 | 1,656,189 | 2,313,118 | 1,424,628 | 767,699 | - |
| Tennessee Department of Transportation | Upper Second Creek Greenway | 20.205 | State 060018; Pin 107380.00 | 5,809 | 802,732 | 1,115,933 | 319,010 | - |
| Tennessee Department of Transportation | Access Improvements to I-275 Business Park | 20.205 | Contract 090268; Pin 110262.00 | 59,297 | 77,626 | 137,107 | 118,778 | - |
| Tennessee Department of Transportation | Holbrook Bridge over Fountain Road | 20.205 | BRZE-9109(122); Pin 107700.00 | 315,679 | 315,679 | - | - | - |
| Tennessee Department of Transportation | N. Central Street Streetscape Improvements | 20.205 | 47LPLM-F3-082; State 110195 | 1,492 | 727,751 | 1,578,729 | 852,470 | - |
| Tennessee Department of Transportation | Park City Sidewalk Network Completion | 20.205 | CM-9109(148); State 110045 | 98,654 | 48,072 | 316 | 50,898 | - |
| Tennessee Department of Transportation | Washington Pike and Millertown Pike Widening | 20.205 | STP-M-9109(64); State 070099 | 33,186 | 29,428 | 814 | 4,572 | - |
| Tennessee Department of Transportation | First Creek Greenway | 20.205 | STP-EN-9109(143) | 381,136 | 682,128 | 300,992 | - | - |
| Tennessee Department of Transportation | Blount-Sevier Corridor Improvements/South Waterfront | 20.205 | STP-EN-9109(173) | - | 4,769 | 4,769 | - | - |
| Tennessee Department of Transportation | Advanced Traffic Management System - Traffic Control Upgrade | 20.205 | STP-M-9109(165); State 140161; PIN | 72,882 | 94,831 | 31,765 | 9,816 | - |
| Tennessee Department of Transportation | CMAQ funding for their Chapman Highway Portion of the ATMS | 20.205 | CM-9109(1171); State 140161 | 19,000 | 28,500 | 17,100 | 7,600 | - |
| Tennessee Department of Transportation | Widening of Pleasant Ridge Road, from City Limits to | 20.205 | STP-EN-9109(53) | 18,295 | 76,488 | 168,622 | 110,429 | - |
| Tennessee Department of Transportation | Liberty Street Multimodal Improvements | 20.205 | TAP-STP-M-9115(171); State 150169 | 67,533 | 117,916 | 103,550 | 53,167 | - |
| Tennessee Department of Transportation | First Creek Greenway-Broadway Streetscapes | 20.205 | TAP/STP-M-9115(179); State 170054; | - | - | 7,016 | 7,016 | - |
| | | <u>20.205</u> | | <u>2,957,785</u> | <u>5,539,525</u> | <u>5,108,854</u> | <u>2,527,114</u> | <u>-</u> |
| Highway Safety Cluster | 17/18 GHSO - Knoxville's FY2017 Pedestrian Safety Grant | 20.600 | Z-17-THS042/Edison 51899 | - | 5,860 | 5,860 | - | - |
| | FY17 GHSO Nighttime Seatbelt Demo Project | 20.616 | Z-17-THS386/Edison 51817 | 1,852 | 1,852 | - | - | - |
| | Knoxville's FY18 GHSO/DUI Enforcement Program | 20.616 | Z-18-THS167/Edison 56133(AL) | - | 16,586 | 24,983 | 8,397 | - |
| | | <u>20.616</u> | | <u>1,852</u> | <u>18,438</u> | <u>24,983</u> | <u>8,397</u> | <u>-</u> |
| Total Highway Safety Cluster | | | | <u>1,852</u> | <u>24,298</u> | <u>30,843</u> | <u>8,397</u> | <u>-</u> |
| Governor's Highway Safety | Knoxville's FY17 DUI Enforcement (GHSO) | 20.607 | Z-16-THS207/Edison 51901 | 3,923 | 34,074 | 30,151 | - | - |
| Total U.S. Department of Transportation | | | | <u>11,174,492</u> | <u>15,180,400</u> | <u>13,484,473</u> | <u>9,478,565</u> | <u>-</u> |
| U.S. Department of Treasury | | | | | | | | |
| <u>Direct assistance</u> | | | | | | | | |
| | Equitable Sharing/TEOAF | 21.016 | | (489,868) | 25,044 | 172,111 | (342,801) | - |
| Total U.S. Department of Treasury | | | | <u>(489,868)</u> | <u>25,044</u> | <u>172,111</u> | <u>(342,801)</u> | <u>-</u> |
| U.S. Department of Environmental Protection | | | | | | | | |
| <u>Direct assistance</u> | | | | | | | | |
| | EPA/Brownfield Cleanup Cooperative Grant | 66.818 | BF-00D47816-0 | 10,161 | 87,246 | 135,514 | 58,429 | - |
| Total U.S. Department of Environmental Protection | | | | <u>10,161</u> | <u>87,246</u> | <u>135,514</u> | <u>58,429</u> | <u>-</u> |

See independent auditor's report.

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2018

| Grantor Agency | Program Title | CFDA # | Grant # | Receivable (Deferral) 06/30/17 | Cash Receipts | Expenditures | Receivable (Deferral) 06/30/18 | Amount Passed Through to Subrecipients |
|--|---|--------|--------------------------|--------------------------------------|----------------------|----------------------|--------------------------------------|--|
| U.S. Office of National Drug Control Policy | | | | | | | | |
| <u>Passed through from</u> | | | | | | | | |
| Financial Commission for Appalachia HIDTA | High Intensity Drug Trafficking Areas (HIDTA) Program | 95.001 | G17AP0001A | - | 35,822 | 35,822 | - | - |
| Financial Commission for Appalachia HIDTA | High Intensity Drug Trafficking Areas (HIDTA) Program | 95.001 | G18AP0001A | - | 52,842 | 63,892 | 11,050 | - |
| | | 95.001 | | - | 88,664 | 99,714 | 11,050 | - |
| Total U.S. Office of National Drug Control Policy | | | | - | 88,664 | 99,714 | 11,050 | - |
| U.S. Department of Homeland Security | | | | | | | | |
| <u>Passed through from</u> | | | | | | | | |
| Tennessee Emergency Management Agency | Hazardous Mitigation Grant Program/FEMA | 97.039 | HMGP-4211-0012 | - | - | 57,313 | 57,313 | - |
| Tennessee Emergency Management Agency | 2017 Emergency Management Performance Grant | 97.042 | 34101-08918 | - | 150,000 | 150,000 | - | - |
| Passed through Knox County | FY2015 Homeland Security Grant Program | 97.067 | 34101-26216 | 3,117 | 7,553 | 4,436 | - | - |
| Passed through Knox County | FY2016 Homeland Security Grant Program | 97.067 | 34101-11217/523382-23194 | - | 7,272 | 10,272 | 3,000 | - |
| | | 97.067 | | 3,117 | 14,825 | 14,708 | 3,000 | - |
| Total U.S. Department of Homeland Security | | | | 3,117 | 164,825 | 222,021 | 60,313 | - |
| Total Federal Assistance | | | | \$ 10,530,733 | \$ 20,564,672 | \$ 19,143,066 | \$ 9,109,127 | \$ 1,163,862 |

See independent auditor's report.

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2018

| Grantor Agency | Program Title | CFDA # | Grant # | Receivable (Deferral) 6/30/2017 | Cash Receipts | Expenditures | Receivable (Deferral) 6/30/2018 |
|---|--|--------|--------------------------------------|---------------------------------------|----------------------|----------------------|---------------------------------------|
| STATE ASSISTANCE | | | | | | | |
| Tennessee Emergency Management Agency | TEMA Portion of Hazardous Mitigation Grant Program | | TEMA ID#0402 | \$ - | \$ - | \$ 9,552 | \$ 9,552 |
| Tennessee Department of Environment & Conservation | FY2016-2017 Household Hazardous Waste | | 32701-01717/Edison 49148 | 117,697 | 117,697 | - | - |
| Tennessee Department of Environment & Conservation | FY2017-2018 Household Hazardous Waste | | 32701-03070/Edison 54036 | - | - | 330,636 | 330,636 |
| Tennessee Department of Environment & Conservation | TDEC Used Oil Grant for FY17/18 | | 32701-02958/Edison 52638 | - | 26,459 | 26,459 | - |
| Tennessee Department of Agriculture - Forestry Division | TAEP FY18 Tree Planting Program | | 32510-13618/Edison | - | 13,784 | 13,784 | - |
| Criminal Justice Program | 2017 State ICAC Grant/East TN State ICAC | | 31701-06233; Edison 49531 | 70,455 | 221,358 | 224,624 | 73,721 |
| Tennessee Department of Transportation | Kingston Pike Multimodal Transportation Grant | | 47LPM-S3-120; State 150072; PIN 1211 | 125,685 | 47,470 | 39,516 | 117,731 |
| Tennessee Department of Transportation | Multimodal Access Grant for Merchant Drive & Clinton Highway | | 47LPM-S3-095; State 140155 | 327 | - | 319,979 | 320,306 |
| Tennessee Department of Transportation | 2017-2018 State Operating Grant | | 47-UROP-S3-014/Z-18-UROP07-00 | - | 3,208,100 | 3,208,100 | - |
| Tennessee Department of Transportation | FY16 Student Internship Program | | GG-17-53593-00/Edison 53593 | 732 | 11,138 | 10,406 | - |
| Tennessee Department of Transportation | FTA-TN-90-X381 | | 475307-S3-021 | 8,381 | 8,381 | - | - |
| Tennessee Department of Transportation | FTA-TN-34-0005-00 | | 475339-S3-002 | 60,599 | 60,233 | 47,887 | 48,253 |
| Tennessee Department of Transportation | FTA-TN-34-0014-00 | | 475339- | - | - | 64,331 | 64,331 |
| Tennessee Department of Transportation | FTA-TN-90-X3 | | GG-17-54167-00/Edison 54167 | 668,418 | 666,799 | 5,932 | 7,551 |
| Tennessee Department of Transportation | FTA-TN-90- | | GG-17-54941-00/Edison 54941 | 643,918 | 643,918 | - | - |
| Tennessee Department of Transportation | FTA-TN-90- State Portion of FY17 Formula Grant | | Contract Pending | 553,537 | - | 55,391 | 608,928 |
| Tennessee Department of Transportation | FTA-TN-90- State Portion of FY18 Formula Grant | | Contract Pending | - | - | 589,591 | 589,591 |
| Tennessee Department of Transportation | CMAQ PM 2.5 Grant to purchase buses | | GG-18-56839 | - | - | 267,916 | 267,916 |
| | FY18 Improve Act Capital Assistance Grant | | | - | - | 14,638 | 14,638 |
| Total State Assistance | | | | \$ 2,249,749 | \$ 5,025,337 | \$ 5,228,742 | \$ 2,453,154 |
| Total Federal and State Assistance | | | | \$ 12,780,482 | \$ 25,590,009 | \$ 24,371,808 | \$ 11,562,281 |

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, 2018**

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, 2018. 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, 2018.

These 2018 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 18 Loan Funding</u> | <u>Outstanding Balance</u> |
|--------------------------------------|------------------------|-------------------------------|--------------------------------|
| Community Development Block Grants | 14.218 | \$ - | \$ 4,821,029 |
| Empowerment Zone | 14.244 | - | 558,951 |
| HOME Investment Partnerships Program | 14.239 | - | <u>10,035,716</u> |
| Total Loans | | <u>\$ -</u> | <u>\$15,415,696</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, 2018, 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 27, 2018. 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 2018-001 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 27, 2018



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, 2018. 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 \$18,928,265 in federal awards which are not included in the schedule of expenditures of federal and state awards for the year ended June 30, 2018. 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 program for the year ended June 30, 2018.



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 27, 2018

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

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, 2018 are:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--------------------------------|
| 20.507 & 20.526 | Federal Transit Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2018**

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

2018-001 Fraudulent Charge on P-Card

Condition, Criteria, Cause, Questioned Costs and Effect

During December 2017, it was discovered by a member of the City's Police Department that a fraudulent charge was posted to their p-card in the amount of \$2,843.20.

Recommendations

None

Management's Response and Planned Corrective Action

This matter was investigated by the Knoxville police, the responsible party for the corrective action, with no resolution. The City's bank posted a credit to the City's account in the amount of the original charge. The City considers this matter to be resolved and closed as of year end with no further corrective action necessary.

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.