COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF KNOXVILLE, TENNESSEE

FOR THE FISCAL YEAR ENDED
JUNE 30, 2005

PREPARED BY:
FINANCE DEPARTMENT

CHRISTOPHER P. KINNEY
DIRECTOR

JAMES E. YORK
FINANCE DEPUTY DIRECTOR

CITY OF KNOXVILLE, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2005

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INTRODUCTORY SECTION

CITY OF KNOXVILLE

BILL HASLAM, MAYOR

Finance & Accountability

Christopher P. Kinney
Senior Director

December 31, 2005

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, 2005. This report discusses the financial results for the year, provides information on budgetary performance, and includes information on the financial condition of the City. I am also pleased to again report that the financial condition of the City remains strong.

The report has been prepared in conformance with the principles and standards for financial reporting as set forth by the Governmental Accounting Standards Board (GASB) and complies with the requirements of GASB Statement Number 34. The report also meets the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133.

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

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

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

Profile of the Government

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

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This report covers all funds of the City of Knoxville. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; the construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. In addition, the City of Knoxville has financial accountability over the Knoxville Utilities Board (KUB), the Metropolitan Knoxville Airport Authority (MKAA), Knoxville Area Transit (KAT) and the City Employees' Pension Fund. The financial statements of KUB, MKAA and KAT are included in the body of this report, noted as Component Units on the Government Wide Statements. The financial statements of the City Employees' Pension Fund are included in the body of this report, noted separately as the sole Fiduciary Component Unit.

Local economy

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

Year	Collections	% Growth
FY 00/01	$29,953	1.61%
FY 01/02	$28,819	-3.79%
FY 02/03	$29,031	0.74%
FY 03/04	$30,529	5.16%
FY 04/05	$31,785	4.11%

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

As noted above, the City experienced a 4.11% growth in local sales tax. This compares to an overall growth of 3.92% in Knox County as a whole. Overall growth in state sales taxes, which factors out rate differentials, shows the overall County growth at 2.93%. This compares to a statewide growth rate of 4.56%.

The presence of the University of Tennessee along with TVA lends stability to the area, making the local economy less cyclical than either the national or state economy. This contributes to a low unemployment rate, which averaged 4.5% (Knoxville MSA) and 4.2% (Knox County) in FY2005. This compares very favorably to the national unemployment rate of 5.7% and the state rate of 5.7% as well as the other major metropolitan areas of the state (Chattanooga – 4.8%, Memphis – 6.4%, and Nashville – 4.5%). Knox County had a labor force of 212,450 in 2004, and the economic development initiative *Jobs Now!* continues to work toward further increases. Job growth has been positive in the recent past and is forecast to continue in the near term, although some shifting among sectors is anticipated. Trade and service sectors are forecasted to grow at a strong rate, and the finance, real estate, communication, and transportation sectors are also expected to do well, while manufacturing is expected to decline.

Knoxville is at the intersection of two major interstate highways (I-40 and I-75) and near the terminus of a third interstate (I-81). Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is

within 500 miles of approximately one-half of the population of the United States. The County for many years has been known as one of the South's leading wholesale markets. Located within the County are 875 wholesale establishments, 1,887 retail establishments and 5,356 service establishments.

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

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

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

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

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

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

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

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

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

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

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

Relevant financial policies/controls

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

Budgetary controls

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

Debt administration

Total general obligation indebtedness of the City decreased by $13.8 million in fiscal year 2004/2005. The City issued $13.75 million in general obligation debt during the year, which was used to defease$13.395 million in old debt. Present value savings from this refunding are approximately$0.9 million. The City has no plans to issue additional debt in fiscal year 2005/2006.

The total amount of general obligation debt outstanding as of June 20, 2005 is $247.5 million. Of this amount, $153.7 million represents proprietary fund debt on the Convention Center and the Locust

Street Garage. In addition to the above debt, the City has responsibility for $1.34 million in debt relating to its portion of Animal Welfare Center, this debt being issued by Knox County.

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

General Obligation Debt	Amount (in thousands)		Ratio of Amount to Assessed Valuation 100%		Ratio of Amount to Estimated Actual Value		Debt per Capita	
	FY 04/05	FY 03/04	FY 04/05	FY 03/04	FY 04/05	FY 03/04	FY 04/05	FY 03/04
Net direct bonded debt	$217,996	$234,489	6.55%	7.98%	2.10%	2.50%	$1,253	$1,348
Overlapping debt of Knox County	$199,693	$177,989	6.00%	6.05%	1.93%	2.29%	$1,148	$1,023
Total	**$417,689**	**$412,478**	**12.55%**	**14.03%**	**4.03%**	**4.79%**	**$2,401**	**$2,371**

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

Debt Type	Fitch/ICBA		S & P		Moodys	
	FY 04/05	FY 03/04	FY 04/05	FY 03/04	FY 04/05	FY 03/04
General Obligation Bonds	AA+	AA+	AA	AA	Aa2	Aa2
Revenue Bonds:						
Electric (KUB)	N/A	N/A	AA	AA	Aa3	Aa3
Gas (KUB)	N/A	N/A	AA	AA	Aa3	Aa3
Water (KUB)	N/A	N/A	AA+	AA+	Aa3	Aa3
Waste Water (KUB)	N/A	N/A	AA	AA	Aa3	Aa3

Cash management

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

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

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

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

Risk management

The City of Knoxville's risk management program is responsible for the administration of the City's self-insured liability and worker's compensation programs. The risk management division is also responsible for the administration of the City's commercial insurance and OSHA programs. An increase in net assets of $1.995 million was reported for the Risk Management fund as of June 30, 2005, due mainly to a residual equity transfer from another fund, and supplemental funding coming from the City's General Fund. Total net assets in this fund equal $2.211 million as of June 30, 2005.

Other information

Independent Audit

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee selected Cherry, Bekaert & Holland, L.L.P., Certified Public Accountants, to perform the fiscal year 2005 audit.

MAJOR INITIATIVES

For the Year ended June 30, 2005:

Economic development has been the primary focus during the past year. The Market Square Redevelopment Plan has been the major capital project, resulting in the makeover of the square's public space and a facelift of the facades of its historic buildings. Capital funding was provided for downtown development, historic preservation, road improvements, numerous drainage projects, and parks and greenways,

For the Future:

The focus in FY 05/06 is continued economic development, and increased operational efficiency. Major projects include completing implementation of a new financial system,, improved training, and improvements designed to reduce energy costs. Capital projects scheduled for the year include the Market Square Development Phase 3, work on a new transit center, renovation of the World's Fair Park and surrounding areas, and the initial phase of the redevelopment of the South Knoxville waterfront area.. Funding is also provided to increase job creation efforts in the City of Knoxville and the Knoxville MSA.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Knoxville for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the nineteenth 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, 2005. This marks the seventeenth consecutive year that the City has won this Award. The Distinguished Budget Presentation Award recognizes that the City's budget document is a proficient policy document, financial plan, operation guide and communications medium.

Acknowledgments

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

Sincerely,

Christopher P. Kinney
Sr. Director of Finance & Accountability

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Knoxville, Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

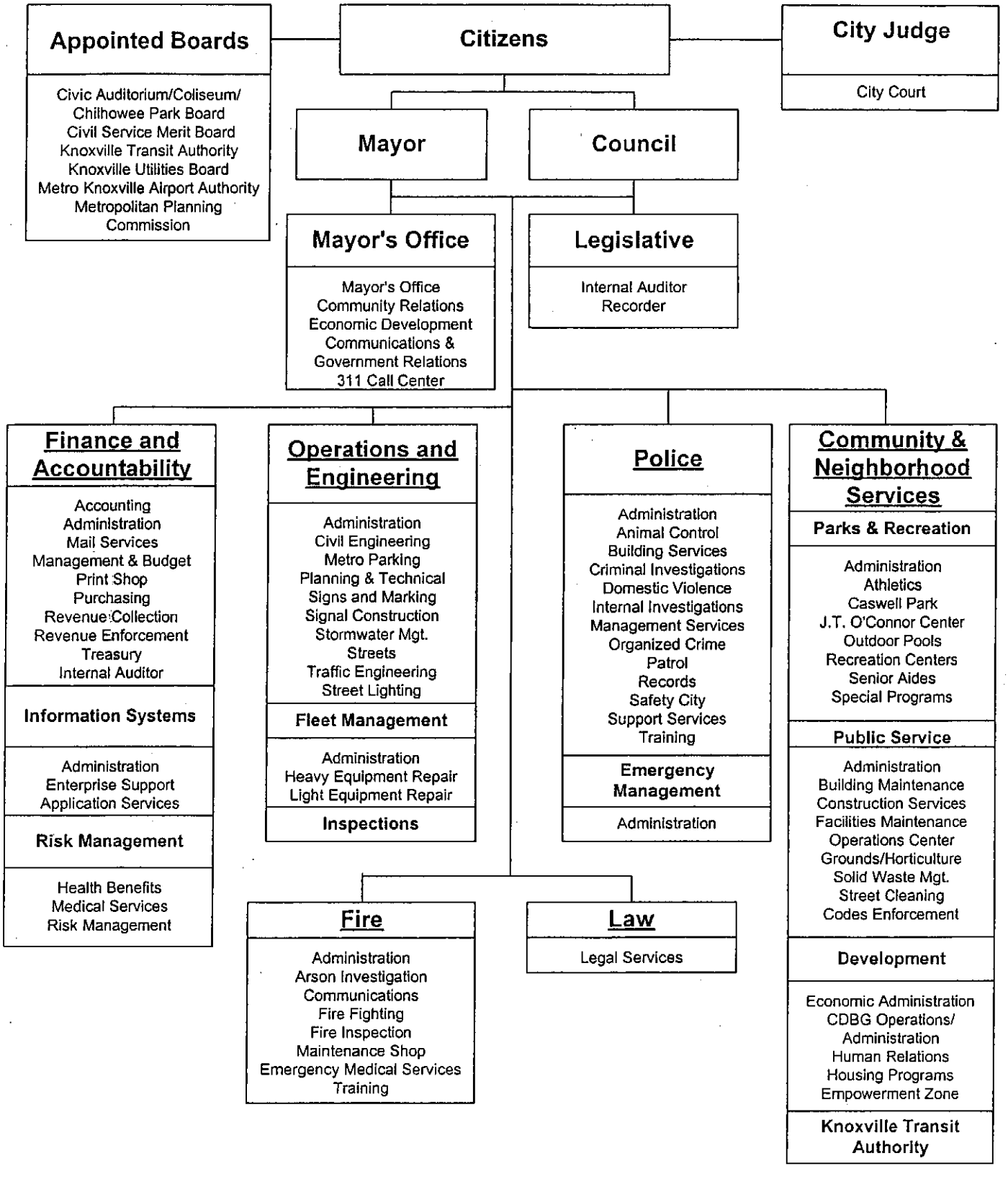
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President

Executive Director

City of Knoxville

Organizational Structure



OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR
Bill Haslam

CITY COUNCIL

Joe Bailey
Bob Becker
Rob Frost

Mark Brown, Vice Mayor
Steve Hall
Joe Hultquist

Barbara Pelot
Marilyn Roddy
Chris Woodhull

CITY JUDGE
John Rosson

CITY RECORDER
Cindy Mitchell

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Airport - Bill Marrison, President
Civil Service Merit Board – Vicki Hatfield, Executive Secretary
Communications and Government Relations Department – Margie Nichols, Sr. Director
Community & Neighborhood Services Department - Samuel P. Anderson, Sr. Director
Community Relations - Thomas E. Strickland, Jr., Director
Economic Development – William Lyons, Sr. Director
Engineering Division – Steve King - Director
Finance & Accountability Department - Chris Kinney, Sr. Director
Fire Department – Carlos Perez, Chief
Fleet Service Division - Mel Cummings, Director
Information Systems Division - Janet Wright, Director
Knoxville Utilities Board – Mintha Roach, President
Knoxville Area Transit (KAT) - Mark Hairr, General Manager
Law Department – Morris Kizer, Sr. Director
Operations and Engineering Department – David Hill, C.O.O.
Police Department – Sterling P. Owen IV, Chief
Public Assembly Division-Robert Polk, Director
Public Service Division - Robert Whetsel, Director
Special Events Division - Mickey Mallonnee, Director

FINANCIAL SECTION

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Knoxville Area Transit which is presented as a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Knoxville Utilities Board, the Metropolitan Knoxville Airport Authority, or the City of Knoxville Pension System. Those financial statements were audited by other auditors whose reports have been furnished to us, and in our opinion, insofar as they relate to the amounts included for the Knoxville Utilities Board, Metropolitan Knoxville Airport Authority, and the City of Knoxville Pension System, is based on the work of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 5, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-19 and the schedule of funding progress of the pension plans on pages 72 to 73 are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The introductory section and the combining and individual fund financial statements and schedules on pages 76 to 118 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the data included in the introductory or statistical sections of this report and, accordingly, we express no opinion on such data.

Cherry, Bekaert & Holland, L.L.P.

Knoxville, Tennessee
January 5, 2006

Management's Discussion and Analysis

The City of Knoxville is including this Management Discussion and Analysis (MD & A) to enhance the reader's understanding of the City's financial position. This section is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page "i" and with the financial statements that follow. All amounts are expressed in dollars, unless otherwise specified, for the results of operations for the Fiscal Year ending June 30, 2005.

Financial Highlights

- The assets of the City of Knoxville primary government exceeded its liabilities at the close of the most recent fiscal year by $297,638,076 (*net assets*). Of this amount, $110,041,725 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets increased by $18,601,702, an increase of 6.7% over fiscal 2004.
- The Fund Balance for the City's General Fund increased by $4,854,382, an increase of 24.4%. This was the result of stronger than expected revenues accompanied by lower than expected expenditures. Only $1,298,051 is reserved for specific purposes, and the remaining 94.8%, or $23,748,252, is available for spending at the City's discretion (unreserved fund balance).
- Overall, the City's total general obligation debt for the primary government decreased by $13.8 million (5.3%) during the current fiscal year. The City was able to refund $13.4 million in outstanding debt, resulting in a net present value savings of $0.9 million.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Knoxville's finances, in a manner similar to a private-sector business.

Government-wide statements are provided on a full accrual basis. Activities are considered either as those of Primary Government (the government as legally defined) or those of Component Units (le-

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

Primary Government
1. Governmental Activities
2. Business-Type Activities

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

STATEMENT OF NET ASSETS

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

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

STATEMENT OF ACTIVITIES

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The focus of the Statement of Activities is to present the City's combined operational activities over the past fiscal year. Governmental and business-type items are presented with the total revenues and expenses. Those activities of the governmental funds 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 by either 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental funds statements are provided on a modified accrual basis. The City's major funds are presented in their own columns and the remaining funds are combined with a column titled "Other Governmental Funds." (Other Governmental Funds are also noted as Nonmajor Governmental Funds or Special Revenue Funds.) Governmental funds are noted as follows:

Major Governmental Funds

1. General
2. Debt Service
3. Capital Projects

Non-Major Governmental Funds/ Other/ Special Revenue Funds

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

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

The Balance Sheet provides a picture of the financial (but not capital) assets associated with governmental activities, liabilities normally expected to be paid 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, it is necessary to provide a reconciliation. Reconciliation statements are provided following both the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. Also, a Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – GAAP Basis for the General Fund is provided in this section.

Proprietary Funds

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

ness-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

Business-Type Activities

1. Knoxville Convention Center
2. Other Business-Type Activities/ Nonmajor Enterprise Funds
   a. Metro Parking Fund
   b. Public Assembly Facilities Fund

Governmental Activities/ Internal Service Funds

1. Office Services Fund
2. Fleet Maintenance Fund
3. Risk Management Fund
4. Employee Health Insurance Fund
5. Equipment Replacement Fund
6. City Buildings Fund

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

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

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

Fiduciary Component Unit Statements

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

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

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

Notes to the Financial Statements

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

Other Information

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

Government-wide Financial Analysis

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

Statement of Net Assets at June 30, 2005

A condensed version of the Statement of Net Assets at June 30, 2005 follows:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets:						
Cash and investments	$120,481	$106,845	$6,309	$4,854	$126,790	$111,699
Other assets	33,971	129,425	4,715	2,611	38,686	132,036
Capital assets	240,738	242,575	173,602	178,807	414,340	421,382
Total assets	$395,190	$478,845	$184,626	$186,272	$579,816	$665,117
Other liabilities	$33,182	$120,467	$5,499	$1,239	$38,681	$121,706
Noncurrent liabilities	91,920	106,626	151,576	157,737	243,496	264,363
Total liabilities	$125,102	$227,093	$157,075	$158,976	$282,177	$386,069
Net assets:						
Invested in capital assets, net of debt	$137,765	$157,139	$18,712	$21,070	$156,477	$178,209
Restricted	31,119	26,801	0	0	31,119	26,801
Unrestricted	101,204	67,800	8,838	6,226	110,042	74,026
Total net assets	$270,088	$251,740	$27,550	$27,296	$297,638	$279,036

Governmental Activities

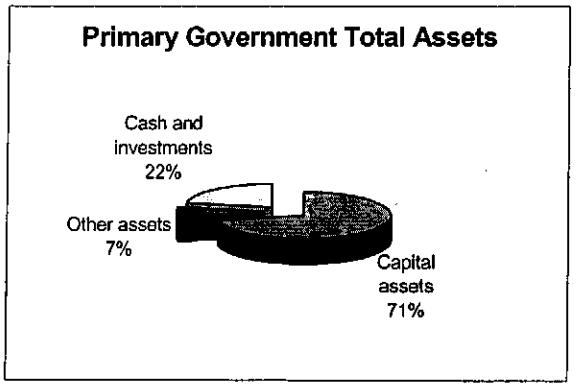
Under Governmental Activities, assets have decreased by seventeen percent while liabilities have decreased by forty-five percent when compared to 2004 levels. This results in an increase of seven percent in total net assets.

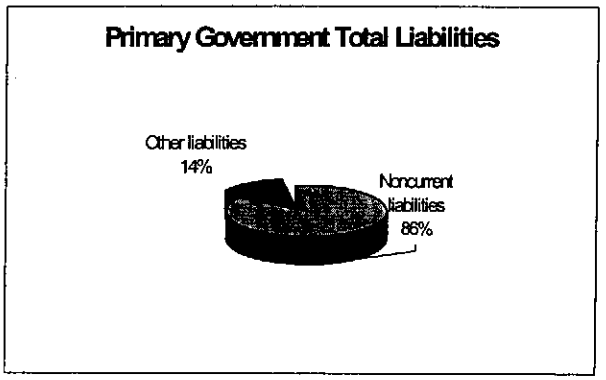
Business-Type Activities

Under Business-Type Activities, assets have decreased by 0.8 percent and liabilities have decreased 1.2 percent over 2004 levels, resulting in an increase of 0.9 percent in total net assets. The Knoxville Convention Center represents the largest portion of both the capital assets and noncurrent liabilities in this category. Total outstanding indebtedness on the convention complex equals $153.6 million with a final maturity of June 30, 2032.

Total Primary Government

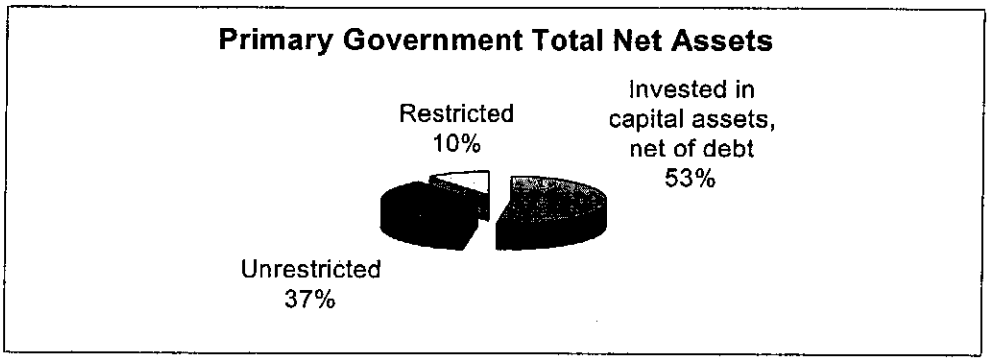
The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 71% of $580 million in total assets. Taxes and governmental receivables constitute 7%. Current liquidity, as shown by cash and investments, composes the remaining 22% in total assets.





Eighty-six percent of the total government liabilities are in long-term debt outstanding. Of this long-term debt, approximately $154 million, or 62% is related to debt issued to finance the new convention complex.

A portion of the City's total net assets is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. Within the business-type activities are bond proceeds and debt service reserves. The unrestricted net assets of the City's governmental activities represent 37% of total net assets.



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

A summary version of the Statement of Activities follows.

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

	Governmental Activities		Business-Type Activities		Total Government	
Revenues:	2005	2004	2005	2004	2005	2004
Program revenues:						
Charges for services	$10,568	$17,162	$8,170	$6,557	$18,738	$23,719
Operating grants & contributions	14,899	9,033	0	0	14,899	9,033
Capital grants & contributions	4,064	890	0	0	4,064	890
General revenues:						
Taxes	168,050	151,034	5,147	6,357	173,197	157,391
Interest	2,759	1,037	100	57	2,859	1,094
Other	2,356	3,257	198	4	2,554	3,261
Total revenues	$202,696	$182,413	$13,615	$12,975	$216,311	$195,388
Expenses:						
General government	$12,778	$13,200	$0	$0	$12,778	$13,200
Public safety	65,488	66,325	0	0	65,488	66,325
Highways and streets	31,553	27,910	0	0	31,553	27,910
Solid waste	9,369	9,209	0	0	9,369	9,209
Recreation	5,703	6,542	0	0	5,703	6,542
Economic development	9,025	6,924	0	0	9,025	6,924
Capital & grant projects	24,128	5,791	0	0	24,128	5,791
Interest on long-term debt	4,591	3,199	0	0	4,591	3,199
Other	10,681	13,412	24,393	23,009	35,074	36,421
Total expenses	$173,316	$152,512	$24,393	$23,009	$197,709	$175,521
Increase (decrease) in net assets before transfers	$29,380	$29,901	($10,778)	($10,034)	$18,602	$19,867
Transfers	(11,032)	(11,040)	11,032	11,040	0	0
Changes in net assets	18,348	18,861	254	1,006	18,602	19,867
Beginning net assets	251,740	232,879	27,296	26,290	279,036	259,169
Ending net assets	$270,088	$251,740	$27,550	$27,296	$297,638	$279,036

Governmental Activities

As shown on the Government-Wide Statement of Activities for the year ending June 30, 2005, other than the activity noted as Other, primarily representing various grant projects, only the City Court was self-supporting. The City Court generated revenue in excess of its current expenditures. Any excess revenue above and beyond actual expenditures in the City Court is transferred to the General Fund to finance general operations. Federal grant revenue proceeds of $2.0 million were earmarked for the City's Community Development division. Public safety operations and capital project outlays accounted for approximately 33% and 12% respectively of the City's total governmental operations of $173.3 million. All other City of Knoxville sections and operations are financed by either local and state taxes, grants, or various shared revenues.

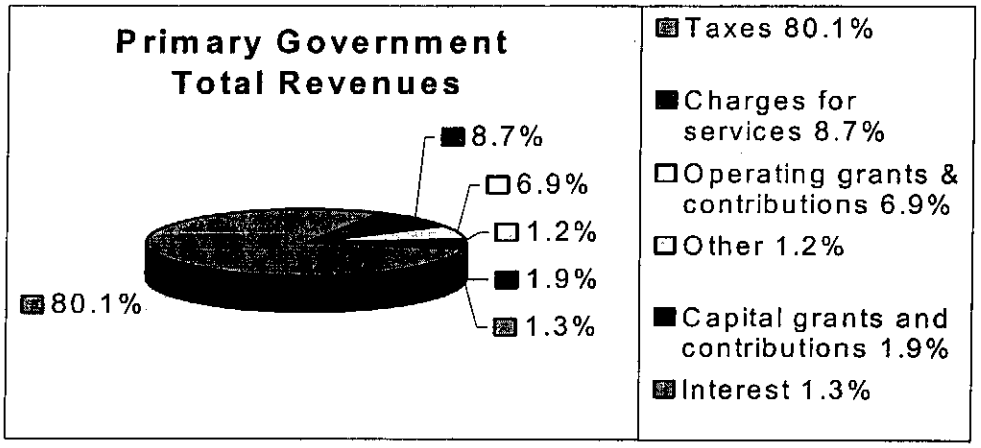
Business-type Activities

The City's business-type activities include public parking and public assembly facilities. The City also operates the current Knoxville Convention Center and the Knoxville Municipal Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands of visitors yearly for various sporting events. Neyland Stadium, the nation's second largest on campus football stadium,

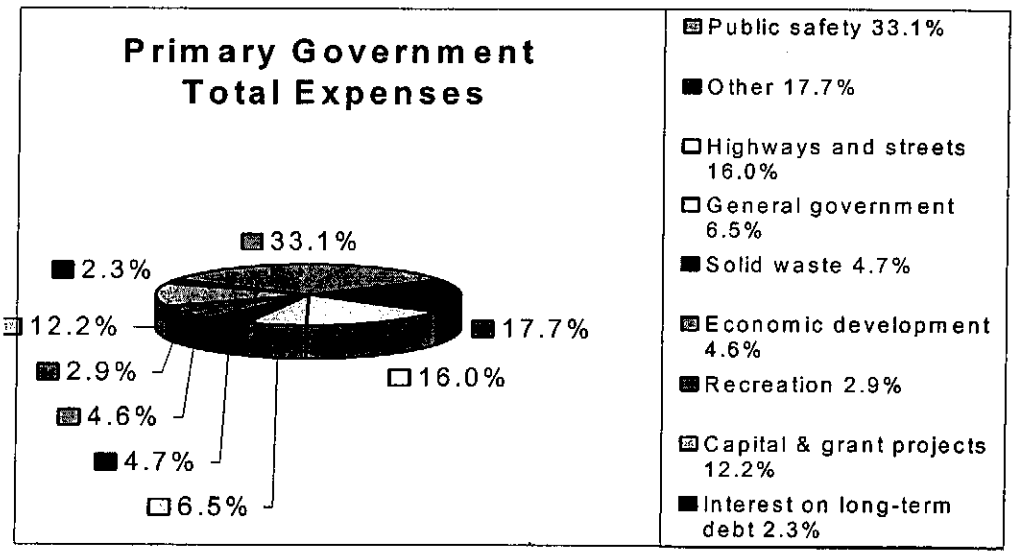
attracts over one hundred thousand loyal fans per home game. Proximity to outdoor recreational facilities such as the lake region and The Great Smoky Mountains National Park makes the Knoxville area an ideal tourist destination. With this in mind, local governmental leaders deemed it necessary to build a new convention center to take advantage of Knoxville's unique geographic location. Although current expenses exceed revenues for these activities, the local economy benefits greatly by the impact of lodging, restaurant, and various recreational consumer spending.

Total Government

Primary Government Revenues exceeded $216 million. The largest portion of these revenues (80.1%) is from taxes.



Total primary government expenses totaled slightly less than $198 million, 33.1% of which was directed toward public safety.



Component Units

The Government Accounting Standards Board (GASB 14) requires that certain organizations affiliated with the primary government be reported as component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The nature and significance of component units are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units for the City of Knox-

ville include the Knoxville Utilities Board, the Metropolitan Knoxville Airport Authority, and the Knoxville Area Transit Fund. A summary of the City's component unit operations follows:

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

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Program Revenues	$534,130	$526,856	$25,762	$22,355	$14,846	$19,584	$574,738	$568,795
Program Expenses	519,415	506,234	28,202	27,610	23,035	17,852	570,652	551,696
Total General Revenues	3,972	2,484	557	162	6,595	637	11,124	3,283
Change in Net Assets	18,687	23,106	(1,883)	(5,093)	(1,594)	2,369	15,210	20,382
Net Assets at Year End	$628,480	$609,793	$92,414	$94,297	$15,618	$17,212	$736,512	$721,302

Financial Analysis of the Government's Funds

Balance Sheet at June 30, 2005

The Government fund balance as of June 30, 2005 is $104.6 million. Of this total governmental fund balance, the general fund balance is approximately $25.0 million, of which $23.7 is unreserved. This general fund balance of $25.046 million is twenty-four percent more than last year's ending balance of $20.192 million.

Statement of Revenue, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2005

The following schedule presents a summary of total governmental funds, which includes general fund, debt service fund, capital projects fund and other governmental funds for this fiscal year ended June 30, 2005, and the amount and percentage of increases and decreases in relation to prior year revenues.

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

Revenues	June 30, 2005	June 30, 2004	Percent of Total 2005	Increase (Decrease) from 2004	Percent of Increase (Decrease)
Taxes, assessments, interest & penalties	$153,817	$135,130	75.56%	$18,687	13.83%
Licenses, permits and inspection charges	2,313	2,110	1.14%	203	9.62%
Intergovernmental revenue	31,632	30,995	17.10%	637	2.06%
Charges for services	5,546	4,906	2.72%	640	13.05%
Fines and forfeitures	1,536	3,302	0.75%	(1,766)	(53.48%)
Other	8,714	5,276	4.28%	3,438	65.16%
Total	$203,558	$181,719	100.00%	$21,839	12.02%

A comparison of revenues between FY 03/04 and FY 04/05 shows the total general government revenues increased by approximately $21.839 million or 12%. The largest dollar change occurs in the "Taxes" category of revenue.

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

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

The increase within the intergovernmental category is primarily due to growth in the state shared sales tax and Hall income tax revenue, the latter being a tax on dividends, including capital gains distributions, and interest earnings. Unlike previous years, the State did not reduce any shared revenue in FY 04/05, which enabled the City to capture the real growth in these revenues. These gains were partially offset by reductions in grant revenue, this being the result of several large grants ending the past year.

Charges for service were up when compared to FY 03/04. The increase occurs primarily in two areas. The first is in the Stormwater Fund, in which revenues from charges increase due to the implementation of new Stormwater fees. The second area of increase is in City Court costs, classified here as charges. The latter is up due to an increase in the number of citations being written and processed. This also accounts for the increase seen in fines and forfeitures.

The "Other" revenue category shows a increase for various reasons. The growth in interest rates, coupled with an increase in available funds for investment, primarily in the capital funds, resulted in a major jump in interest revenues. This was partially offset by lower income from parking meters, reported in this category, due to ongoing construction in the downtown area resulting in the availability of fewer parking spaces. There was also some reclassification between fines and forfeitures and the other category, which partially accounts for some of the growth in this category, as well as the reduction in the fines and forfeiture grouping.

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

Condensed Financial Information
Total Governmental Funds - Expenditures
For Fiscal Years Ending 06/30/05 and 06/30/04
(In $1,000's)

Expenditures	FY 04/05	FY 03/04	Percent of Total FY 04/05	Increase (Decrease) from 03/04	Percentage Change from 03/04
Administration	$2,099	$2,603	1.14%	($504)	(19.36%)
Finance and Accountability	5,742	6,115	3.13%	(373)	(6.10%)
Operations and Engineering	16,319	14,628	8.89%	1,691	11.56%
Community and Neighborhood Services	38,024	34,683	20.71%	3,341	9.63%
Law	2,133	1,451	1.16%	682	47.00%
Police	39,014	39,465	21.25%	(451)	(1.14%)
Fire	25,629	24,423	13.96%	1,206	4.94%
Legislative	821	744	0.45%	77	10.35%
Civil Service	919	1,126	0.50%	(207)	(18.38%)
Metropolitan Planning Commission	652	693	0.36%	(41)	(5.92%)
Knoxville Zoological Park	693	855	0.38%	(162)	(18.95%)
Community agency grants	864	1,973	0.47%	(1,109)	(56.21%)
Waterfront operations	1,328	560	0.72%	768	137.14%
Community Action Committee	348	438	0.19%	(90)	(20.55%)
Reserve	449		0.24%	449	
Mass Transit	5,058	5,518	2.75%	(460)	
Capital and grant projects	27,802	23,317	15.14%	4,485	19.23%
Debt service:					
Principal retirement	10,973	19,304	5.98%	(8,331)	(43.16%)
Interest on bonds and notes	4,592	2,973	2.50%	1,619	54.46%
Other services and charges	162	139	0.09%	23	16.55%
Total Expenditures	$183,621	$181,008	100.00%	2,613	1.44%

Overall general government expenditures for FY 04/05 increased by approximately $2.61 million or 1.44% when compared to FY 03/04. This increase is primarily due to greater spending of $4.49 million for capital and grant projects. Overall spending for on-going operations was up for the year, due primarily to increased costs of health care and risk management expenses. The latter shows in increases for worker's compensation costs, and liability and property insurance premiums. The City's health care premiums increased by 10%, beginning in January 2005, which followed a 15% increase in January 2004.These increases are partially offset by lower spending for principal retirement, this number being artificially high in FY 03/04, due to the payoff of a line of credit in that year. This line was part of a major debt refunding and new money issue. A portion of the new money was used to retire the outstanding line.

Proprietary Funds Statements

Statement of Net Assets at June 30, 2005

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

Statement of Revenues, Expenditures and Changes in Net Assets for the Year Ended June 30, 2005

A summary of the revenues, expenses, and interfund transfers indicates that there is an increase in total proprietary fund net assets, including internal service funds, of $6.5 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2005

The three main business type activities of the City are the Convention Center, the Main and State Street parking garages, and the Public Assembly Facilities operations. As expected, overall operations experienced a net operating loss. Both parking garages operate at a profit, if interest on debt is excluded. Main Avenue garage has debt outstanding. The revenues from the combined properties are sufficient to cover total costs including debt service, with gains from the State Street Garage, more tha offsetting the loss on the Main Street Garage.

Public Assembly Facilities also operated at a loss. This is due the inclusion of Chilhowee Park. This park is not expected to generate a profit due to the public nature of the area. The Auditorium/Coliseum does generate positive cash flow from operations.

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

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

Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2005	2004	2005	2004	2005	2004
I. Business-type Activities						
A. Knoxville Convention Center	$10,249	$10,119	$19,562	$18,563	$8,845	$9,442
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,078	1,021	857	738	0	0
2. Public Assembly Facilities	1,914	1,835	3,971	3,613	2,187	1,598
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	387	478	370	462	0	0
2. Fleet Maintenance	10,471	9,666	9,423	8,851	207	0
3. Risk Management	6,168	5,874	7,074	6,653	2,901	990
4. Employee Health Insurance	12,645	11,582	12,488	11,709	2,266	1,005
5. Equipment Replacement	2,780	2,155	2,712	2,080	652	129
6. City Buildings	1,488	1,350	1,276	1,207	0	0
TOTAL	$47,180	$44,080	$57,733	$53,876	$17,058	$13,164

	Change in Net Assets		Net Assets at Year End	
	2005	2004	2005	2004
I. Business-type Activities				
A. Knoxville Convention Center	($468)	$998	$11,555	$12,023
B. Other (Non-major enterprise funds)				
1. Metro Parking	221	283	7,060	6,839
2. Public Assembly Facilities	130	(180)	8,934	8,804
II. Governmental Activities				
A. Internal Service Funds				
1. Office Services	17	16	39	22
2. Fleet Maintenance	1,255	815	17,221	15,966
3. Risk Management	1,995	211	2,211	216
4. Employee Health Insurance	2,423	878	5,079	2,656
5. Equipment Replacement	720	204	12,731	12,011
6. City Buildings	212	143	495	283
TOTAL	$6,505	$3,368	$65,325	$58,820

Fiduciary Component Unit Statements

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

Condensed Financial Information
Pension Trust Fund Contribution Rates

	FY 04/05 Contribution Rates	FY 05/06 Contribution Rates	Estimated FY 06/07 Contribution Rates
General Government Employees:			
Defined Contribution (G1)	3.91%	5.20%	7.55%
Defined Benefit (G2)	2.41%	3.70%	6.05%
Police and Fire Employees	9.49%	11.49%	13.79%
Board of Education Employees	0.00%	0.00%	0.00%

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

General Fund Budgetary Highlights

During the year there was a $791,095 increase in appropriations between the original and final amended budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2005

Department	Encumbrances	Reorganizations	Other	Total Changes
Administration	$ 7,494.95	$ -	$ 138,000	$ 145,494.95
Finance and Accountability	267,473	-	-	267,473
Operations and Engineering	34,381	(1,484,560)	-	(1,450,179)
Community and Neighborhood Services	33,441	1,484,560	-	1,518,001
Law	26,500	-	-	26,500
Police	350,641	-	-	350,641
Fire	105,612	-	-	105,612
Legislative	205,135	-	-	205,135
Civil Service	750	-	-	750
Community Agency Grants	-	-	86,000	86,000
Transfers	-	-	(138,000)	(138,000)
Total General Fund Expenditures	$ 1,031,428	$ -	$ 86,000	$ 1,117,428

The largest change was due to a re-appropriation of prior year's contractual encumbrances. The second change stemmed from a reorganization, which shifted responsibilities from the Operations and Engineering Department to the Community and Neighborhood Services Department. The Administration budget was increased by $138,000 to fund costs related to a new Chief Operating Officer, accompanied by an offsetting reduction in transfers to the Health Care Fund. The budget was also amended to provide $86,000 in funding for a major downtown music series, "Sundown in the City".

Capital Asset and Debt Administration

As of June 30, 2005 the primary government of the City had invested $414.3 million in capital assets as reflected by the following table. The total amount represents an overall decrease primarily due to the sale of certain land owned by the City. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets in the other categories, primarily equipment, which includes vehicles.. This accounts for the growth in the past year. There are several major projects that are just beginning which will increase future assets, primarily the construction of a new downtown parking garage.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land and site improvements	$36,473	$39,369	$6,042	$6,042	$42,515	$45,411
Buildings and improvements	38,952	38,952	206,456	206,457	245,408	245,409
Equipment, furniture & fixtures	55,697	53,673	2,863	3,006	58,560	56,679
Infrastructure	176,314	176,314	0	0	176,314	176,314
Construction in progress	68,161	50,100	0	0	68,161	50,100
Less accumulated depreciation	(134,859)	(115,833)	(41,759)	(36,698)	(176,618)	(152,531)
Total	$240,738	$242,575	$173,602	$178,807	$414,340	$421,382

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

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Beginning balance	$358,408	$338,928	$215,505	$215,175	$573,913	$554,103
Additions	26,266	27,927	12	347	26,278	28,274
Deletions	(9,077)	(8,447)	(156)	(17)	(9,233)	(8,464)
Balance before depreciation	375,597	358,408	215,361	215,505	590,958	573,913
Accumulated depreciation	(134,859)	(115,833)	(41,759)	(36,698)	(176,618)	(152,531)
Balance after depreciation	$240,738	$242,575	$173,602	$178,807	$414,340	$421,382

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

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current						
Bonds, notes and capital leases due within one year	$10,576	$10,901	$3,415	$3,569	$13,991	$14,470
Noncurrent						
Bonds, notes and capital leases due in more than one year	82,211	95,725	151,475	154,168	233,686	249,893
Subtotal	92,787	106,626	154,890	157,737	247,677	264,363
Unamortized premiums, discounts and gains on refunding	(2,963)	(2,114)	398	447	(2,565)	(1,667)
TOTAL	$89,824	$104,512	$155,288	$158,184	$245,112	$262,696

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

Economic Factors

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes $124.4 million or 87% of the total 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, personality, and public utility. The growth rate for assessed value on real estate has been fairly moderate during the mid to late 1990's and early 2000's. We expect this moderate growth to continue into the new fiscal year, with the forecast for overall growth in real property being 1.76%. Within this grouping the highest anticipated growth is in commercial property. Residential property growth is expected to be slightly lower than the overall average, while the value of industrial property is expected to decline. For FY 05/06 the projected assessed value of real property is $2.86 billion. Historically, the city has collected an average of 93.6 % of real property taxes. Personal property growth has been higher than real property in the recent past and we expect that to continue in the new year. We expect no real growth in the valuation of Public Utility property. Collections from this source are expected to decrease due to a reduction in the tax rate. This reduced tax rate is the result of state law, which requires that any growth in property from reappraisals, be offset by a reduction in the tax rate so as to generate no additional revenue from reappraisal. The expected result of this adjustment is lower collections from public utilities, and payments-in-lieu-of taxes from the Knoxville Utilities Board. These will be offset by expected higher collections from real property and personal property taxes.

Local option sales tax revenues comprise approximately $31.8million or 22.2% of total General Fund revenues. Knoxville, like the rest of the nation, has witnessed a slower growth in sales based revenues during the past year, but the experience in the FY 04/05 was more favorable than expected.. We expect economic growth in this area in the upcoming year. The second largest revenue category to the General Fund is intergovernmental revenue, and accounts for $16.3 million or 11.4% of total revenue. This category of revenue has declined as a percentage of the total in recent years, the result of certain grants ending, as well as state cuts in shared revenue. The State has, however, fared better than expected and will restore a portion of previous cuts during FY 05/06. We are hopeful that the balance of the previously enacted cuts will be restored in FY 06/07. These changes will be evidenced in higher state shared sales tax revenue and proceeds from the Hall income tax.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system are expected to grow in the next fiscal year. The category of miscellaneous revenue includes interest earnings. The increase in interest rates, combined with higher balances available for investment, should result in continued increases in this revenue source.

Health care benefits are accounted for in a separate internal service fund. The City's Employee Health Insurance Fund is funded by both employer and employee contributions. The City has experienced double digit premium increases in recent years. The City expects to change it plans in FY 05/06 in order to generate savings and slow the growth of future rate hikes. Particular emphasis will be given to wellness programs and disease prevention.

Other areas experiencing particularly high expenditure growth include pension costs and utility increases. Pension contributions are expected to increase in the near term, but we are hopeful that the increases will disappear in the future. This is the result of better performance in the pension portfolio, as well as changes implemented, which establish a floor on City contributions. The latter is expected to lower the annual volatility of pension contributions. The City is also conducting energy audits and taking other steps to reduce the cost of utilities and fuel.

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

On the plus side, we expect that the performance of the new Convention Center will improve, which will lower the expected operating loss on the facility. The City received funds from the state in FY 03/04 to help offset future debt payments on the facility and we expect these to grow in the future. The downtown area is also experiencing a rebirth, and should continue to grow in the future. The relocation of two major employers to the downtown area should further provide an economic stimulus to the area.

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

FINANCIAL CONTACT

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

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CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
June 30, 2005

	Governmental Activities	Business Type Activities	Total Primary Government	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Reporting Unit
Assets							
Cash & temporary investments	$ 3,885,040	$ 1,149,301	$ 5,034,341	$ 39,589,571	$ 4,374,607	$ 430	$ 48,998,949
Investments	116,596,377	5,159,255	121,755,632	61,374,713	21,065,235	789,415	204,984,995
Receivables (net of allowance for uncollectibles):							
Accounts	14,457,345	2,179,216	16,636,561	50,801,901	1,174,260	2,877,345	71,490,067
Taxes on real & personal property	4,815,165	-	4,815,165	-	-	-	4,815,165
Notes	10,501,617	811,301	11,312,918	257,056	-	-	11,569,974
TVA conservation program	-	-	-	3,843,540	-	-	3,843,540
managers	-	904,630	904,630	-	-	-	904,630
Other	-	-	-	161,804	-	-	161,804
Internal balances	2,941,000	-	2,941,000	-	-	(2,941,000)	-
Inventory	1,220,636	-	1,220,636	4,846,038	-	751,644	6,818,318
Prepaid items	35,547	-	35,547	13,825,599	188,908	194,641	14,244,695
Deferred charges	-	820,094	820,094	295,802	1,936,604	-	3,052,500
Restricted assets:							
Temporarily restricted:							
Bond funds	-	-	-	10,623,132	375,793	-	10,998,925
Receivables	-	-	-	-	600,000	-	600,000
Other	-	-	-	178,019	24,122	-	202,141
Other assets	-	-	-	5,202,777	2,306,515	-	7,509,292
Capital assets:							
Land & site improvements	36,473,308	6,042,111	42,515,419	-	143,064,110	-	185,579,529
Building & building improvements	38,951,753	206,455,658	245,407,411	-	118,647,113	5,025,175	369,079,699
Utility plant in service	-	-	-	1,137,399,574	-	-	1,137,399,574
Equipment, furniture & fixtures	55,696,955	2,862,892	58,559,847	-	7,942,137	23,793,613	90,295,597
Infrastructure	176,313,845	-	176,313,845	-	-	-	176,313,845
Construction in progress	68,160,750	-	68,160,750	93,532,682	7,680,509	744,195	170,118,136
Less accumulated depreciation	(134,859,275)	(41,758,854)	(176,618,129)	(417,019,494)	(107,830,285)	(14,947,899)	(716,415,807)
Total assets	395,190,063	184,625,604	579,815,667	1,004,912,714	201,549,628	16,287,559	1,802,565,568
Liabilities							
Accounts payable	3,909,188	325,724	4,234,912	37,008,223	991,230	114,497	42,346,862
Matured principal & interest on bonds	-	-	-	105,650	-	-	105,650
Accrued liabilities	2,872,474	677,614	3,550,088	20,555,878	683,799	420,464	25,210,229
Due to other governmental agencies	1,506,918	-	1,506,918	-	-	-	1,506,918
Unearned revenue	7,491,195	1,341,174	8,832,369	-	-	134,246	8,966,615
Customer deposits, plus accrued interest	79,198	167,536	246,734	8,071,156	-	-	8,317,890
Liabilities payable with restricted assets:							
Bonds & notes due within one year	16,644,073	3,830,000	20,474,073	-	2,650,000	-	23,124,073
Accrued interest	678,879	-	678,879	-	412,909	-	1,091,788
Noncurrent liabilities:							
Bonds, notes, debt agreements & capital leases due within one year	-	-	-	10,322,192	-	-	10,322,192
Bonds, notes, debt agreements & capital leases due in more than one year	86,328,042	150,631,896	236,959,938	294,925,000	104,397,670	-	636,282,608
Other noncurrent liabilities	5,592,171	101,509	5,693,680	5,446,407	-	-	11,140,087
Total liabilities	125,102,138	157,075,453	282,177,591	376,432,506	109,135,608	669,207	768,414,912
Net assets							
Invested in capital assets, net of related debt	137,765,221	18,711,807	156,477,028	512,346,102	65,942,540	14,615,084	749,380,754
Restricted for:							
Debt service	31,119,323	-	31,119,323	5,565,162	-	-	36,684,485
Other	-	-	-	178,019	999,915	-	1,177,934
Unrestricted	101,203,381	8,838,344	110,041,725	110,390,925	25,471,565	1,003,268	246,907,483
Total net assets	$ 270,087,925	$ 27,550,151	$ 297,638,076	$ 628,480,208	$ 92,414,020	$ 15,618,352	$ 1,034,150,656

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

CITY OF KNOXVILLE, TENNESSEE
Statement of Activities
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Administration	$ 1,952,646	$ 4,315	$ -	$ -
Finance & Accountability	6,407,251	603,777	-	-
Operations & Engineering	38,797,666	1,460,131	41,874	3,093,121
Community & Neighborhood Services	39,900,738	3,293,104	13,332,497	-
Law	2,135,678	3,853,503	-	-
Police	39,522,420	1,143,093	1,524,774	970,900
Fire	25,965,823	27,040	-	-
Legislative	824,127	39,406	-	-
Civil Service	1,458,147	-	-	-
Knoxville Partnership	118,212	-	-	-
Metropolitan Planning Commission	692,650	-	-	-
Knoxville Zoological Park	2,745,535	-	-	-
Agency grants	1,433,021	-	-	-
Waterfront	1,101,074	-	-	-
Community Action Committee	448,976	-	-	-
Miscellaneous expenditures	-	143,166	-	-
Mass transit	5,058,330	-	-	-
Interest on long-term debt	4,591,939	-	-	-
Other debt service expenses	161,659	-	-	-
Total governmental activities	173,315,892	10,567,535	14,899,145	4,064,021
Business-type activities:				
Metro parking	856,938	1,397,245	-	-
Public assembly facilities	3,974,295	1,725,419	-	-
Knoxville Convention Center	19,562,106	5,047,450	-	-
Total business-type activities	24,393,339	8,170,114	-	-
Total primary government	$ 197,709,231	$ 18,737,649	$ 14,899,145	$ 4,064,021
Component units:				
Knoxville Utilities Board	$ 519,415,223	$ 532,545,130	$ -	$ 1,584,505
Metropolitan Knoxville Airport Authority	28,201,855	22,214,718	-	3,547,691
Knoxville Area Transit	23,034,648	2,887,404	4,328,384	7,631,409
Total component units	$ 570,651,726	$ 557,647,252	$ 4,328,384	$ 12,763,605

General revenues:
- Real & personal property taxes
- Intergovernmental revenue, unrestricted
- Sales taxes
- Admission tax
- Hotel-Motel tax
- Income tax
- Excise tax
- Beer tax
- Mixed drink tax
- Motor fuel taxes
- Alcoholic beverage tax
- Business tax
- Cable television franchise tax
- Other revenue
- Grants & contributions not restricted
- Unrestricted investment earnings
- Gain on disposal of capital assets
- Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning
Net assets - ending

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

CITY OF KNOXVILLE, TENNESSEE
Statement of Activities
For the year ended June 30, 2005

	Net (Expense) Revenue and Changes in Net Assets						
	Primary Government						
	Governmental Activities	Business-type Activities	Total	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Reporting Unit
	$ (1,948,331)	$ -	$ (1,948,331)	$ -	$ -	$ -	$ (1,948,331)
	(5,803,474)	-	(5,803,474)	-	-	-	(5,803,474)
	(34,202,540)	-	(34,202,540)	-	-	-	(34,202,540)
	(23,275,137)	-	(23,275,137)	-	-	-	(23,275,137)
	1,717,825	-	1,717,825	-	-	-	1,717,825
	(35,883,653)	-	(35,883,653)	-	-	-	(35,883,653)
	(25,938,783)	-	(25,938,783)	-	-	-	(25,938,783)
	(784,721)	-	(784,721)	-	-	-	(784,721)
	(1,458,147)	-	(1,458,147)	-	-	-	(1,458,147)
	(118,212)	-	(118,212)	-	-	-	(118,212)
	(692,650)	-	(692,650)	-	-	-	(692,650)
	(2,745,535)	-	(2,745,535)	-	-	-	(2,745,535)
	(1,433,021)	-	(1,433,021)	-	-	-	(1,433,021)
	(1,101,074)	-	(1,101,074)	-	-	-	(1,101,074)
	(448,976)	-	(448,976)	-	-	-	(448,976)
	143,166	-	143,166	-	-	-	143,166
	(5,058,330)	-	(5,058,330)	-	-	-	(5,058,330)
	(4,591,939)	-	(4,591,939)	-	-	-	(4,591,939)
	(161,659)	-	(161,659)	-	-	-	(161,659)
	(143,785,191)	-	(143,785,191)	-	-	-	(143,785,191)
	-	540,307	540,307	-	-	-	540,307
	-	(2,248,876)	(2,248,876)	-	-	-	(2,248,876)
	-	(14,514,656)	(14,514,656)	-	-	-	(14,514,656)
	-	(16,223,225)	(16,223,225)	-	-	-	(16,223,225)
	(143,785,191)	(16,223,225)	(160,008,416)	-	-	-	(160,008,416)
	-	-	-	14,714,412	-	-	14,714,412
	-	-	-	-	(2,439,446)	-	(2,439,446)
	-	-	-	-	-	(8,187,451)	(8,187,451)
	-	-	-	14,714,412	(2,439,446)	(8,187,451)	4,087,515
	99,273,827	-	99,273,827	-	-	-	99,273,827
	13,360,163	1,366,502	14,726,665	-	-	1,624	14,728,289
	31,784,513	-	31,784,513	-	-	-	31,784,513
	488	1,409,870	1,410,358	-	-	-	1,410,358
	-	2,369,640	2,369,640	-	-	-	2,369,640
	2,527,831	-	2,527,831	-	-	-	2,527,831
	396,750	-	396,750	-	-	-	396,750
	5,871,154	-	5,871,154	-	-	-	5,871,154
	990,937	-	990,937	-	-	-	990,937
	4,930,830	-	4,930,830	-	-	-	4,930,830
	1,953,486	-	1,953,486	-	-	-	1,953,486
	5,744,851	-	5,744,851	-	-	-	5,744,851
	1,216,437	-	1,216,437	-	-	-	1,216,437
	931,876	198,078	1,129,954	-	-	6,572,127	7,702,081
	455,512	-	455,512	-	-	-	455,512
	2,758,750	100,424	2,859,174	3,971,433	531,687	13,395	7,375,689
	968,199	-	968,199	-	25,644	6,657	1,000,500
	(11,032,483)	11,032,483	-	-	-	-	-
	162,133,121	16,476,997	178,610,118	3,971,433	557,331	6,593,803	189,732,685
	18,347,930	253,772	18,601,702	18,685,845	(1,882,115)	(1,593,648)	33,811,784
	251,739,995	27,296,379	279,036,374	609,794,363	94,296,135	17,212,000	1,000,338,872
	$ 270,087,925	$ 27,550,151	$ 297,638,076	$ 628,480,208	$92,414,020	$ 15,618,352	$ 1,034,150,656

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

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash & Temporary Investments	$ 433,094	$ 234,019	$ 259,454	$ 2,495,943	$ 3,422,510
Investments	10,638,914	28,098,490	30,169,136	16,462,073	85,368,613
Accounts Receivable	11,700,337	389,065	42,058	2,268,315	14,399,775
Taxes on Real & Personal Property Receivable	4,815,165	-	-	-	4,815,165
Notes Receivable	-	2,389,300	-	8,112,317	10,501,617
Due from Other Funds	3,638,400	-	853,800	-	4,492,200
Due from Component Units	2,941,000	-	-	-	2,941,000
Inventory	120,099	-	-	-	120,099
Prepaid Items	-	8,449	22,307	-	30,756
Total assets	$ 34,287,009	$ 31,119,323	$ 31,346,755	$ 29,338,648	$ 126,091,735
Liabilities and fund balances					
Liabilities:					
Accounts Payable	$ 1,589,009	$ -	$ 1,261,336	$ 868,157	$ 3,718,502
Accrued Liabilities	2,368,451	-	-	201,568	2,570,019
Customer Deposits	-	-	-	79,198	79,198
Due to Other Funds	-	-	-	1,329,900	1,329,900
Due to Other Governmental Agencies	1,487,045	-	-	19,873	1,506,918
Deferred Revenue	3,796,201	-	-	8,499,080	12,295,281
Total liabilities	9,240,706	-	1,261,336	10,997,776	21,499,818
Fund balances:					
Reserved for:					
Encumbrances	1,177,952	-	12,563,905	9,302,642	23,044,499
Inventories	120,099	-	-	-	120,099
Prepaid Items	-	8,449	22,307	-	30,756
Notes Receivable	-	2,389,300	-	8,112,317	10,501,617
Designated for future use	-	-	-	3,209,899	3,209,899
Unreserved, reported in:					
General fund	23,748,252				23,748,252
Special revenue	-	-	-	(2,283,986)	(2,283,986)
Debt service	-	28,721,574	-	-	28,721,574
Capital projects	-	-	17,499,207	-	17,499,207
Total fund balances	25,046,303	31,119,323	30,085,419	18,340,872	104,591,917
Total liabilities and fund balances	$ 34,287,009	$ 31,119,323	$ 31,346,755	$ 29,338,648	$ 126,091,735

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

CITY OF KNOXVILLE, TENNESSEE

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2005

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

Ending fund balance - governmental funds	$ 104,591,917
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheets of the governmental funds.	226,567,411
Revenue that have been deferred in the balance sheet of the governmental funds because they were not available to pay current liabilities of the period are recognized as revenue in the statement of activities and therefore are not included in the statement of net assets.	4,804,086
Internal service funds are used by management to charge the costs of office service, fleet management, risk management, health insurance and equipment replacement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	37,775,505
Accrued interest payable, are not due and payable in the current period and therefore are not reported as liabilities in the balance sheets of the governmental funds.	(678,879)
Long-term liabilities, including bonds payable, compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the balance sheets of the governmental funds.	(102,972,115)
Net assets of governmental activities	$ 270,087,925

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes, assessments, interest & penalities	$ 124,424,894	$ 23,831,363	$ -	$ 5,560,909	$ 153,817,166
Licenses, permits & inspection charges	284,124	-	-	2,028,469	2,312,593
Fines & forfeitures	354,111	-	-	1,181,614	1,535,725
Charges for services	963,490	-	-	4,583,038	5,546,528
Other	707,869	1,430,627	4,477,559	2,097,753	8,713,808
Intergovernmental revenue	16,284,744	-	(406,879)	15,754,276	31,632,141
Total revenues	143,019,232	25,261,990	4,070,680	31,206,059	203,557,961
Expenditures					
Current:					
Administration	1,798,081	-	-	301,443	2,099,524
Finance & Accountability	5,741,642	-	-	-	5,741,642
Operations & Engineering	4,622,550	-	-	11,696,466	16,319,016
Community & Neighborhood Services	22,828,300	-	-	15,195,980	38,024,280
Law	1,440,230	-	-	692,782	2,133,012
Police	36,938,209	-	-	2,075,484	39,013,693
Fire	25,628,680	-	-	-	25,628,680
Legislative	741,372	-	-	79,500	820,872
Civil Service	919,002	-	-	-	919,002
Metropolitan Planning Commission	652,118	-	-	-	652,118
Knoxville Zoological Park	692,650	-	-	-	692,650
Agency grants	864,210	-	-	-	864,210
Waterfront	1,328,534	-	-	-	1,328,534
Community Action Committee	348,111	-	-	-	348,111
Reserve	448,820	-	-	-	448,820
Mass transit	4,027,330	-	-	1,031,000	5,058,330
Capital & Grant Projects	262,990	-	24,556,868	2,981,954	27,801,812
Debt service:					
Principal retirement	-	10,973,431	-	-	10,973,431
Interest payments on bonds & notes	-	4,591,939	-	-	4,591,939
Other services & charges	-	161,659	-	-	161,659
Total expenditures	109,282,829	15,727,029	24,556,868	34,054,609	183,621,335
Excess (deficiency) of revenues over (under) expenditures	33,736,403	9,534,961	(20,486,188)	(2,848,550)	19,936,626
Other financing sources (uses)					
Issuance of Debt	-	-	1,981,566	-	1,981,566
Premiums Paid for Issuance of Debt	-	966,049	-	-	966,049
Issuance of Refunding Debt	-	13,725,000	-	-	13,725,000
Payment of Refunded Bonds to Escrow Agent	-	(14,435,417)	-	-	(14,435,417)
Transfers In	3,138,558	-	25,612,719	9,832,887	38,584,164
Transfers Out	(32,020,579)	(8,042,900)	(8,673,267)	(6,905,797)	(55,642,543)
Total other financing sources (uses)	(28,882,021)	(7,787,268)	18,921,018	2,927,090	(14,821,181)
Net change in fund balances	4,854,382	1,747,693	(1,565,170)	78,540	5,115,445
Fund balance - beginning	20,191,921	29,371,630	31,650,589	18,262,332	99,476,472
Fund balance - ending	$ 25,046,303	$ 31,119,323	$ 30,085,419	$ 18,340,872	$ 104,591,917

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

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, 2005

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

Net change in fund balances - total governmental funds	$	5,115,445
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceed the depreciation expenses.		(1,545,189)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,384,914)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		9,633,776
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.		279,611
Net assets related to business-type funds		(371,502)
The internal service fund is used by management to charge the costs of office services.		17,215
The internal service fund is used by management to charge the costs of fleet maintenance.		1,254,579
The internal service fund is used by management to charge the costs of risk management.		1,995,210
The internal service fund is used by management to charge the costs of employee health insurance.		2,422,735
The internal service fund is used by management to charge the costs of equipment replacement.		719,778
The internal service fund is used by management to charge the costs of City buildings.		211,186
Change in net assets of governmental activities	$	18,347,930

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
REVENUES				
Taxes, assessments, interest & penalities	$ 122,090,520	$ 122,090,520	$ 124,424,894	$ 2,334,374
Licenses, permits & inspection charges	262,670	262,670	284,124	21,454
Fines & forfeitures	240,760	240,760	354,111	113,351
Charges for services	857,530	857,530	963,490	105,960
Other	699,310	2,248,838	707,869	(1,540,969)
Intergovernmental revenue	17,218,910	16,786,810	16,284,744	(502,066)
Total revenues	141,369,700	142,487,128	143,019,232	532,104
EXPENDITURES				
Current:				
Administration	1,685,803	1,828,678	1,798,081	30,597
Finance & Accountability	5,841,570	5,989,263	5,741,642	247,621
Operations & Engineering	6,169,653	4,716,101	4,622,550	93,551
Community & Neighborhood Services	21,624,041	23,128,929	22,828,300	300,629
Law	1,436,420	1,462,920	1,440,230	22,690
Police	37,784,089	38,000,212	36,938,209	1,062,003
Fire	25,640,582	25,743,593	25,628,680	114,913
Legislative	800,510	1,005,645	741,372	264,273
Civil Service	884,687	885,437	919,002	(33,565)
City Elections	35,000	35,000	-	35,000
Knoxville Partnership	689,820	689,820	652,118	37,702
Metropolitan Planning Commission	692,650	692,650	692,650	-
Knoxville Zoological Park	864,210	864,210	864,210	-
Agency grants	1,489,170	1,575,170	1,328,534	246,636
Waterfront	275,730	275,730	348,111	(72,381)
Community Action Committee	444,980	444,980	448,820	(3,840)
Reserve	1,450,000	1,450,000	-	1,450,000
Mass transit	4,027,330	4,027,330	4,027,330	-
Capital & Grant Projects	393,145	393,145	262,990	130,155
Total expenditures	112,229,390	113,208,813	109,282,829	3,925,984
Excess (deficiency) of revenues over (under) expenditures	29,140,310	29,278,315	33,736,403	4,458,088
OTHER FINANCING SOURCES (USES)				
Transfers In	2,869,840	2,869,840	3,138,558	268,718
Transfers Out	(32,010,150)	(32,148,155)	(32,020,579)	127,576
Total other financing sources (uses)	(29,140,310)	(29,278,315)	(28,882,021)	396,294
Net change in fund balances	$ -	$ -	4,854,382	$ 4,854,382
FUND BALANCE - BEGINNING			20,191,921	
FUND BALANCE - ENDING			$ 25,046,303	

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-type Activities			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Fund
Assets				
Current assets				
Cash & temporary investments	$ 601,679	$ 547,622	$ 1,149,301	$ 462,530
Investments	-	5,159,255	5,159,255	31,227,764
Accounts receivable	2,095,749	83,467	2,179,216	57,570
Notes receivable	-	811,301	811,301	-
Net assets held by convention center managers	904,630	-	904,630	-
Due from other funds	-	-	-	770,000
Inventory	-	-	-	1,100,537
Prepaid items	-	-	-	4,791
Total current assets	3,602,058	6,601,645	10,203,703	33,623,192
Noncurrent assets				
Land & site improvements	2,952,020	3,090,091	6,042,111	-
Building & building improvements	180,064,153	26,391,505	206,455,658	195,764
Equipment	2,616,106	246,786	2,862,892	53,477,177
Less accumulated depreciation	(23,104,958)	(18,653,896)	(41,758,854)	(39,503,016)
Deferred charges	810,993	9,101	820,094	-
Total noncurrent assets	163,338,314	11,083,587	174,421,901	14,169,925
Total assets	166,940,372	17,685,232	184,625,604	47,793,117
Liabilities				
Current liabilities				
Accounts payable	256,133	69,591	325,724	190,686
Accrued liabilities	612,086	65,528	677,614	302,455
Customer deposits	-	167,536	167,536	-
Due to other funds	-	-	-	3,932,300
Deferred revenue	1,249,670	91,504	1,341,174	-
Bond & notes payable, due within one year	3,020,000	810,000	3,830,000	-
Total current liabilities	5,137,889	1,204,159	6,342,048	4,425,441
Noncurrent liabilities				
Bond & notes payable, due more than one year	150,246,896	385,000	150,631,896	-
Other Non-Current Liabilities	-	101,509	101,509	-
Estimated litigation liability	-	-	-	5,592,171
Total noncurrent liabilities	150,246,896	486,509	150,733,405	5,592,171
Total liabilities	155,384,785	1,690,668	157,075,453	10,017,612
Net assets				
Net Assets - Capital net of debt	8,832,321	9,879,486	18,711,807	14,169,925
Unrestricted	2,723,266	6,115,078	8,838,344	23,605,580
Total net assets	$ 11,555,587	$ 15,994,564	$ 27,550,151	$ 37,775,505

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-type Activities			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Fund
Operating revenues				
Charges for services	$ 5,047,450	$ 2,752,664	$ 7,800,114	$ 33,554,720
Total operating revenues	5,047,450	2,752,664	7,800,114	33,554,720
Operating expenses				
Personal Services	-	1,749,441	1,749,441	2,595,165
Materials & Supplies	-	131,292	131,292	3,146,828
Maintenance	-	1,136,301	1,136,301	645,445
Depreciation & Amortization	4,507,365	705,310	5,212,675	5,345,763
Other Services and Charges	9,317,927	1,066,552	10,384,479	21,611,062
Total operating expenses	13,825,292	4,788,896	18,614,188	33,344,263
Operating income (loss)	(8,777,842)	(2,036,232)	(10,814,074)	210,457
Nonoperating revenue (expense)				
Interest Income	-	100,424	100,424	421,437
Intergovernmental Revenue	5,146,012	-	5,146,012	-
Other Revenues	55,592	142,486	198,078	50,161
Gain (loss) on disposal of capital assets	-	(3,689)	(3,689)	(87,248)
Interest expense	(5,736,814)	(38,648)	(5,775,462)	-
Total nonoperating revenue (expense)	(535,210)	200,573	(334,637)	384,350
Income (loss) before transfers	(9,313,052)	(1,835,659)	(11,148,711)	594,807
Transfers:				
Transfers in	8,845,320	2,187,163	11,032,483	6,025,896
Change in net assets	(467,732)	351,504	(116,228)	6,620,703
Total net assets - beginning	12,023,319	15,643,060	27,666,379	31,154,802
Total net assets - ending	$ 11,555,587	$ 15,994,564	$ 27,550,151	$ 37,775,505

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating activities				
Cash received from customers and users	$ 5,331,922	$ 3,176,100	$ 8,508,022	$ -
Receipts from interfund services provided	-	-	-	33,557,252
Cash paid to suppliers	(8,735,595)	(2,209,942)	(10,945,537)	(6,185,585)
Cash paid to employees	-	(1,751,938)	(1,751,938)	(2,679,229)
Cash paid for interfund services used	(93,520)	(149,299)	(242,819)	(361,282)
Payments of claims and insurance	-	-	-	(17,667,441)
Net cash provided by (used in) operating activities	(3,497,193)	(935,079)	(4,432,272)	6,663,715
Noncapital financing activities				
Transfers from other funds	7,912,186	2,187,163	10,099,349	5,077,468
Transfers to other funds	-	(134,473)	(134,473)	207,079
Tax, intergovernmental and other revenues	5,201,604	142,486	5,344,090	50,161
Net cash provided (used) by noncapital financing activities	13,113,790	2,195,176	15,308,966	5,334,708
Capital and related financing activities				
Principal paid on general obligation bond maturities	(3,328,104)	(407,291)	(3,735,395)	-
Interest paid	(5,736,814)	(38,648)	(5,775,462)	-
Proceeds from sale of capital assets	-	-	-	77
Acquisition and construction of capital assets	-	(12,194)	(12,194)	(5,140,354)
Net cash provided (used) by capital and related financing activities	(9,064,918)	(458,133)	(9,523,051)	(5,140,277)
Investing activities				
Purchase of investments	-	(860,500)	(860,500)	(7,976,567)
Investment earnings	-	100,424	100,424	421,340
Net cash provided (used) in investing activities	-	(760,076)	(760,076)	(7,555,227)
Net increase in cash and cash equivalents/investments	551,679	41,888	593,567	(697,081)
Cash and cash equivalents/investments				
Beginning of year	50,000	505,734	555,734	1,159,611
End of year	$ 601,679	$ 547,622	$ 1,149,301	$ 462,530
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ (8,777,842)	$ (2,036,232)	$ (10,814,074)	$ 210,457
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,507,365	705,310	5,212,675	5,345,763
Change in assets and liabilities				
(Increase) decrease in receivables	(965,198)	251,802	(713,396)	2,532
(Increase) decrease in inventory	-	-	-	694,459
(Increase) decrease in prepayments	42,042	4,098	46,140	494,167
Increase (decrease) in accounts payable	(3,445)	(36,476)	(39,921)	(27,880)
Increase (decrease) in accrued expenses	450,215	8,883	459,098	(33,549)
Increase (decrease) in deferred revenue	1,249,670	-	1,249,670	-
Increase (decrease) in customer deposits	-	167,536	167,536	-
Increase (decrease) in liability	-	-	-	(22,234)
Total adjustments	5,280,649	1,101,153	6,381,802	6,453,258
Net cash provided by (used in) operating activities	$ (3,497,193)	$ (935,079)	$ (4,432,272)	$ 6,663,715

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Fiduciary Net Assets
Fiduciary Component Unit
June 30, 2005

	City Employees' Pension Fund
Assets	
Cash	$ 1,435
Investments (held by trustee):	
Cash Equivalents	10,206,940
United States Government Securities	64,283,433
State & Municipal Government Securities	11,376,190
International Securities	101,839,769
Corporate Bonds & Debentures	31,298,890
Equity Securities	254,770,882
Receivables:	
Pending Sales Proceeds	1,725,535
Other Receivables	9,910
Accrued Interest & Dividends	1,461,994
Capital assets:	
Equipment, Furniture & Fixtures	84,884
Accumulated Depreciation	(65,161)
Total assets	476,994,701
Liabilities	
Accounts Payable	522,073
Investment Purchase Pending	3,251,074
Total liabilities	3,773,147
Net assets	
Held in Trust for:	
Pension Benefits	473,221,554
Total net assets	$ 473,221,554

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Changes in Fiduciary Net Assets
Fiduciary Component Unit
For the Year Ended June 30, 2005

	City Employees' Pension Fund
Additions	
Employee Contributions	$ 2,880,986
Employer Contributions	3,135,094
Investment Income	45,601,672
Total additions	51,617,752
Deductions	
Benefits	31,104,296
Refunds	668,828
Depreciation	8,211
Administration	3,039,787
Total deductions	34,821,122
Change in net assets	16,796,630
Total net assets - beginning	456,424,924
Total net assets - ending	$ 473,221,554

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

1. Knoxville Utilities Board (KUB) provides electric, gas and water and wastewater services to residents of the City and surrounding areas. KUB may not issue debt without the City's approval, although the City does not have any obligation for KUB debt.

2. Metropolitan Knoxville Airport Authority (MKAA) operates two airport facilities that serve Knoxville and the surrounding area. MKAA must obtain City approval to issue debt.

3. City of Knoxville Pension System (Pension) operates a defined benefit plan for employees of the City, KAT and MKAA. The Pension receives significant contributions from the City. Changes to the pension plan recommended by the Pension Board must be approved by the City.

4. Knoxville Area Transit (KAT) operates the public transportation system in Knoxville. The City approves the KAT budget. The City also provides significant operating subsidies to KAT.

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

Knoxville Utilities Board 626 South Gay Street Knoxville, Tennessee 37929	Metropolitan Knoxville Airport Authority P. O. Box 15600 Knoxville, Tennessee 37901	City of Knoxville Pension Board 917B E Fifth Avenue Knoxville, Tennessee 37917

Joint Ventures

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related and Jointly Governed Organizations

The following related agencies provide services within the City:

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

Knoxville Zoological Park, Chilhowee Park, and IJAMS Nature - the City has management agreements with each of these entities (Note 15) but has no involvement in directing the respective entities' budgets, rates, debt obligations and board membership.

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund type:

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, liabilities, and net assets or equity

Deposits and investments

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

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

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

Receivables

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

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

Inventories and prepaid items

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

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

Restricted assets

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

Capital assets

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 $5,736,814. Because there was no construction during 2005, no interest was capitalized. Total interest expense incurred by the Metropolitan Knoxville Airport Authority was $4,401,284 of which $113,495 was capitalized as part of construction.

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

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

The original cost of KUB utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation.

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 the result of employee resignation or retirement and is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it (i.e. the fund that pays the employee's salary or wages).

Long-term obligations

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

Master plans

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

Passenger facility charges

The collection of passenger facility charges has been approved by the Federal Aviation Administration to be used for qualifying capital improvement projects of the Metropolitan Knoxville Airport Authority. Passenger facility charges, along with related interest earnings, are recorded as deferred until used or authorized for use under a Federal Aviation Administration-approved application to use. Once authorized to use, the passenger facilities charges are recognized as nonoperating revenue in the year collected by the air carriers. During 2005, all passenger facilities charges were authorized for use and at June 30, 2005 there was no deferred revenue related to passenger facilities charges.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund equity

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

Environmental cleanup matters

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

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Reconciliations between the governmental fund balance sheet and the government-wide statement of net assets and between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are shown on pages 23 and 25, respectively.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City is required by its charter to adopt annual budgets for those operating funds that are under the direct control of City Council. This includes all governmental funds except the miscellaneous grants fund, animal control fund, miscellaneous special revenue funds, miscellaneous community development funds, city judges' retirement fund, Coster redevelopment fund, Krutch park fund, Knoxville civic revitalization fund and city choice fund. City Council adopts project-length budgets for the capital projects fund. In addition City Council adopts annual operating budgets for all enterprise and internal service funds. The City prepares its budget on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP).

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The following supplemental and reductions in appropriations were enacted by City Council during the fiscal year 2005.

General fund	$ 791,095
Special revenue funds	7,278,837
Capital projects funds	1,612,803

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

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

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Enterprise Funds						
Knoxville Convention Center	$ 17,889,676	$ 19,094,374	$ 1,204,698	$ 22,084,817	$ 19,562,106	$ 2,522,711
Metro Parking	1,082,000	1,078,089	(3,911)	894,440	856,938	37,502
Public Assembly Facilities	3,217,421	4,100,959	883,538	3,625,191	3,970,606	(345,415)
Knoxville Area Transit (Component unit)	31,389,858	21,441,000	(9,948,858)	31,814,860	23,034,648	8,780,212
Internal Service Funds						
Office Services	451,620	387,057	(64,563)	451,620	369,842	81,778
Fleet Management	8,802,567	10,677,994	1,875,427	9,184,146	9,423,415	(239,269)
Risk Management	7,328,303	9,069,599	1,741,296	7,328,303	7,074,389	253,914
Employee Health Insurance	15,355,693	14,910,825	(444,868)	14,193,693	12,488,090	1,705,603
Equipment Replacement	2,439,990	3,431,998	992,008	3,042,111	2,712,220	329,891
City Buildings	1,457,231	1,487,493	30,262	1,457,231	1,276,307	180,924

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Deposits - Deposits are included in the City's financial statements as "Cash", "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.

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Deposits are classified into three categories of credit risk based upon the following:

Category 1 includes deposits which are insured or collateralized by securities held by the City/component unit or its agent in the City's/component unit's name.

Category 2 includes deposits which are collateralized by securities held by the pledging institution's trust department or agent in the City's/component unit's name.

Category 3 includes deposits which are uncollateralized, which includes deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's/component unit's name.

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

The City is not authorized to enter into reverse repurchase agreements. The Pension Trust Fund investment policies allow its agents to invest in government securities, certificates of deposit, bankers' acceptances, repurchase agreements, bonds and notes (with "A" or better ratings) and common stocks and common stock equivalents. The Pension Trust Fund is required to maintain a minimum of 25% of its carrying value in fixed income accounts. State statutes and Pension Trust Fund investment policies allow the Pension Trust Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The Pension Trust Fund lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102%. Although the average term of the loans is one week, either the Pension Trust Fund or the borrower can terminate securities loans on demand. Cash collateral is invested in the lending agent's short-term investment pool. The relationship between maturities of the investment pool and the Pension Trust Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Pension Trust Fund cannot determine. The Pension Trust Fund cannot pledge, sell, or otherwise access collateral assets received unless the borrower defaults.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end:

Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. The City's investments in U.S. government agencies, commercial paper, and other governmental bonds are included in this category.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Investment policies

Investment Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limits investments to no more than two years. As of June 30, 2005, the average weighted maturity, in days, of the City's portfolio was 117 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 SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value. The City is exempted from sharing in any realized gains and losses of the fund.

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

The City is not authorized to enter into reverse repurchase agreements. The City's Investment Policy allows only investment in the highest-grade securities. Investments in commercial paper requires that the issuer be rated A!/P!/F! 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 failure of the counterparty, the City will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The City's investments are typically uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Certificates of deposit are secured by collateral held by the State's Collateral Pool. These would again include uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name.

Concentration of Credit Risk: The City's Investment Policy imposes several limits on the amount and type of investments in order to avoid having a large percentage of the portfolio in a single issuer. First, the policy states that, with the exception of U.S. treasuries, agency securities, and the state investment pool, no more than thirty-five percent of the portfolio shall invested in a single security type. The policy further limits, with respect to banker's acceptances and commercial paper, that no more than ten percent of the portfolio, or $10 million whichever is less, shall be from a single issuer. As of June 30, 2005, the City held investments in GE commercial paper, Lockhart Funding commercial paper, and Zion's Bancorp commercial paper, each representing approximately four percent of the total portfolio. Also, the City held securities of the Federal Home Loan Bank of $20.3 million or approximately 16.7% of the total portfolio.

The City's deposits and investments at June 30, 2005 are summarized as follows:

	Category			
	1	2	3	Total
Deposits:				
Bank balances	$ 10,916,586	$ -	$ -	$ 10,916,586
Carrying amounts	$ 5,034,341	$ -	$ -	$ 5,034,341

As of June 30, 2005, the City had the following investments and maturities.

Investments:	Fair Value	Less Than 6 Months	6 - 12 Months	1 - 2 Years
U.S. Government Agencies	$ 40,240,742	$ 11,830,101	$ 14,196,743	$ 14,213,898
Commercial Paper	27,000,000	27,000,000	-	-
Certificates of Deposit	1,000,000	-	500,000	500,000
Other Governmental Bonds	1,088,518	279,815	470,243	338,460
Tennessee Local Government Investment Pool	52,426,372	52,426,372	-	-
	$ 121,755,632	$ 91,536,288	$ 15,166,986	$ 15,052,358

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City of Knoxville Pension System
Cash and cash equivalents	$ 39,589,571	$ 4,374,607	$ 430	$ 1,435
Investments	61,657,176	21,065,235	789,415	473,776,104
Bond funds	10,623,132	375,793	-	-
Other temporarily restricted assets	178,019	-	-	-
	112,047,898	25,815,635	789,845	473,777,539
Less accrued interest	364,139	-	-	-
Total deposits and investments	$ 111,683,759	$ 25,815,635	$ 789,845	$ 473,777,539

Component unit deposits and investments at June 30, 2005 are summarized as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City of Knoxville Pension System
Deposits:	(all category 1)	(all category 1)		(all category 1)
Bank balances	$ 114,137,563	$ 4,782,556	$ -	$ 1,435
Carrying amounts:				
Deposits (outstanding checks) in financial institutions	$ (21,788,059)	$ 4,750,400	$ -	$ 1,435
Certificates of deposit	67,564,725	-	-	-
Money market	3,750,000	-	-	-
Super NOW Account	38,377,000	-	-	-
Total deposits - carrying value	$ 87,903,666	$ 4,750,400	$ -	$ 1,435

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Investments:	Knoxville Utilities Board (all category 1)	Metropolitan Knoxville Airport Authority (all category 1)	Knoxville Area Transit	City of Knoxville Pension System (all category 2)	Total Amount	Fair Value
Cash equivalents	$ -	$ -	$ 430	$ 10,206,940	$ 10,207,370	$ 10,207,370
United States government securities	12,143,350	21,065,235	-	15,445,454	48,654,039	48,654,039
Equity securities	-	-	-	225,859,960	225,859,960	225,859,960
Corporate bonds	-	-	-	29,896,567	29,896,567	29,896,567
State and municipal government securities	-	-	-	11,376,190	11,376,190	11,376,190
International securities	-	-	-	101,839,769	101,839,769	101,839,769
Total classified Investments	12,143,350	21,065,235	430	394,624,880	427,833,895	427,833,895
Investments not categorized:						
Investments held by broker-dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States government securities	-	-	-	48,837,979	48,837,979	48,837,979
Equity securities	-	-	-	28,910,922	28,910,922	28,910,922
Corporate bonds	-	-	-	1,402,323	1,402,323	1,402,323
Third parties holding cash collateral:						
United States government securities	-	-	-	-	-	-
Investments in state treasurer's investment pool	11,636,743	-	789,415	-	12,426,158	12,426,158
Total Investments	$ 23,780,093	$ 21,065,235	$ 789,845	$ 473,776,104	$ 519,411,277	$ 519,411,277
Total deposits and investments	$ 111,683,759	$ 25,815,635	$ 789,845	$ 473,777,539		

The City of Knoxville Pension System also has a credit risk exposure for cash held in its securities lending short-term collateral investment pools (not included in the City of Knoxville Pension System financial statements) for $81,133,181 held by broker dealers. The contract with the Pension System's custodian requires it to indemnify the Pension System if the borrowers fail to return the borrowed securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan. Because collateral exceeds the fair value of securities lent, it has no credit risk exposure to the borrowers at June 30, 2005.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005, including the applicable allowance for uncollectible accounts, consisted of the following:

	Intergovern-mental	Interest and Dividends	Grants	Fines and Court Costs	Customers	Other	Allowance for Doubtful Accounts	Total
General fund	$ 10,295,333	$ 9,557	$ -	$ 3,295	$ -	$ 1,392,152	$ -	$ 11,700,337
Debt service fund	-	389,065	-	-	-	-	-	389,065
Capital projects fund	-	21,845	-	-	-	20,213	-	42,058
Other governmental activities	853,595	45,526	902,863	118,039	-	348,292	-	2,268,315
Knoxville Convention Center	-	-	-	-	-	2,095,749	-	2,095,749
Other business-type activities	-	-	-	-	83,467	-	-	83,467
Internal service funds	38,280	-	-	-	19,290	-	-	57,570
Total primary government	11,187,208	465,993	902,863	121,334	102,757	3,856,406	-	16,636,561
Component units:								
Knoxville Utilities Board	-	-	-	-	51,542,894	-	(740,993)	50,801,901
Metropolitan Knoxville Airport Authority	-	149,475	789,514	-	235,271	-	-	1,174,260
Knoxville Area Transit	-	-	2,877,345	-	-	-	-	2,877,345
Knoxville Employees' Pension Plan	-	1,461,994	-	-	-	1,735,445	-	3,197,439
Total reporting entity	$ 11,187,208	$ 2,077,462	$ 4,569,722	$ 121,334	$ 51,880,922	$ 5,591,851	$ (740,993)	$ 74,687,506

NOTE 6 - LEASES RECEIVABLE

Public Assembly Facilities Fund

The Public Assembly Facilities Fund leases a portion of the exhibition center to an adjoining hotel. Components of the Public Assembly Facilities investment in the capitalized lease at June 30, 2005, are as follows:

Total minimum lease payments receivable	$1,725,275
Less unearned income	883,328
Net investment in lease receivable	$ 841,947

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

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2028. As of June 30, 2005, minimum future base rentals to be received on noncancelable leases are as follows:

Years ended June 30	
2006	$ 7,915,711
2007	7,085,364
2008	7,051,925
2009	4,116,938
2010	1,570,103
Thereafter	24,374,762
	$ 52,114,803

Under the terms of one of the Metropolitan Knoxville Airport Authority leases, payments in future years increase significantly. The Authority recognizes income from this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately $1,069,000 are included in other assets in the accompanying statement of net assets as of June 30, 2005. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to $1,325,737 for the year ended June 30, 2005.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Cost				Accumulated Depreciation			
Primary Government	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance	Beginning Balance	Depreciation	Retirements	Ending Balance
Governmental activities:								
Nondepreciable:								
Land & site improvements	$ 39,369,046	$ 481,204	$ 3,376,942	$ 36,473,308	$ -	$ -	$ -	$ -
Construction in progress	50,099,787	20,583,316	2,522,353	68,160,750	-	-	-	-
Depreciable:								
Buildings and building improvements	38,951,753	-	-	38,951,753	16,132,764	2,148,671	-	18,281,435
Equipment, furniture and fixtures	53,673,242	5,201,684	3,177,971	55,696,955	39,159,029	7,926,360	1,118,286	45,967,103
Infrastructure	176,313,845	-	-	176,313,845	60,541,000	10,069,737	-	70,610,737
	$ 358,407,673	$ 26,266,204	$ 9,077,266	$ 375,596,611	$ 115,832,793	$ 20,144,768	$ 1,118,286	$ 134,859,275
Business-type activities:								
Nondepreciable:								
Land & site improvements	$ 6,042,111	$ -	$ -	$ 6,042,111	$ -	$ -	$ -	$ -
Artwork	764,875	-	-	764,875	-	-	-	-
Construction in progress	-	-	-	-	-	-	-	-
Depreciable:								
Buildings and building improvements	206,455,658	-	-	206,455,658	35,920,931	5,345,457	248,976	41,017,412
Equipment, furniture and fixtures	2,241,373	11,933	155,289	2,098,017	777,848	166,218	202,624	741,442
	$ 215,504,017	$ 11,933	$ 155,289	$ 215,360,661	$ 36,698,779	$ 5,511,675	$ 451,600	$ 41,758,854

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

Governmental Activities		Business-type activities	
Administration	$ 92,011	Knoxville Convention Center	$ 4,806,366
Finance	654,781	Metro Parking	378,604
Community & Neighborhood Services	1,738,333	Public Assembly Facilities	326,705
Operations and Engineering	9,077,909		
Police	385,598		
Fire	221,857		
Zoo	1,881,325		
Waterfront operations	747,191		
Internal service funds (charged to various functions based on usage)	5,345,763		
	$ 20,144,768		$ 5,511,675

NOTE 7 – CAPITAL ASSETS (continued)

Capital asset activity for component units for the year ended June 30, 2005 was as follows:

	Cost				Accumulated Depreciation			
Component Units	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance	Beginning Balance	Depreciation	Retirements	Ending Balance
Knoxville Utilities Board:								
Production plant	$ 734,068	$ 3,125	$ -	$ 737,193				
Pumping and treatment plant	136,875,232	4,268,284	170,574	140,972,942				
Distribution & collection plant	860,708,805	47,161,742	4,669,182	903,201,365				
General plant	89,849,869	3,918,420	1,280,215	92,488,074				
Total Knoxville Utilities Board	$ 1,088,167,974	$ 55,351,571	$ 6,119,971	$ 1,137,399,574	$ 388,510,322	$ 34,130,685	$ 5,621,513	$ 417,019,494
Metropolitan Knoxville Airport Authority:								
Nondepreciable:								
Land	$ 21,421,947	$ 616,303	$ 20,224	$ 22,018,026	$ -	$ -	$ -	$ -
Construction in progress	3,545,727	8,026,465	3,891,683	7,680,509	-	-	-	-
Depreciable:								
Land improvements	117,784,560	3,261,524	-	121,046,084	60,473,513	5,583,490	-	66,057,003
Buildings and building improvements	118,400,095	247,018	-	118,647,113	30,692,697	4,211,792	-	34,904,489
Equipment, furniture and fixtures	7,262,572	778,330	98,765	7,942,137	6,280,119	684,580	95,906	6,868,793
	$ 268,414,901	$ 12,929,640	$ 4,010,672	$ 277,333,869	$ 97,446,329	$ 10,479,862	$ 95,906	$ 107,830,285
Knoxville Area Transit:								
Nondepreciable:								
Construction in progress	$ 744,195	$ -	$ -	$ 744,195	$ -	$ -	$ -	$ -
Depreciable:								
Buildings and building improvements	5,013,214	11,961	-	5,025,175	1,948,103	98,414	-	2,046,517
Equipment, furniture and fixtures	23,126,259	1,610,266	942,912	23,793,613	11,708,711	2,126,610	933,939	12,901,382
	$ 28,883,668	$ 1,622,227	$ 942,912	$ 29,562,983	$ 13,656,814	$ 2,225,024	$ 933,939	$ 14,947,899
Knoxville Employees' Pension Plan:								
Depreciable:								
Equipment, furniture and fixtures	$ 80,100	$ 4,784	$ -	$ 84,884	$ 56,950	$ 8,211	$ -	$ 65,161

Estimated cost to complete the Metropolitan Knoxville Airport Authority's construction was approximately $5 million at June 30, 2005. The work will be funded through proceeds from bond issuance, passenger facility charges, and Airport Authority funds.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2005 is as follows:

	Due From Other Funds	Due to Other Funds	Internal Balances	Component Units	Primary Government
Governmental activities					
General Fund	$ 3,638,400	$ -	$ 3,638,400	$ 2,941,000	$ -
Special Revenue Funds:					
Community Development Block Grants	-	207,000	(207,000)	-	-
Abandoned Vehicles	-	1,100	(1,100)	-	-
Miscellaneous Special Revenue Funds	-	887,000	(887,000)	-	-
Miscellaneous Community Development	-	121,800	(121,800)	-	-
Storm Water	-	17,100	(17,100)	-	-
Solid Waste	-	71,400	(71,400)	-	-
City Choice Plus	-	24,500	(24,500)	-	-
Capital Projects Fund	853,800	-	853,800	-	-
Governmental activity internal service funds	-	-	(3,162,300)	-	-
Total governmental activities	4,492,200	1,329,900	-	2,941,000	-
Business-type activities					
Business-type internal service funds	-	-	-	-	-
Internal Service Funds					
Internal Service Funds					
Employee Health Insurance	770,000	-		-	-
Fleet Management	-	3,903,000		-	-
Equipment Replacement	-	24,200		-	-
City Buildings	-	5,100		-	-
Total business-type activities	770,000	3,932,300		-	-
Component Units:					
Knoxville Area Transit	-	-	-	-	2,941,000
	$ 5,262,200	$ 5,262,200	$ -	$ 2,941,000	$ 2,941,000

NOTE 9 - LONG-TERM DEBT

Bonds and notes payable at June 30, 2005, are comprised of the following issues:

Primary Government	Governmental Activities	Business-type Activities	Total
General Obligation Bonds:			
General Obligation Refunding Bonds, Series 1999A maturing through 2008 at varying rates of interest ranging from 4.25% to 4.5%	$ -	$ 1,195,000	$ 1,195,000
General Obligation Public Improvement Bonds, Series 2000A maturing through 2020 at varying rates of interest ranging from 5.0% to 5.6%	2,265,000	-	2,265,000
General Improvement Bonds, Series 2004A maturing through 2024 at varying rates of interest ranging from 2.0% to 4.0%	32,805,000	-	32,805,000
General Obligation Refunding Bonds, Series 2004B maturing through 2017 at varying rates of interest ranging from 4.0% to 5.5%	43,800,000	-	43,800,000
General Obligation Bonds Series IIIF through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	-	39,925,000	39,925,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2002A maturing through 2024 at varying rates of interest ranging from 3.5% to 5.0%	-	53,800,000	53,800,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	13,725,000	-	13,725,000
Total general obligation bonds	$ 92,595,000	$ 154,890,000	$ 247,485,000

NOTE 9 - LONG-TERM DEBT (continued)

Component Units:	Bonds	Notes	Total
Knoxville Utilities Board:			
Electric Revenue Bonds Series S to V, maturing through 2030 at varying rates of interest ranging from 2.0% to 5.1%	$ 108,290,000	$ -	$ 108,290,000
Water Revenue Bonds Series N to Q maturing through 2030 at varying rates of interest ranging from 2.0% to 5.2%	35,700,000	-	35,700,000
Gas Revenue Bonds Series H to K, maturing through 2029 at varying rates of interest ranging from 2.0% to 5.2%	77,365,000	-	77,365,000
Waste Water Revenue Bonds Series S to T, maturing through 2029 at varying rates of interest ranging from 4.0% to 5.1%	53,865,000	-	53,865,000
Bond anticipation notes	-	30,000,000	30,000,000
	$ 275,220,000	$ 30,000,000	$ 305,220,000
Metropolitan Knoxville Airport Authority:			
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. $16,870 bears interest at 5.79%. The remaining principal bears interest at a variable rate (1.17% at June 30, 2004).	$ 16,870,000	$ -	$ 16,870,000
Local Government Public Improvement Bonds, 2001 Series III-A maturing through 2028. $56,195 bears interest at 4.738%. The remaining principal bears interest at a variable rate (1.13% at June 30, 2004).	90,870,000	-	90,870,000
	$ 107,740,000	$ -	$ 107,740,000

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, 2005, these requirements had been satisfied.

NOTE 9 - LONG-TERM DEBT (continued)

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

Primary Government	General Obligation Bonds			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	$ 10,515,000	$ 4,003,813	$ 3,415,000	$ 5,815,353
2007	9,710,000	3,519,063	3,565,000	5,722,503
2008	8,470,000	3,075,263	3,670,000	5,619,595
2009	7,340,000	2,694,213	3,430,000	5,514,210
2010	5,325,000	2,383,300	3,580,000	5,420,710
2011 - 2015	23,775,000	8,682,649	20,415,000	25,518,620
2016 - 2020	18,510,000	4,081,166	25,545,000	22,236,230
2021 - 2025	8,950,000	926,325	32,355,000	16,742,000
2026 - 2030	-	-	40,405,000	8,677,000
2031 - 2032	-	-	18,510,000	1,117,800
	92,595,000	$ 29,365,792	154,890,000	$ 102,384,021
Unamortized premium and deferred gain on refunding	2,963,190		10,431	
Unamortized discounts	-		(438,535)	
Total	$ 95,558,190		$ 154,461,896	

Component Units	Principal		
	Revenue Bonds	Notes Payable	Interest
2006	$ 12,945,000	$ -	$ 17,115,652
2007	13,495,000	30,000,000	16,554,754
2008	14,065,000	-	15,966,324
2009	14,675,000	-	15,349,285
2010	14,835,000	-	15,197,390
2011 - 2015	80,370,000	-	53,784,629
2016 - 2020	81,285,000	-	45,813,524
2021 - 2025	96,910,000	-	25,400,922
2026 - 2030	54,380,000	-	6,298,238
	382,960,000	30,000,000	211,480,718
Unamortized discount and deferred loss on refunding	(692,330)	-	-
Total	$ 382,267,670	$ 30,000,000	$ 211,480,718

NOTE 9 - LONG-TERM DEBT (continued)

Interest Swap Agreements

Primary government

During 2002, the City transferred the $45,000,000 liability for the General Obligation Bonds Series IIIF bonds, along with the related cost of the convention center construction, from the governmental activity of the capital projects fund to the Knoxville Convention Center fund. As a hedge against rising interest rates, the City entered into an interest swap agreement with Wachovia Bank. The City pays Wachovia (through a trust with Morgan Keegan) interest at a fixed rate of 3.955%. Wachovia pays the trust interest at a variable rate based on LIBOR. The trust pays the bondholders interest at a variable rate based on BMA. The City has a risk that if the LIBOR rate is less than the BMA rate, it will have to pay additional amounts to the trust to cover bondholder interest. During 2005, the City paid $77,430 in additional interest due to an unfavorable difference in the LIBOR and BMA rates.

Component units

The Metropolitan Knoxville Airport Authority Series II-D-I and III-A Bonds bear interest at variable rates. A portion of the Series II-D-I and III-A Bonds totaling $16,870,000 and $52,065,000, respectively, is subject to interest rate swap agreements. Based on the swap agreements, the Authority owes interest at an effective fixed rate of 5.79% and 4.74% on the Series II-D-I and III-A Bonds, respectively. In return, the counterparty owes the Authority interest based on a variable rate that is calculated based on a published index rate. The $16,870,000 and $52,065,000 in bond principal are not exchanged; only the net difference in interest payments is actually exchanged with the counterparty and recorded by the Authority as interest expense. The Authority, through the trustee, continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt plus or minus the difference between the variable rate due the bondholders and the variable rate received from the counterparty. The Authority would be exposed to variable rates if the counterparty to the swap defaults, if the variable rate received from the counterparty is less than that due to bondholders or if the swap is terminated. A termination of the swap agreement could also result in the Authority's making or receiving a termination payment. The fair value of the swap agreements is a deferred loss of $8,600,485 as of June 30, 2005. This amount which, was estimated by obtaining quotes from the bank, have not been recorded in the accompanying statements.

The debt service requirements for both primary government and Airport Authority bonds subject to interest swap arrangements are based on the fixed rate. Other than the net interest expenditures resulting from the swap agreement, no other amounts are recorded in the financial statements. The Authority incurred additional interest costs of $1.8 million in 2005 related to the swap agreement.

Advance and Current Refundings

Primary government

During 2005, the City issued the 2005A General Obligation Refunding Bonds totaling $13,725,000. These bonds were used to refund a portion of the City's Series 2000A Series General Obligation Bonds. U. S. Government State and Local Government Series securities were purchased and placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of $13,395,000 of the City's Series 2000A General Obligation Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $330,000. The advance refunding resulted in gross savings over the life of the bonds of $935,593.

NOTE 9 - LONG-TERM DEBT (continued)

Component units

Knoxville Utilities Board

The Knoxville Utilities Board's (KUB) Electric Division issued the Series S 1998 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the 1992 Series P revenue bonds, as well as a portion of the 1993 Series Q revenue bonds and 1995 Series R revenue bonds. During fiscal year 2001, KUB's Electric Division issued the Series T 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the 1993 Series Q revenue bonds and the 1995 Series R revenue bonds, as such amounts mature. During 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of Series S 1998 revenue bonds, as such amounts mature. The outstanding principal balances on defeased bond issues were $41.3 million at June 30, 2005.

The Knoxville Utilities Board's Gas Division issued the Series H 1998 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series E revenue bonds, as such amounts mature. During fiscal year 2001, KUB issued Series I 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series F Revenue bonds and the 1997 Series G Revenue bonds, as such amounts mature. During 2004, KUB issued Series K 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of Series H 1998 revenue bonds, as such amounts mature. Remaining principal balances outstanding at June 30, 2005, on these defeased bond issues were $47.6 million.

The Knoxville Utilities Board's Water Division issued the Series N 1998 bonds to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1992 Series L revenue bonds, as such amounts mature. During fiscal year 2001, KUB issued Series 0 2001 bonds to retire existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1992 Series L Revenue bonds and 1993 Series M Revenue bonds, as such amount mature. During 2004, KUB issued Series Q 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of Series N 1998 revenue bonds, as such amounts mature. Remaining principal balances outstanding at June 30, 2005, on all defeased bond issues were $18.8 million.

The Knoxville Utilities Board's Wastewater Division issued the Series S 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining principal and interest on the 1993 Series Q revenue bonds, as such amounts mature. During 2004, KUB issued Series 2004A bonds to fund wastewater capital improvements. Remaining principal balances outstanding at June 30, 2005, on these defeased bond issues were $12.4 million.

Metropolitan Knoxville Airport Authority

Proceeds from the Metropolitan Knoxville Airport Authority Series III-A bonds issued in 2001 were used to refund the remaining principal balances of the Series E-1, E-2, G-2, III-B-I, III-G-2 and IV-A-I general obligation bonds. The authority recognized a loss of $999,000 on the refunding which has been deferred and is being amortized over the remaining life of the refunded bonds. The remaining unamortized balance of the loss at June 30, 2005 was $692,330.

Defeased Debt

Primary government

The City of Knoxville has two defeased General Obligation debt issues. As of June 30, 2005, the 1999B General Obligation Bonds have a defeased balance of $1,230,000. The 2005A General Obligation Bonds were issued to refund $13,395,000 of the 2000A bonds. The defeased balance of the 2000A General Obligation Bonds as of June 30, 2005 is $13,395,000.

NOTE 9 - LONG-TERM DEBT (continued)

Other Agreements

Primary government

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

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

	Principal	Interest
2006	$ 61,305	$ 69,457
2007	63,301	66,391
2008	65,583	62,910
2009	68,054	59,303
2010	70,620	55,730
2011 - 2015	400,244	218,564
2016 - 2020	501,373	106,496
2021	115,672	5,784
Total	$ 1,346,152	$ 644,635

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

Component units

Metropolitan Knoxville Airport Authority

The Metropolitan Knoxville Airport Authority (MKAA) has adopted a Master Resolution allowing the Authority to issue Airport Revenue Obligations. Under this resolution, the Authority is required to maintain certain funds, accounts and sub-accounts to deposit funds to be held in trust by the Authority. These funds include:

Revenue Fund – This fund accounts for general revenue and passenger facility charges into which the Authority is to deposit all such revenues.

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

Revenue and Extension Fund – This fund holds funds held in the Revenue Fund (excluding passenger facility charges) in excess of 45 days' estimated expenses.

Project Fund – This fund holds the proceeds from issuance of revenue obligations to fund project costs.

NOTE 9 - LONG-TERM DEBT (continued)

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

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

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

Changes in long-term liabilities

The following schedule is a summary of the changes in long-term debt (including current amounts) for the year ended June 30, 2005:

	Balance June 30, 2004	Additions and Transfers	Reductions and Transfers	Balance June 30, 2005	Due Within One Year
Primary Government:					
Governmental activities:					
General obligation bonds	$ 103,106,400	$ 13,725,000	$ 24,236,400	$ 92,595,000	$ 10,515,000
Debt participation agreement	1,405,747	-	59,595	1,346,152	61,300
	104,512,147	13,725,000	24,295,995	93,941,152	10,576,300
Add deferred amounts for issuance premiums	789,000	966,049	49,709	1,705,340	-
Add deferred amounts for gains on refundings	1,325,000	-	67,150	1,257,850	-
	106,626,147	14,691,049	24,412,854	96,904,342	10,576,300
Compensated absences payable	5,980,144	480,126	392,497	6,067,773	6,067,773
Total governmental activity long-term liabilities	$ 112,606,291	$ 15,171,175	$ 24,805,351	$ 102,972,115	$ 16,644,073
Business-type Activities:					
General obligation bonds	$ 158,183,600	$ -	$ 3,293,600	$ 154,890,000	$ 3,830,000
Add deferred amounts for issuance premiums	13,691	-	3,260	10,431	-
Less deferred amounts for issuance discounts	(460,646)	-	(22,111)	(438,535)	-
Total business-type activity long-term liabilities	$ 157,736,645	$ -	$ 3,274,749	$ 154,461,896	$ 3,830,000

NOTE 9 - LONG-TERM DEBT (continued)

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Component Units:					
Knoxville Utilities Board:					
Revenue bonds	$ 283,520,000	$ -	$ 8,300,000	$ 275,220,000	$ 10,295,000
Notes payable	90,075,000	30,000,000	90,075,000	30,000,000	-
Capital lease obligations	419,567	-	392,375	27,192	27,192
TVA conservation program	4,296,075	1,188,386	1,538,518	3,945,943	-
Customer advances for construction	394,454	225,882	159,692	460,644	-
Other	1,079,555	604,106	643,841	1,039,820	-
Total Knoxville Utilities Board	$ 379,784,651	$ 32,018,374	$ 101,109,426	$ 310,693,599	$ 10,322,192
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	$ 108,145,000	$ -	$ 405,000	$ 107,740,000	$ 2,650,000
Less deferred amounts for loss on refunding	(763,087)	-	(70,757)	(692,330)	-
Total Metropolitan Knoxville Airport Authority	$ 107,381,913	$ -	$ 334,243	$ 107,047,670	$ 2,650,000
Total component units	$ 487,166,564	$ 32,018,374	$ 101,443,669	$ 417,741,269	$ 12,972,192

Conduit Debt

The Metropolitan Knoxville Airport Authority (MKAA) issued $8.5 million of 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 $8.5 million on April 1, 2032. Interest is payable semiannually on each April 1 and October 1.

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

MKAA has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Northwest's parent company, Northwest Airlines Corporation, are the only security for the bondholders. The entire amount was outstanding at June 30, 2005.

The MKAA issued $9.5 million of Metropolitan Knoxville Airport Authority Special Obligation Revenue Bonds on October 1, 1980. The 9.5 percent bonds are to be repaid in varying amounts through 2010. The principal balance outstanding at June 30, 2005 was $2,040,079.

NOTE 9 - LONG-TERM DEBT (continued)

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

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

NOTE 10 – LEASES

Primary government

The City was committed to semiannual payments to the Public Building Authority for rental of the City-County Building. The lease expired during 2001 and the City is renting the space on a month-to month basis until a new lease is established. Total rental payments for the year ending June 30, 2005 were $959,855.

Component units

The Knoxville Utilities Board leases computer hardware under a capital lease arrangement. The lease arrangements were entered into during 2003 and 2004 and expire during 2005 and 2006. Computer equipment totaling $204,561, less related accumulated depreciation of $177,684, are included in capital assets at June 30, 2005.

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

	Capital Leases	Operating Leases
2006	$ 27,696	$ 45,477
2007	-	39,627
2008	-	33,268
2009	-	4,320
2010	-	4,299
Total capital minimum lease payments	27,696	$ 126,991
Less amount representing interest	504	
Obligations under capital leases	27,192	
Obligations due within one year	27,192	
Long-term obligations under capital leases	$ -	

NOTE 11 - FUND BALANCES DESIGNATED FOR FUTURE USE

Certain fund balances are designated by the City to be used for future requirements relating to the stated purpose of each fund. At June 30, 2005, the following designations were made:

Fund	Amount Designated	Stated Purpose
Coster Redevelopment	$ 183,566	Held for cleanup of various sites
Krutch Park Trust	752,075	Maintenance and groundskeeping of a downtown City park
Knoxville Civic Revitalization	2,122,927	Oversee the development of World's Fair Site
City Choice Plus	151,331	Payment of insurance premiums by employees
Total	$ 3,209,899	

NOTE 12 - RISK MANAGEMENT

Primary government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Risk Management Fund, an internal service fund, was established to consolidate all of the City's insurance under a comprehensive risk management program.

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

The City insures itself against potential losses by purchases 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 against 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.

Insurance Coverage

The City accounts for its self-insurance activities in the Employee Health Insurance Fund. The City has experienced no significant reduction in insurance coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

Employee Health Insurance Fund

The City maintains as an internal service fund, the Employee Health Insurance Fund, to provide medical coverage for City employees and their families with the employees paying a portion of the costs.

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund, to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of $5,592,171 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities.

NOTE 12 - RISK MANAGEMENT (continued)

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

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2005, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10.

Component units

Knoxville Utilities Board

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

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

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

At June 30, 2005, the amount of these liabilities was $2,224,622. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2005 and 2004 is as follows:

	2005	2004
Claims liability, beginning of year	$ 1,782,156	$ 1,618,402
Provision for incurred claims	12,355,820	13,049,141
Payments made on claims	(11,913,354)	(12,885,387)
Claims liability, end of year	$ 2,224,622	$ 1,782,156

NOTE 12 - RISK MANAGEMENT (continued)

Metropolitan Knoxville Airport Authority

The Authority is subject to risks that include personal injury, property damage, employee bodily injury, employee theft, employee medical, public officials and employee conduct, and workers' compensation. The Authority has purchased insurance policies that transfer these risks, subject to policy limits. After the September 11, 2001 attacks, the Authority's insurance carrier limited war risk liability coverage to $1 million. The Authority purchased additional war risk liability coverage up to a maximum of $50 million subject to a $10 million deductible. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13 - SEGMENT INFORMATION

Segment information for business-type component units is as follows:

Knoxville Utilities Board

The Knoxville Utilities Board has four identifiable activities for which revenue bonds and other revenue-backed debt is outstanding. Summary financial information for each of the activities is presented below:

Condensed Statement of Net Assets

	Electric	Gas	Water	Waste Water	Total
Assets:					
Current assets	$ 71,746,973	$ 38,544,402	$ 12,446,878	$ 16,865,025	$ 139,603,278
Restricted assets	6,046,868	2,432,431	1,201,481	1,120,371	10,801,151
Net capital assets	280,327,678	170,474,184	149,989,709	213,121,191	813,912,762
Other assets	20,131,754	8,509,794	6,210,315	5,743,660	40,595,523
Total assets	$ 378,253,273	$ 219,960,811	$ 169,848,383	$ 236,850,247	$ 1,004,912,714
Liabilities:					
Current liabilities	$ 41,371,696	$ 15,626,331	$ 4,823,255	$ 5,527,118	$ 67,348,400
Other liabilities	9,305,358	1,870,050	1,429,603	1,554,095	14,159,106
Long-term debt	104,870,000	74,250,000	33,795,000	82,010,000	294,925,000
Total liabilities	155,547,054	91,746,381	40,047,858	89,091,213	376,432,506
Net assets:					
Invested in capital assets, net of related debt	173,264,945	94,643,869	114,742,261	129,695,027	512,346,102
Restricted	3,498,882	1,170,697	673,735	399,867	5,743,181
Unrestricted	45,942,392	32,399,864	14,384,529	17,664,140	110,390,925
Total net assets	222,706,219	128,214,430	129,800,525	147,759,034	628,480,208
	$ 378,253,273	$ 219,960,811	$ 169,848,383	$ 236,850,247	$ 1,004,912,714

NOTE 13 - SEGMENT INFORMATION (continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Electric	Gas	Water	Waste Water	Total
Operating revenues	$ 362,231,679	$ 115,562,532	$ 28,073,548	$ 31,952,610	$ 537,820,369
Operating expenses:					
Provision for depreciation	16,533,376	6,369,056	4,432,035	5,485,905	32,820,372
Other	331,650,306	99,913,186	20,765,871	24,708,312	477,037,675
Total operating expenses	348,183,682	106,282,242	25,197,906	30,194,217	509,858,047
Operating income	14,047,997	9,280,290	2,875,642	1,758,393	27,962,322
Non-operating revenue (expense), net	(3,836,334)	(3,317,180)	(764,839)	(1,358,124)	(9,276,477)
Change in net assets	10,211,663	5,963,110	2,110,803	400,269	18,685,845
Net assets – beginning of year	212,494,556	122,251,320	127,689,722	147,358,765	609,794,363
Net assets – end of year	$ 222,706,219	$ 128,214,430	$ 129,800,525	$ 147,759,034	$ 628,480,208

Condensed Statement of Cash Flows

	Electric	Gas	Water	Waste Water	Total
Net cash provided by operating activitie	$ 33,008,475	$ 16,699,811	$ 7,951,539	$ 6,765,050	$ 64,424,875
Net cash used by capital and related financing activities	(48,834,686)	(41,625,508)	(31,278,794)	(20,404,019)	(142,143,007)
Net cash provided by investing activities	13,615,387	437,091	6,651,865	8,296,137	29,000,480
Net increase (decrease) in cash and cash equivalents	(2,210,824)	(24,488,606)	(16,675,390)	(5,342,832)	(48,717,652)
Cash and cash equivalents – beginning of year	18,996,369	37,883,194	19,089,599	12,338,061	88,307,223
Cash and cash equivalents – end of year	$ 16,785,545	$ 13,394,588	$ 2,414,209	$ 6,995,229	$ 39,589,571

NOTE 14 - JOINT VENTURES

Public Building Authority

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

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

Metropolitan Planning Commission (MPC)

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

Condensed Financial Information

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

	Public Building Authority	Metropolitan Planning Commission
Balance sheet date	June 30, 2005	June 30, 2005
Total assets	$10,455,830	$1,055,324
Long-term debt	4,506	114,255
Other liabilities	2,696,986	440,156
Net assets	7,754,338	500,913
Total revenues	12,964,935	3,003,034
Total expenses	11,835,228	3,086,703

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

Public Building Authority
Room M22
400 Main
Knoxville, Tennessee 37902

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

NOTE 15 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Chilhowee Park - The City entered into an agreement on July 1, 1994, with the Tennessee Valley Agricultural and Industrial Fair, Inc. (TVA & I Fair) whereby TVA & I Fair will provide management, control, routine maintenance, security, and operation of the Park for the period from July 1, 1994, to September 30, 2000, for a fee of $225,000 per year. The City assumed management responsibility for the Park after expiration of the agreement.

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

Whittle Springs Golf Course - The City entered into an agreement on August 29, 1986, with HMS of Tennessee whereby HMS of Tennessee shall maintain, operate, and provide for capital improvements to Whittle Springs Municipal Golf Course from September 1, 1986, to September 1, 1996. HMS remits one dollar per year to the City of Knoxville and was required to spend $200,000 on course improvements during the first 24-month period. The contract was extended for an additional ten (10) year period beginning September 1, 1996, to September 1, 2006.

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

Parking Garages - The City entered into agreements with Republic Parking Systems, Inc. whereby Republic Parking Systems, Inc. will manage and operate the State Street and Main Avenue Parking Garages. The term of the agreements is for one year beginning July 10, 2004. Under the agreement, Republic Parking Systems, Inc. received $119,208 for the State Street Garage and $100,488 for the Main Avenue Garage payable in twelve monthly installments. The City must also make incentive payments equal to 10.0% of the revenue of each garage that exceeds the revenue of the previous year.

IJAMS Nature Park - The City entered into an agreement on August 2, 1993, with the IJAMS Nature Park whereby IJAMS will provide management and operation of a nature park. The agreement has been extended through July 31, 2005. The agreement calls for a management fee of $109,000.

Knoxville Convention Center - The City entered into an agreement on November 22, 2000, with SMG to manage the first five years of operations of the Convention Center. The agreement calls for a fixed fee of $275,000 in 2004, $300,000 in 2005 and $325,000 in 2006 and 2007.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal financial assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2005 in accordance with provisions of the Single Audit Act of 1984.

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued)

Knoxville Utilities Board

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

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of underrecovered costs was $105,650 at June 30, 2005.

Purchased Power Adjustment - In October 2002, the Electric Division of the Knoxville Utilities Board (KUB) implemented a purchased power adjustment (PPA) mechanism that allows the Division to promptly adjust its retail electric rates in response to Tennessee Valley Authority (TVA) wholesale rate changes/adjustments, thus ensuring that KUB will recover its cost of electric power purchases for resale to its customers. In response to changes in the electric power industry, KUB and TVA executed an amendment to their wholesale power supply contract under which, among other things, TVA relinquishes its regulatory authority over KUB retail electric rates. Since TVA no longer has contractual authority to adjust KUB's retail electric rates, KUB needed an alternative means of promptly adjusting its electric rates in response to TVA wholesale rate changes/adjustments.

In October 2003, TVA increased its wholesale power rates for its electric power distributors, including KUB. The KUB Board of Commissioners flowed this wholesale cost increase directly through to its retail electric customers, resulting in an increase of approximately 5.7% for residential customers and 5.7 to 7.0 percent for commercial customers. With the exception of wholesale reactive demand charges (which was deferred by TVA until April 2004), the KUB Board of Commissioners passed through this wholesale rate increase by adjusting its electric retail rate schedules rather than using the purchased power adjustment mechanism. The increase in wholesale reactive demand charges was flowed through to KUB's retail customers by means of the purchased power adjustment in April 2004.

In March 2004, the KUB Board of Commissioners modified the purchase power agreement mechanism to ensure that the effective date of any purchased power adjustment appropriately corresponds to any applicable TVA wholesale rate change, and to update the purchased power adjustment mechanism to reflect new retail electric rate schedules adopted by the KUB Board of Commissioners in October 2003. The PPA was not used to adjust KUB's retail electric rates at any time during the fiscal year ended June 30, 2005.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2005, the Gas Division of the Knoxville Utilities Board hedged 68% of its total gas purchases via gas supply contracts. As of June 30, 2005, the Gas Division had hedged the price on approximately 33% of its anticipated gas purchases for fiscal year 2005.

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:

	2006	2007	2008	2009	2010
Demand:					
Transportation	$ 14,151,226	$ 14,144,128	$ 12,489,789	$ 11,784,017	$ 9,550,069
Storage	2,509,204	2,407,370	2,528,257	2,528,257	2,528,257
Supply reservation	4,563	-	-	-	-
Demand total	$ 16,664,993	$ 16,551,498	$ 15,018,046	$ 14,312,274	$ 12,078,326
Commodity:					
Baseload	$ 22,179,627	$ -	$ -	$ -	$ -

NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued)

Other Commitments and Contingencies

In May 2003, the Knoxville Utilities Board (KUB) entered into an Agreed Order with the Tennessee Department of Environment (TDEC) and Conservation to address sanitary sewer overflows on the KUB wastewater system. The Order required the remediation of all sanitary sewer overflows that occurred during 2001 and 2002 to be completed by 2011, and remediation of all sanitary sewer overflows that occur during the interim to be completed by 2014. The Order provided for a variety of planning and reporting activities including the posting of sanitary sewer overflows on KUB's website, the submittal of a sewer overflow response plan, a sanitary sewer overflows evaluation report, a public information plan, a corrective action plan and engineering report, a capacity assurance program, and a management operations and maintenance program.

In September 2003, the Tennessee Clean Water Network filed suit in federal court against KUB alleging violations of the federal Clean Water Act in relation to sanitary sewer overflows and other operational/treatment issues on the KUB wastewater system. The City of Knoxville subsequently intervened as a party to the suit against KUB. Subsequent to the filing of this suit, the Environmental Protection Agency Region 4 and the Department of Justice reviewed the terms of the Agreed Order. Following the Environmental Protection Agency and the Department of Justice's review, all parties requested, and the Court granted, a stay of the federal suit pending negotiations between the Department of Justice, the Environmental Protection Agency, the Tennessee Clean Water Network, the City and KUB on all issues related to the suit.

In November 2004, the Department of Justice, the Environmental Protection Agency, the Tennessee Clean Water Network, the City and KUB reached a tentative agreement of all issues related to the federal suit. This settlement was embodied in a federal Consent Decree. The Consent Decree was entered into federal court (executed by a federal judge) on February 11, 2005. The Consent Decree, among other things:

- Incorporates the primary requirements of the TDEC Agreed Order and extends the deadline for final compliance from June 2014 to June 2016.
- Requires an evaluation of the wet-weather performance and capacity of KUB's wastewater treatment plants.
- Requires KUB to pay a civil penalty of $167,000 to the United States Government.
- Requires KUB to fund an environmental project of the State of Tennessee in the amount of $167,000.
- Requires KUB to fund a Supplemental Environmental Project in the amount of $2 million over an eight-year period beginning February 2005.
- Subjects KUB to certain stipulated penalties if KUB fails to comply with the provisions of the Consent Decree.
- Provides a framework for the resolution of disputed issues in the federal suit.

In order to comply with the terms of the Consent Decree related to the collection system, KUB projects the Wastewater Division will spend $530 million in capital investments over the next ten years.

In December 2004, a ten-year funding plan for the KUB Wastewater Division was recommended to the KUB Board of Commissioners. This plan includes $400 million in long-term debt issues over the next ten years plus a series of rate increases phased in over the ten-year period. In particular, the funding plan provides for a 50 percent rate increase effective April 2005, a 50 percent rate increase effective January 2007, and a series of smaller rate increases every other year beginning in 2009 through 2014. The magnitude and timing of the rate increases subsequent to January 2007 would be subject to the actual cost of planned collection system projects plus any additional requirements resulting from the operational assessment of KUB's wastewater treatment plants, as required by the Consent Decree.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (continued)

In February 2005, the KUB Board of Commissioners adopted a resolution on second and final reading approving the two 50 percent rate increases. The first 50 percent rate increase became effective April 2005 and the second 50 percent increase will be effective January 2007. KUB also issued $140 million in revenue improvement bonds in July 2005, the proceeds of which will help fund capital improvements to the collection system.

NOTE 17 - POST-RETIREMENT BENEFITS

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

In addition to providing pension benefits, the Knoxville Utilities Board provides certain health care and life insurance benefits for retired employees, their spouses and dependent children. The costs associated with the post-retirement benefits were incurred by the Knoxville Utilities Board Pension Plan. As of January 1, 2002, the pension plan no longer funds the retiree medical health benefits. The cost of retired health care and life insurance benefits is recognized as expense as claims are paid. Substantially all of the Knoxville Utilities Board's employees hired on or before July 1, 1999, are eligible for these benefits, if they meet the Rule of 80 upon termination of employment, with a minimum of 20 years of service of if they had 25 years of service as of January 1, 1998. Approximately 1,427 retirees and dependents were eligible to receive such benefits at June 30, 2005. Knoxville Utilities Board's portion of total benefits and related administrative expenses for 2005 was approximately $5,064,565.

NOTE 18 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on one major airline in that a significant portion of aviation revenue is generated by that airline. The airline accounted for approximately $363,000 in aviation area revenue during 2005. In addition, a significant portion of terminal area revenue is directly and indirectly generated from that airline's passengers, which accounted for approximately 16% of total passengers during 2005. As of June 30, 2005, 12% of trade accounts receivable is due from this major airline.

NOTE 19 - TRANSFERS

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

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

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

NOTE 19 – TRANSFERS (continued)

A detailed reconciliation of operating transfers at June 30, 2005 is as follows:

	Governmental Activities									
	General Fund	Debt Service	Capital Projects	State Street Aid	City Court	Miscel-laneous Grants	Miscel-laneous Special Revenue Funds	Miscel-laneous Community Development	City Judges Retirement	Total
Primary Government:										
Governmental Activities:										
General Fund	$ -	$ -	$ -	$ -	$ 2,999,840	$ 138,718	$ -	$ -	$ -	$ 3,138,558
Capital Projects Fund	19,172,952	4,242,900	-	1,275,000	-	-	911,367	10,500	-	25,612,719
Community Development Block Grants	90,000	-	-	-	-	-	-	-	-	90,000
Storm Water	1,460,970	-	-	-	-	-	-	-	-	1,460,970
Solid Waste	-	-	8,199,700	-	-	82,217	-	-	-	8,281,917
Business-type Activities:										
Convention Center	5,045,320	3,800,000	-	-	-	-	-	-	-	8,845,320
Public Assembly Facilities	2,175,230	-	11,933	-	-	-	-	-	-	2,187,163
Internal Service Funds:										
Fleet Maintenance	6,116	-	83,810	-	-	116,757	-	-	-	206,683
Risk Management	1,532,770	-	-	-	-	-	-	-	1,368,429	2,901,199
Employee Health Insurance	2,265,700	-	-	-	-	-	-	-	-	2,265,700
Equipment Replacement	271,521	-	377,824	-	-	2,969	-	-	-	652,314
	$ 32,020,579	$ 8,042,900	$ 8,673,267	$ 1,275,000	$ 2,999,840	$ 340,661	$ 911,367	$ 10,500	$ 1,368,429	$ 55,642,543

NOTE 20 - RETIREMENT AND DISABILITY PLANS

Plan Descriptions

City Employees' Pension Plan

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

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

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

NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)

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

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

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

Board of Education Division - The City of Knoxville School System was abolished effective July 1, 1987 and absorbed into the operations of the Knox County School System. A court ruling has held and the Tennessee Court of Appeals has affirmed that the City is liable for the accrued pension liability, through June 30, 1987, for those former City School employees who remain in the City Employees' Pension Plan. Because of the abolition of the City School System, the Board of Education Division of the City Employees' Pension Plan has, in substance, been terminated. The City is responsible for any unfunded pension liability for the benefits that former City School employees would be entitled to if their earned benefits were frozen at July 1, 1987. No liability existed at June 30, 2005.

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

Knoxville Utilities Board Pension Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 effective July 1, 1999, as authorized by section 1107(J) of the charter of the City of Knoxville. The plan is designed to provide retirement, disability and death benefits. Due to the structure of the plan, all participants are fully vested as a result of retiree medical health benefits being paid out of the Plan's funds. The Plan is a governmental plan as described by the Employee Retirement Income Security Act of 1974, and is not subject to any of the provisions of the Act. The Plan is funded by contributions from KUB, if funding is required, and from Plan A and Plan B employee participants. The Plan is currently overfunded.

At December 31, 2004, the Plan had 740 retirees and beneficiaries currently receiving benefits and 54 terminated employees entitled to benefits but not yet receiving them. Of the approximately 999 current employees in the plan, 875 were fully vested at December 31, 2004. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Pension System, P.O. Box 59017, Knoxville, TN 37950-9017. The plan consists of three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)

Career Equity Program (CEP) - CEP is available to eligible employees hired on or after January 1, 1999, and for eligible former City System Plan A members who elected CEP coverage as of July 1, 1999. All new eligible employees become participants on the date of employment with KUB. Participation in CEP does not require or permit employee contributions.

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

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

Annual Pension Costs

City Employees' Pension Plan

For the year ended June 30, 2005, the annual pension cost for the City and participating component units was $2,913,406 and was equal to the required and actual contributions. The required contribution was determined as part of the July 1, 2004 actuarial valuation using the aggregate method with supplemental liability for Plan F. Under this method, the unfunded actuarial liability is only identified and amortized for Plan F. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 8.0% per year compounded annually, (b) annual projected salary increases based on plan experience for employees at various categories of years of service (from 3.5% to 12% and on which no explicit assumption is made regarding the portion attributable to the effect of inflation on salaries), and (c) projected post retirement increases of 3.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. The unfunded actuarial liability for Plan F is being amortized over 30 years on a closed basis beginning in July 1, 2001.

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

	General Government Divisions A ,B and G		Board of Education		Firefighters and Police Divisions C and F		Total City Employees' Pension Plan	
Year Ended June, 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed
2005	$610,584	100%	$ -	100%	$2,302,822	100%	$2,913,406	100%
2004	279,612	100%	-	100%	1,170,919	100%	1,450,531	100%
2003	-	100%	-	100%	870,585	100%	870,585	100%

NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)

Knoxville Utilities Board Pension Plan

The Knoxville Utilities Board Pension Plan recommends employer contributions as a percentage of the monthly earnings of Plan members based on an actuarial valuation. The recommended contributions are determined using an individual entry actuarial funding method. The System is required to contribute at an actuarially determined rate. The current rate is 0% due to the Plan being fully funded.

The Plan's annual pension cost to the Plan for the current year was zero. The annual required contribution for the current year was determined as part of the January, 2004, actuarial valuation. Significant actuarial assumptions used in the valuation include (a) rate of return on investments of 8%, (b) 1983 Group Annuity Mortality Table, (c) annual projected salary increased based on participants' ages ranging from age 25 to 65 with salary increases from 3.21% to 6.26%, and (d) cost of living adjustment of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a four-year period.

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

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
December 31, 2004	$ -	N/A
December 31, 2003	-	N/A
December 31, 2002	-	N/A

Defined Contribution Plan

Knoxville Utilities Board

The Knoxville Utilities Board has a defined contribution employee retirement savings plan covering all full-time employees, which provides for stipulated matching contributions and discretionary contributions by the Knoxville Utilities Board, as determined by its Board of Commissioners. System contributions to the Plan for the year ended June 30, 2005 totaled $1,187. The Knoxville Utilities Board Pension Plan funds the 401(k) matching contribution using a portion of the excess pension assets accumulated during previous years. The trustee custodian holds the funds until necessary for distribution.

Metropolitan Knoxville Airport Authority

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

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled $511,098 in 2005. Employee contributions totaled $53,449 in 2005.

NOTE 21 – RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	$7,354,268
Payments by the Knoxville Utilities Board to the City of Knoxville for in lieu of property tax	$11,350,977
Subsidies paid by the City to Knoxville Area Transit	$7,451,779
Amounts due to the Knoxville Utilities Board from the City of Knoxville for electric, gas, water and sewer service (included in accounts payable in the financial statements of the primary government and accounts receivable in the financial statements of the Knoxville Utilities)	$13,691
Contributions by Knoxville Utilities Board to the City of Knoxville for city projects	$242,813

Schedule of Funding Progress - City Employees' Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll c	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/05:						
Plan F	$254,746,885	$298,752,660	$44,005,775	85.3%	$25,887,412	177.9%
Other	205,514,858	N/A	N/A	N/A	27,268,909	N/A
7/1/04:						
Plan F	250,066,940	297,330,672	47,263,732	84.1%	24,358,199	194.0%
Other	203,099,651	N/A	N/A	N/A	26,974,522	N/A
7/1/03:						
Plan F	252,508,388	287,789,466	35,281,078	87.7%	24,350,147	144.9%
Other	206,607,072	N/A	N/A	N/A	28,770,108	N/A
7/1/02:						
Plan F	256,781,273	276,372,256	19,590,983	92.9%	24,466,370	80.07%
Other	212,032,907	N/A	N/A	N/A	27,786,373	N/A
7/1/01:						
Plan F	251,483,373	265,729,297	14,245,924	94.6%	23,035,672	61.8%
Other	209,476,773	N/A	N/A	N/A	27,047,510	N/A
7/1/00	433,160,647	N/A	N/A	N/A	61,555,234	N/A
7/1/99	396,186,010	N/A	N/A	N/A	59,535,391	N/A
7/1/98	596,654,552	N/A	N/A	N/A	94,939,571	N/A
7/1/97	534,321,548	N/A	N/A	N/A	92,851,013	N/A
7/1/96	481,931,044	521,655,782	39,724,738	92.4%	93,169,839	42.6%

Note: In years 1997 through 2000 the Plan's funding method was changed to the aggregate method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Beginning in 2001, an unfunded liability is being calculated for the uniformed bodies section of the Plan as the result of the establishment of Division F. Division F had an initial frozen liability of $14,246,000 at July 1, 2001. Other sections of the plan continue to use the aggregate method, which does not identify or separately amortize unfunded actuarial liabilities.

Years prior to 1999 include the Knoxville Utilities Board.

Years beginning 2001 Board of Education payroll excludes teachers.

Schedule of Funding Progress - Knoxville Utilities Board Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll c	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/05	$236,655,342	$201,099,846	$(35,555,496)	117.7%	$42,925,588	(82.8)%
1/1/04	$244,131,736	$198,626,376	$(45,505,360)	122.9%	$42,964,030	(105.9)%
1/1/03	249,977,409	197,613,054	(52,364,355)	126.5%	41,832,536	(125.2)%
1/1/02	266,240,494	196,131,495	(70,108,999)	135.7%	39,852,521	(175.9)%
1/1/01	278,423,000	195,606,000	(82,817,000)	142.3%	38,094,000	(217.4)%
7/1/00	385,367,000	201,751,000	(83,616,000)	141.4%	36,901,000	(226.6)%
7/1/99	314,428,000	202,437,000	(111,991,000)	155.3%	36,194,000	(309.4)%

Note: The Plan was established on 7/1/99. Additional years will be presented as they become available.

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

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll c	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/05	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/04	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/03	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/02	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/01	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/00	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/99	$ -	$49,619	$49,619	0%	$248	Not applicable (1)
7/1/98	-	48,121	48,121	0%	264	Not applicable (1)
7/1/97	-	48,589	48,589	0%	280	Not applicable (1)
7/1/96	-	45,067	45,067	0%	569	Not applicable (1)

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

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

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Nonmajor Governmental Funds

Special Revenue Funds

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

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

CITY OF KNOXVILLE, TENNESSEE

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
Assets							
Cash & Temporary Investments	$ -	$ 741	$ 136	$ 7,472	$ 20,676	$ 1,489,019	$ 125
Investments	916,054	-	1,225,232	694,920	800,751	68,447	250,304
Accounts Receivable	852,961	245,598	8,437	13,504	137,260	570,747	807
Notes Receivable	-	2,672,541	-	-	-	-	-
Total assets	$ 1,769,015	$ 2,918,880	$ 1,233,805	$ 715,896	$ 958,687	$ 2,128,213	$ 251,236
Liabilities and fund balances							
Liabilities:							
Accounts Payable	$ 3,647	$ 19,094	$ 18,663	$ 4,670	$ 14,987	$ 532,199	$ -
Accrued Liabilities	-	21,677	6,477	66,325	41,334	-	-
Customer Deposits	-	79,198	-	-	-	-	-
Due to Other Funds	-	207,000	1,100	-	-	-	-
Due to Other Governmental Agencies	-	-	-	-	-	19,873	-
Deferred Revenue	-	2,528,815	-	-	-	456,494	-
Total liabilities	3,647	2,855,784	26,240	70,995	56,321	1,008,566	-
Fund balances:							
Reserved for:							
Encumbrances	-	610,532	20,771	-	-	2,087,618	-
Notes Receivable	-	2,672,541	-	-	-	-	-
Unreserved, reported in:							
Designated for future use	-	-	-	-	-	-	-
Undesignated	1,765,368	(3,219,977)	1,186,794	644,901	902,366	(967,971)	251,236
Total fund balances	1,765,368	63,096	1,207,565	644,901	902,366	1,119,647	251,236
Total liabilities and fund balances	$ 1,769,015	$ 2,918,880	$ 1,233,805	$ 715,896	$ 958,687	$ 2,128,213	$ 251,236

CITY OF KNOXVILLE, TENNESSEE
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	City Judges' Retirement	Coster Redevelopment	Krutch Park Trust	Knoxville Civic Revitalization	City Choice Plus	Total Nonmajor Special Revenue Funds
$ 192,940	$ 412,513	$ 79	$ 157	$ -	$ 183,566	$ 188,147	$ -	$ 372	$ 2,495,943
4,363,241	995,373	495,981	3,790,830	-	-	562,991	2,122,927	175,022	16,462,073
62,776	345,554	16,382	12,915	-	-	937	-	437	2,268,315
-	5,439,776	-	-	-	-	-	-	-	8,112,317
$ 4,618,957	$ 7,193,216	$ 512,442	$ 3,803,902	$ -	$ 183,566	$ 752,075	$ 2,122,927	$ 175,831	$ 29,338,648
$ 107,490	$ 74,024	$ 11,232	$ 82,151	$ -	$ -	$ -	$ -	$ -	$ 868,157
1,163	-	38,784	25,808	-	-	-	-	-	201,568
-	-	-	-	-	-	-	-	-	79,198
887,000	121,800	17,100	71,400	-	-	-	-	24,500	1,329,900
-	-	-	-	-	-	-	-	-	19,873
-	5,513,771	-	-	-	-	-	-	-	8,499,080
995,653	5,709,595	67,116	179,359	-	-	-	-	24,500	10,997,776
75,562	5,506,203	44,875	957,081	-	-	-	-	-	9,302,642
-	5,439,776	-	-	-	-	-	-	-	8,112,317
-	-	-	-	-	183,566	752,075	2,122,927	151,331	3,209,899
3,547,742	(9,462,358)	400,451	2,667,462	-	-	-	-	-	(2,283,986)
3,623,304	1,483,621	445,326	3,624,543	-	183,566	752,075	2,122,927	151,331	18,340,872
$ 4,618,957	$ 7,193,216	$ 512,442	$ 3,803,902	$ -	$ 183,566	$ 752,075	$ 2,122,927	$ 175,831	$ 29,338,648

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
Revenues							
Taxes, assessments, interest & penalities	$ 4,930,830	$ -	$ -	$ -	$ 630,079	$ -	$ -
Licenses, permits & inspection charges	-	-	-	2,028,469	-	-	-
Fines & forfeitures	-	-	-	-	1,142,208	-	-
Charges for services	-	-	708,018	-	2,081,216	-	26,368
Other	20,181	259,395	24,363	13,802	47,345	249,173	4,922
Intergovernmental revenue	-	2,522,347	-	-	-	2,395,634	-
Total revenues	4,951,011	2,781,742	732,381	2,042,271	3,900,848	2,644,807	31,290
Expenditures							
Current:							
Administration	-	-	-	-	-	-	-
Operations & Engineering	-	-	613,471	-	-	-	-
Community & Neighborhood Services	2,630,784	2,662,922	-	1,828,052	-	384,439	7,536
Law	-	-	-	-	691,798	-	-
Police	-	-	-	-	-	1,826,901	-
Legislative	-	-	-	-	-	-	-
Mass transit	1,031,000	-	-	-	-	-	-
Capital & Grant Projects	-	130,543	280	1,184	480	175,113	-
Total expenditures	3,661,784	2,793,465	613,751	1,829,236	692,278	2,386,453	7,536
Excess (deficiency) of revenues over (under) expenditures	1,289,227	(11,723)	118,630	213,035	3,208,570	258,354	23,754
Other financing sources (uses)							
Transfers In	-	-	-	-	-	-	-
Transfers Out	(1,275,000)	-	-	-	(2,999,840)	(340,661)	-
Total other financing sources (uses)	(1,275,000)	-	-	-	(2,999,840)	(340,661)	-
Net change in fund balances	14,227	(11,723)	118,630	213,035	208,730	(82,307)	23,754
Fund balance - beginning	1,751,141	74,819	1,088,935	431,866	693,636	1,201,954	227,482
Fund balance - ending	$ 1,765,368	$ 63,096	$ 1,207,565	$ 644,901	$ 902,366	$ 1,119,647	$ 251,236

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	City Judges' Retirement	Coster Redevelopment	Krutch Park Trust	Knoxville Civic Revitalization	City Choice Plus	Total Nonmajor Special Revenue Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,560,909
-	-	-	-	-	-	-	-	-	2,028,469
39,406	-	-	-	-	-	-	-	-	1,181,614
827,672	-	155,189	688,683	33,857	-	-	62,035	-	4,583,038
157,213	694,545	13,836	237,790	24,351	-	44,917	42,832	263,088	2,097,753
970,900	9,865,395	-	-	-	-	-	-	-	15,754,276
1,995,191	10,559,940	169,025	926,473	58,208	-	44,917	104,867	263,088	31,206,059
-	-	-	-	-	-	-	-	301,443	301,443
-	-	1,665,416	9,417,579	-	-	-	-	-	11,696,466
36,742	7,639,925	-	-	-	-	5,580	-	-	15,195,980
-	-	-	-	-	984	-	-	-	692,782
248,583	-	-	-	-	-	-	-	-	2,075,484
-	79,500	-	-	-	-	-	-	-	79,500
-	-	-	-	-	-	-	-	-	1,031,000
-	2,655,717	7,598	11,039	-	-	-	-	-	2,981,954
285,325	10,375,142	1,673,014	9,428,618	-	984	5,580	-	301,443	34,054,609
1,709,866	184,798	(1,503,989)	(8,502,145)	58,208	(984)	39,337	104,867	(38,355)	(2,848,550)
-	90,000	1,460,970	8,281,917	-	-	-	-	-	9,832,887
(911,367)	(10,500)	-	-	(1,368,429)	-	-	-	-	(6,905,797)
(911,367)	79,500	1,460,970	8,281,917	(1,368,429)	-	-	-	-	2,927,090
798,499	264,298	(43,019)	(220,228)	(1,310,221)	(984)	39,337	104,867	(38,355)	78,540
2,824,805	1,219,323	488,345	3,844,771	1,310,221	184,550	712,738	2,018,060	189,686	18,262,332
$ 3,623,304	$ 1,483,621	$ 445,326	$ 3,624,543	$ -	$ 183,566	$ 752,075	$ 2,122,927	$ 151,331	$ 18,340,872

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, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalities	$ 4,900,000	$ 4,900,000	$ 4,930,830	$ 30,830
Other	6,000	46,000	20,181	(25,819)
Total revenues	4,906,000	4,946,000	4,951,011	5,011
Expenditures				
Current:				
Community & Neighborhood Services	2,600,000	2,640,000	2,630,784	9,216
Mass transit	1,031,000	1,031,000	1,031,000	-
Total expenditures	3,631,000	3,671,000	3,661,784	9,216
Excess (deficiency) of revenues over (under) expenditures	1,275,000	1,275,000	1,289,227	14,227
Other financing sources (uses)				
Transfers Out	(1,275,000)	(1,275,000)	(1,275,000)	-
Total other financing sources (uses)	(1,275,000)	(1,275,000)	(1,275,000)	-
Net change in fund balances	-	-	14,227	14,227
Fund balance - beginning	-	-	1,751,141	-
Fund balance - ending	$ -	$ -	$ 1,765,368	$ 14,227

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis
Community Development Block Grants
For the Year Ended June 30, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Other	$ 886,610	$ 3,716,578	$ 259,395	$ (3,457,183)
Intergovernmental revenue	2,312,000	2,312,000	2,522,347	210,347
Total revenues	3,198,610	6,028,578	2,781,742	(3,246,836)
Expenditures				
Current:				
Community & Neighborhood Services	2,773,090	4,746,112	2,662,922	2,083,190
Capital & Grant Projects	572,130	1,349,076	130,543	1,218,533
Total expenditures	3,345,220	6,095,188	2,793,465	3,301,723
Excess (deficiency) of revenues over (under) expenditures	(146,610)	(66,610)	(11,723)	54,887
Other financing sources (uses)				
Transfers In	146,610	146,610	-	(146,610)
Transfers Out	-	(80,000)	-	80,000
Total other financing sources (uses)	146,610	66,610	-	(66,610)
Net change in fund balances	-	-	(11,723)	(11,723)
Fund balance - beginning	-	-	74,819	-
Fund balance - ending	$ -	$ -	$ 63,096	$ (11,723)

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, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 505,000	$ 505,000	$ 708,018	$ 203,018
Other	3,950	10,436	24,363	13,927
Total revenues	508,950	515,436	732,381	216,945
Expenditures				
Current:				
Operations & Engineering	508,950	515,036	613,471	(98,435)
Capital & Grant Projects	-	400	280	120
Total expenditures	508,950	515,436	613,751	(98,315)
Excess (deficiency) of revenues over (under) expenditures	-	-	118,630	118,630
Net change in fund balances	-	-	118,630	118,630
Fund balance - beginning	-	-	1,088,935	-
Fund balance - ending	$ -	$ -	$ 1,207,565	$ 118,630

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, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Licenses, permits & inspection charges	$ 1,623,100	$ 1,623,645	$ 2,028,469	$ 404,824
Other	3,500	3,500	13,802	10,302
Total revenues	1,626,600	1,627,145	2,042,271	415,126
Expenditures				
Current:				
Community & Neighborhood Services	1,901,045	1,899,790	1,828,052	71,738
Capital & Grant Projects	1,845	1,845	1,184	661
Total expenditures	1,902,890	1,901,635	1,829,236	72,399
Excess (deficiency) of revenues over (under) expenditures	(276,290)	(274,490)	213,035	487,525
Other financing sources (uses)				
Transfers In	276,290	276,290	-	(276,290)
Transfers Out	-	(1,800)	-	1,800
Total other financing sources (uses)	276,290	274,490	-	(274,490)
Net change in fund balances	-	-	213,035	213,035
Fund balance - beginning	-	-	431,866	-
Fund balance - ending	$ -	$ -	$ 644,901	$ 213,035

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, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalities	$ 607,500	$ 607,500	$ 630,079	$ 22,579
Fines & forfeitures	1,050,000	1,050,000	1,142,208	92,208
Charges for services	1,910,000	1,910,000	2,081,216	171,216
Other	32,500	32,500	47,345	14,845
Total revenues	3,600,000	3,600,000	3,900,848	300,848
Expenditures				
Current:				
Law	729,510	728,810	691,798	37,012
Capital & Grant Projects	1,350	1,350	480	870
Total expenditures	730,860	730,160	692,278	37,882
Excess (deficiency) of revenues over (under) expenditures	2,869,140	2,869,840	3,208,570	338,730
Other financing sources (uses)				
Transfers Out	(2,869,140)	(2,869,840)	(2,999,840)	(130,000)
Total other financing sources (uses)	(2,869,140)	(2,869,840)	(2,999,840)	(130,000)
Net change in fund balances	-	-	208,730	208,730
Fund balance - beginning	-	-	693,636	-
Fund balance - ending	$ -	$ -	$ 902,366	$ 208,730

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, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 101,100	$ 101,100	$ 155,189	$ 54,089
Other	5,000	59,250	13,836	(45,414)
Total revenues	106,100	160,350	169,025	8,675
Expenditures				
Current:				
Operations & Engineering	1,867,070	1,906,112	1,665,416	240,696
Capital & Grant Projects	-	15,208	7,598	7,610
Total expenditures	1,867,070	1,921,320	1,673,014	248,306
Excess (deficiency) of revenues over (under) expenditures	(1,760,970)	(1,760,970)	(1,503,989)	256,981
Other financing sources (uses)				
Transfers In	1,760,970	1,760,970	1,460,970	(300,000)
Total other financing sources (uses)	1,760,970	1,760,970	1,460,970	(300,000)
Net change in fund balances	-	-	(43,019)	(43,019)
Fund balance - beginning	-	-	488,345	-
Fund balance - ending	$ -	$ -	$ 445,326	$ (43,019)

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, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 850,000	$ 725,000	$ 688,683	$ (36,317)
Other	-	4,007,705	237,790	(3,769,915)
Total revenues	850,000	4,732,705	926,473	(3,806,232)
Expenditures				
Current:				
Operations & Engineering	10,019,700	13,890,145	9,417,579	4,472,566
Capital & Grant Projects	-	12,260	11,039	1,221
Total expenditures	10,019,700	13,902,405	9,428,618	4,473,787
Excess (deficiency) of revenues over (under) expenditures	(9,169,700)	(9,169,700)	(8,502,145)	667,555
Other financing sources (uses)				
Transfers In	9,169,700	9,169,700	8,281,917	(887,783)
Total other financing sources (uses)	9,169,700	9,169,700	8,281,917	(887,783)
Net change in fund balances	-	-	(220,228)	(220,228)
Fund balance - beginning	-	-	3,844,771	-
Fund balance - ending	$ -	$ -	$ 3,624,543	$ (220,228)

CITY OF KNOXVILLE, TENNESSEE

Combining Balance Sheet
Debt Service Funds
June 30, 2005

	Actual
Assets	
Cash & Temporary Investments	$ 234,019
Investments	28,098,490
Accounts Receivable	389,065
Notes Receivable	2,389,300
Prepaid Items	8,449
Total assets	$ 31,119,323
Fund balances	
Fund balances:	
Prepaid Items	$ 8,449
Notes Receivable	2,389,300
Undesignated	28,721,574
Total fund balances	31,119,323
Total liabilities and fund balances	$ 31,119,323

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, 2005

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalities	$ 22,649,990	$ 22,649,990	$ 23,831,363	$ 1,181,373
Other	(2,576,880)	(2,576,880)	1,430,627	4,007,507
Total revenues	20,073,110	20,073,110	25,261,990	5,188,880
Expenditures				
Debt service:				
Principal retirement	10,846,000	10,918,440	10,973,431	(54,991)
Interest payments on bonds & notes	4,989,510	4,917,070	4,591,939	325,131
Other services & charges	43,710	43,710	161,659	(117,949)
Total expenditures	15,879,220	15,879,220	15,727,029	152,191
Excess (deficiency) of revenues over (under) expenditures	4,193,890	4,193,890	9,534,961	5,341,071
Other financing sources (uses)				
Premiums Paid for Issuance of Debt	-	-	966,049	966,049
Issuance of Refunding Debt	-	-	13,725,000	13,725,000
Payment of Refunded Bonds to Escrow Agent	-	-	(14,435,417)	(14,435,417)
Transfers Out	(4,193,890)	(4,193,890)	(8,042,900)	(3,849,010)
Total other financing sources (uses)	(4,193,890)	(4,193,890)	(7,787,268)	(3,593,378)
Net change in fund balances	-	-	1,747,693	1,747,693
Fund balance - beginning	-	-	29,371,630	-
Fund balance - ending	$ -	$ -	$ 31,119,323	$ 1,747,693

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Capital Project Funds
June 30, 2005

Assets	
Cash & Temporary Investments	$ 259,454
Investments	30,169,136
Accounts Receivable	42,058
Due from Other Funds	853,800
Prepaid Items	22,307
Total assets	$ 31,346,755
Liabilities and fund balances	
Liabilities:	
Accounts Payable	$ 1,261,336
Total liabilities	1,261,336
Fund balances:	
Encumbrances	12,563,905
Prepaid Items	22,307
Undesignated	17,499,207
Total fund balances	30,085,419
Total liabilities and fund balances	$ 31,346,755

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - From Inception
Capital Project Funds
For the Year Ended June 30, 2005

	Actual				
	Prior Years	Current Year	Total to Date	Project Authorization	Actual Over (Under) Final Budget
Revenues					
Other	$ 6,200,000	$ 4,477,559	$ 10,677,559	$ 10,350,971	$ 326,588
Intergovernmental revenue	2,554,000	(406,879)	2,147,121	5,191,000	(3,043,879)
Total revenues	8,754,000	4,070,680	12,824,680	15,541,971	(2,717,291)
Expenditures					
Current:					
Capital & Grant Projects	56,356,000	24,556,868	80,912,868	125,686,908	(44,774,040)
Total expenditures	56,356,000	24,556,868	80,912,868	125,686,908	(44,774,040)
Excess (deficiency) of revenues over (under) expenditures	(47,602,000)	(20,486,188)	(68,088,188)	(110,144,937)	42,056,749
Other financing sources (uses)					
Issuance of Debt	93,740,000	1,981,566	95,721,566	72,513,000	23,208,566
Transfers In	35,140,000	25,612,719	60,752,719	46,873,500	13,879,219
Transfers Out	(56,745,000)	(8,673,267)	(65,418,267)	-	(65,418,267)
Total other financing sources (uses)	72,135,000	18,921,018	91,056,018	119,386,500	(28,330,482)
Net change in fund balances	$ 24,533,000	(1,565,170)	$ 22,967,830	$ 9,241,563	$ 13,726,267
Fund balance - beginning		31,650,589			
Fund balance - ending		$ 30,085,419			

Nonmajor Enterprise Funds

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

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2005

	Metro Parking	Public Assembly Facilities	Total Nonmajor Enterprise Funds
Assets			
Current assets			
Cash & temporary investments	$ 54,952	$ 492,670	$ 547,622
Investments	2,331,798	2,827,457	5,159,255
Accounts receivable	7,603	75,864	83,467
Notes receivable	-	811,301	811,301
Total current assets	2,394,353	4,207,292	6,601,645
Noncurrent assets			
Land & site improvements	1,378,637	1,711,454	3,090,091
Building & building improvements	11,430,661	14,960,844	26,391,505
Equipment	4,450	242,336	246,786
Less accumulated depreciation	(6,940,437)	(11,713,459)	(18,653,896)
Deferred charges	9,101	-	9,101
Total noncurrent assets	5,882,412	5,201,175	11,083,587
Total assets	8,276,765	9,408,467	17,685,232
Liabilities			
Current liabilities			
Accounts payable	-	69,591	69,591
Accrued liabilities	21,448	44,080	65,528
Customer deposits	-	167,536	167,536
Deferred revenue	-	91,504	91,504
Bond & notes payable, due within one year	810,000	-	810,000
Total current liabilities	831,448	372,711	1,204,159
Noncurrent liabilities			
Bond & notes payable, due more than one	385,000	-	385,000
Other Non-Current Liabilities	-	101,509	101,509
Total noncurrent liabilities	385,000	101,509	486,509
Total liabilities	1,216,448	474,220	1,690,668
Net assets			
Net Assets - Capital net of debt	4,678,311	5,201,175	9,879,486
Unrestricted	2,382,006	3,733,072	6,115,078
Total net assets	$ 7,060,317	$ 8,934,247	$ 15,994,564

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005

	Metro Parking	Assembly Facilities	Total Nonmajor Enterprise Funds
Operating revenues			
Charges for services	$ 1,027,245	$ 1,725,419	$ 2,752,664
Total operating revenues	1,027,245	1,725,419	2,752,664
Operating expenses			
Personal Services	-	1,749,441	1,749,441
Materials & Supplies	-	131,292	131,292
Maintenance	-	1,136,301	1,136,301
Depreciation & Amortization	378,605	326,705	705,310
Other Services and Charges	439,685	626,867	1,066,552
Total operating expenses	818,290	3,970,606	4,788,896
Operating income (loss)	208,955	(2,245,187)	(2,036,232)
Nonoperating revenue (expense)			
Interest Income	50,844	49,580	100,424
Other Revenues	-	142,486	142,486
Gain (loss) on disposal of capital assets	-	(3,689)	(3,689)
Interest expense	(38,648)	-	(38,648)
Total nonoperating revenue (expense)	12,196	188,377	200,573
Income (loss) before transfers	221,151	(2,056,810)	(1,835,659)
Transfers:			
Transfers in	-	2,187,163	2,187,163
Change in net assets	221,151	130,353	351,504
Total net assets - beginning	6,839,166	8,803,894	15,643,060
Total net assets - ending	$ 7,060,317	$ 8,934,247	$ 15,994,564

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005

	Metro Parking	Assembly Facilities	Total Nonmajor Enterprise Funds
Operating activities			
Cash received from customers and users	$ 1,100,019	$ 2,076,081	$ 3,176,100
Cash paid to suppliers	(415,516)	(1,794,426)	(2,209,942)
Cash paid to employees	-	(1,751,938)	(1,751,938)
Cash paid for interfund services used	(13,738)	(135,561)	(149,299)
Net cash provided by (used in) operating activities	670,765	(1,605,844)	(935,079)
Noncapital financing activities			
Transfers from other funds	-	2,187,163	2,187,163
Transfers from other funds	(134,473)	-	(134,473)
Transfers from other funds	-	142,486	142,486
Net cash provided (used) by noncapital financing activities	(134,473)	2,329,649	2,195,176
Capital and related financing activities			
Principal paid on general obligation bond maturities	(407,291)	-	(407,291)
Interest paid	(38,648)	-	(38,648)
Acquisition and construction of capital assets	-	(12,194)	(12,194)
Net cash provided (used) by capital and related financing activities	(445,939)	(12,194)	(458,133)
Investing activities			
Purchase of investments	(86,245)	(774,255)	(860,500)
Investment earnings	50,844	49,580	100,424
Net cash provided (used) in investing activities	(35,401)	(724,675)	(760,076)
Net increase in cash and cash equivalents/investments	54,952	(13,064)	41,888
Cash and cash equivalents/investments			
Beginning of year	-	505,734	505,734
End of year	$ 54,952	$ 492,670	$ 547,622
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	$ 208,955	$ (2,245,187)	$ (2,036,232)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	378,605	326,705	705,310
Change in assets and liabilities			
(Increase) decrease in receivables	68,676	183,126	251,802
(Increase) decrease in prepayments	4,098	-	4,098
Increase (decrease) in accounts payable	-	(36,476)	(36,476)
Increase (decrease) in accrued expenses	10,431	(1,548)	8,883
Increase (decrease) in customer deposits	-	167,536	167,536
Total adjustments	461,810	639,343	1,101,153
Net cash provided by (used in) operating activities	$ 670,765	$ (1,605,844)	$ (935,079)

Internal Service Funds

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

Office Services Fund	To provide printing, copying, mailing and telephone services for all City departments, and office and operating inventory.
Fleet Maintenance Fund	To supply city departments with quality, cost effective rolling stock that is in continuous state of good repair and capable of efficient performance in the service for which it is assigned.
Risk Management Fund	To account for the cost of insurance and claims against City employees or injury to citizens while on City property.
Employee 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 departmental operating equipment.
City Buildings Fund	To account for the cost of building rentals and maintenance costs.

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets
Internal Service Funds
June 30, 2005

	Office Services	Fleet Maintenance	Risk Management	Employee Health Insurance	Equipment Replacement	City Buildings	Total
Assets							
Current assets							
Cash & temporary investments	$ 31,495	$ 176	$ 319,811	$ 71,680	$ 184	$ 39,184	$ 462,530
Investments	-	10,897,415	7,524,142	4,221,085	8,125,267	459,855	31,227,764
Accounts receivable	3	19,290	14,237	12,950	9,968	1,122	57,570
Due from other funds	-	-	-	770,000	-	-	770,000
Inventory	33,524	715,204	-	12,199	339,610	-	1,100,537
Prepaid items	-	67	4,724	-	-	-	4,791
Total current assets	65,022	11,632,152	7,862,914	5,087,914	8,475,029	500,161	33,623,192
Noncurrent assets							
Building & building improvements	-	195,764	-	-	-	-	195,764
Equipment	48,906	38,502,445	15,663	2,107	14,908,056	-	53,477,177
Less accumulated depreciation	(46,474)	(28,839,501)	(15,216)	(2,107)	(10,599,718)	-	(39,503,016)
Total noncurrent assets	2,432	9,858,708	447	-	4,308,338	-	14,169,925
Total assets	67,454	21,490,860	7,863,361	5,087,914	12,783,367	500,161	47,793,117
Liabilities							
Current liabilities							
Accounts payable	5,747	112,991	41,679	1,879	28,189	201	190,686
Accrued liabilities	22,177	254,571	18,076	7,631	-	-	302,455
Due to other funds	-	3,903,000	-	-	24,200	5,100	3,932,300
Total current liabilities	27,924	4,270,562	59,755	9,510	52,389	5,301	4,425,441
Noncurrent liabilities							
Estimated litigation liability	-	-	5,592,171	-	-	-	5,592,171
Total noncurrent liabilities	-	-	5,592,171	-	-	-	5,592,171
Total liabilities	27,924	4,270,562	5,651,926	9,510	52,389	5,301	10,017,612
Net assets							
Net Assets - Capital net of debt	2,432	9,858,708	447	-	4,308,338	-	14,169,925
Unrestricted	37,098	7,361,590	2,210,988	5,078,404	8,422,640	494,860	23,605,580
Total net assets	$ 39,530	$ 17,220,298	$ 2,211,435	$ 5,078,404	$ 12,730,978	$ 494,860	$ 37,775,505

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2005

	Office Services	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating revenues							
Charges for services	$ 387,632	$ 10,310,433	$ 6,042,489	$ 12,570,742	$ 2,761,603	$ 1,481,821	$ 33,554,720
Total operating revenues	387,632	10,310,433	6,042,489	12,570,742	2,761,603	1,481,821	33,554,720
Operating expenses							
Personal Services	126,177	2,033,212	307,568	128,208	-	-	2,595,165
Materials & Supplies	164,762	2,775,434	2,615	3,995	200,022	-	3,146,828
Maintenance	-	624,224	128	536	6,206	14,351	645,445
Depreciation & Amortization	894	3,498,567	684	133	1,845,485	-	5,345,763
Other Services and Charges	78,009	491,978	6,763,394	12,355,218	660,507	1,261,956	21,611,062
Total operating expenses	369,842	9,423,415	7,074,389	12,488,090	2,712,220	1,276,307	33,344,263
Operating income (loss)	17,790	887,018	(1,031,900)	82,652	49,383	205,514	210,457
Nonoperating revenue (expense)							
Interest Income	3	200,825	-	74,564	140,373	5,672	421,437
Other Revenues	12	18,416	126,678	-	(94,945)	-	50,161
Gain (loss) on disposal of capital assets	(590)	(58,363)	(767)	(181)	(27,347)	-	(87,248)
Total nonoperating revenue (expense)	(575)	160,878	125,911	74,383	18,081	5,672	384,350
Income (loss) before transfers	17,215	1,047,896	(905,989)	157,035	67,464	211,186	594,807
Transfers:							
Transfers in	-	206,683	2,901,199	2,265,700	652,314	-	6,025,896
Change in net assets	17,215	1,254,579	1,995,210	2,422,735	719,778	211,186	6,620,703
Total net assets - beginning	22,315	15,965,719	216,225	2,655,669	12,011,200	283,674	31,154,802
Total net assets - ending	$ 39,530	$ 17,220,298	$ 2,211,435	$ 5,078,404	$ 12,730,978	$ 494,860	$ 37,775,505

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2005

	Office Services	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating activities							
Receipts from interfund services provided	$387,629	$ 10,298,832	$ 6,030,800	$ 12,557,792	$ 2,801,500	$ 1,480,699	$ 33,557,252
Cash paid to suppliers	(156,559)	(2,889,379)	(699,565)	(203,384)	(956,095)	(1,280,603)	(6,185,585)
Cash paid to employees	(126,356)	(2,063,053)	(310,663)	(128,642)	(50,515)	-	(2,679,229)
Cash paid for interfund services used	(78,009)	(246,144)	(25,681)	(11,448)	-	-	(361,282)
Payments of claims and insurance	-	-	(5,515,275)	(12,152,166)	-	-	(17,667,441)
Net cash provided by (used in) operating activities	26,705	5,100,256	(520,384)	62,152	1,794,890	200,096	6,663,715
Noncapital financing activities							
Transfers from other funds	-	-	2,901,199	1,495,700	676,514	4,055	5,077,468
Transfers to other funds	-	207,079	-	-	-	-	207,079
Tax, intergovernmental and other revenues	12	18,416	126,678	-	(94,945)	-	50,161
Net cash provided (used) by noncapital financing activities	12	225,495	3,027,877	1,495,700	581,569	4,055	5,334,708
Capital and related financing activities							
Proceeds from sale of capital assets	77	-	-	-	-	-	77
Acquisition and construction of capital assets	-	(3,878,709)	-	-	(1,261,645)	-	(5,140,354)
Net cash provided (used) by capital and related financing activities	77	(3,878,709)	-	-	(1,261,645)	-	(5,140,277)
Investing activities							
Purchase of investments	-	(1,647,691)	(2,508,796)	(2,321,624)	(1,327,817)	(170,639)	(7,976,567)
Investment earnings	3	200,825	-	74,467	140,373	5,672	421,340
Net cash provided (used) in investing activities	3	(1,446,866)	(2,508,796)	(2,247,157)	(1,187,444)	(164,967)	(7,555,227)
Net increase in cash and cash equivalents/investments	26,797	176	(1,303)	(689,305)	(72,630)	39,184	(697,081)
Cash and cash equivalents/investments							
Beginning of year	4,698	-	321,114	760,985	72,814	-	1,159,611
End of year	$ 31,495	$ 176	$ 319,811	$ 71,680	$ 184	$ 39,184	$ 462,530
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	$ 17,790	$ 887,018	$ (1,031,900)	$ 82,652	$ 49,383	$ 205,514	$ 210,457
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	894	3,498,567	684	133	1,845,485	-	5,345,763
Change in assets and liabilities							
(Increase) decrease in receivables	(3)	(11,601)	(11,689)	(12,950)	39,897	(1,122)	2,532
(Increase) decrease in inventory	13,118	778,414	-	(7,713)	(89,360)	-	694,459
(Increase) decrease in prepayments	-	(67)	494,234	-	-	-	494,167
Increase (decrease) in accounts payable	(4,915)	-	31,382	464	(50,515)	(4,296)	(27,880)
Increase (decrease) in accrued expenses	(179)	(29,841)	(3,095)	(434)	-	-	(33,549)
Increase (decrease) in liability	-	(22,234)	-	-	-	-	(22,234)
Total adjustments	8,915	4,213,238	511,516	(20,500)	1,745,507	(5,418)	6,453,258
Net cash provided (used) in operating activities	$ 26,705	$ 5,100,256	$ (520,384)	$ 62,152	$ 1,794,890	$ 200,096	$ 6,663,715

CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
Knoxville Area Transit - Component Unit
June 30, 2005

Assets	
Current assets:	
Cash & temporary investments	$ 430
Investments	789,415
Accounts receivable	2,877,345
Inventory	751,644
Prepaid items	194,641
Total current assets	4,613,475
Noncurrent assets:	
Building & building improvements	5,025,175
Equipment	23,793,613
Construction in progress	744,195
Less accumulated depreciation	(14,947,899)
Total noncurrent assets	14,615,084
Total assets	19,228,559
Liabilities:	
Current liabilities:	
Accounts payable	114,497
Accrued liabilities	420,464
Due to primary government	2,941,000
Deferred revenue	134,246
Total current liabilities	3,610,207
Total liabilities	3,610,207
Net assets:	
Net Assets - Capital net of debt	14,615,084
Unrestricted	1,003,268
Total net assets	$ 15,618,352

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Knoxville Area Transit - Component Unit
For the Year Ended June 30, 2005

Operating revenues	
Charges for services	$ 2,887,404
Total operating revenues	2,887,404
Operating expenses	
Personal Services	11,743,530
Materials & Supplies	2,059,427
Maintenance	398,051
Depreciation & Amortization	2,225,125
Other Services and Charges	5,010,917
Total operating expenses	21,437,050
Operating income (loss)	(18,549,646)
Nonoperating revenue (expense)	
Interest Income	13,395
Intergovernmental Revenue	11,961,517
Other Revenues	4,974,429
Gain (loss) on disposal of capital assets	6,657
Total nonoperating revenue (expense)	16,955,998
Change in net assets	(1,593,648)
Total net assets - beginning	17,212,000
Total net assets - ending	$ 15,618,352

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows
Knoxville Area Transit - Component Unit
For the Year Ended June 30, 2005

Operating activities	
Cash received from customers and users	$ 3,342,305
Cash paid to suppliers	(7,621,183)
Cash paid to employees	(11,676,066)
Net cash provided by (used in) operating activities	(15,954,944)
Noncapital financing activities	
Transfers from other funds	635,000
Transfers to other funds	-
Tax, intergovernmental and other revenues	16,935,946
Net cash provided (used) by noncapital financing activities	17,570,946
Capital and related financing activities	
Acquisition and construction of capital assets	(1,605,552)
Net cash provided (used) by capital and related financing activities	(1,605,552)
Investing activities	
Purchase of investments	(23,415)
Investment earnings	13,395
Net cash provided (used) in investing activities	(10,020)
Net increase in cash and cash equivalents/investments	430
Cash and cash equivalents/investments	
Beginning of year	-
End of year	$ 430
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	$ (18,549,646)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	2,225,125
Change in assets and liabilities	
(Increase) decrease in receivables	320,655
(Increase) decrease in inventory	(58,644)
(Increase) decrease in prepayments	(13,641)
Increase (decrease) in accounts payable	(80,503)
Increase (decrease) in accrued expenses	67,464
Increase (decrease) in deferred revenue	134,246
Total adjustments	2,594,702
Net cash provided by (used in) operating activities	$ (15,954,944)

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SUPPLEMENTARY SCHEDULES

CITY OF KNOXVILLE, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENT FUNDS
SCHEDULE BY SOURCE
JUNE 30, 2005

GOVERNMENTAL FUNDS CAPITAL ASSETS	
Land and site improvements	$ 36,473,309
Building and building improvements	38,755,989
Equipment, furniture and fixtures	2,219,778
Infrastructure	176,313,845
Construction in progress	68,160,750
Total governmental funds capital assets	$ 321,923,671
INVESTMENT IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE	
General fund	$ 56,147,778
Special Revenue funds	5,806,000
Capital Projects funds	231,010,893
Donations	28,959,000
Total investment in governmental capital funds	$ 321,923,671

Note: This schedule presents only the capital asset balances related to governmental funds. Accordingly, capital assets totaling $53,672,941 that are reported in the internal service funds and with the capital assets of governmental activities in the statement of net assets have been excluded from this schedule.

CITY OF KNOXVILLE, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
June 30, 2005

Function and Activity	Land and Site Improvements	Buildings and Buildings Improvements	Equipment Furniture and Fixtures	Infrastructure	Construction in Progress	Total
GENERAL GOVERNMENT						
Administration	$ -	$ 2,360,818	$ 40,580	$ -	$ -	$ 2,401,398
Finance	23,986,674	7,301,916	45,303	68,000	14,234,510	45,636,403
Information Systems	-	-	292,612	-	-	292,612
Law	-	-	-	-	-	-
Legislative	-	-	-	-	-	-
City Court	-	-	9,008	-	-	9,008
Civil Service	-	-	6,955	-	-	6,955
Total general government	23,986,674	9,662,734	394,458	68,000	14,234,510	48,346,376
PUBLIC SAFETY						
Police	1	3,855,157	636,298	-	911,367	5,402,823
Fire	157,137	4,062,049	320,720	-	20,634	4,560,540
Emergency Management	-	-	164,608	-	-	164,608
Total public safety	157,138	7,917,206	1,121,626	-	932,001	10,127,971
HIGHWAYS AND STREETS						
Public Service	-	534,465	82,468	-	1,041,287	1,658,220
Engineering	745,066	471,390	108,947	154,908,889	23,506,794	179,741,086
Total highways and streets	745,066	1,005,855	191,415	154,908,889	24,548,081	181,399,306
OTHER						
Parks and Recreation	5,313,867	5,027,422	512,279	7,910,956	19,312,393	38,076,917
Community Development	494,011	4,846,352	-	-	2,627,891	7,968,254
Waterfront	-	10,296,420	-	-	-	10,296,420
Knoxville Zoo	5,776,553	-	-	13,426,000	-	19,202,553
Other	-	-	-	-	6,505,874	6,505,874
Total other	11,584,431	20,170,194	512,279	21,336,956	28,446,158	82,050,018
Total governmental funds capital assets	$ 36,473,309	$ 38,755,989	$ 2,219,778	$ 176,313,845	$ 68,160,750	$ 321,923,671

Note: This schedule presents only the capital asset balances related to governmental funds. Accordingly, capital assets totaling $53,672,941 that are reported in the internal service funds and with the capital assets of governmental activities in the statement of net assets have been excluded from this schedule.

CITY OF KNOXVILLE, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULES OF CHANGES BY FUNCTION AND ACTIVITY
For the year ended June 30, 2005

Function and Activity	Governmental Funds Capital Assets June 30, 2004	Additions	Deletions	Governmental Funds Capital Assets June 30, 2005
GENERAL GOVERNMENT				
Administration	$ 2,436,083	$ -	$ 34,685	$ 2,401,398
Finance	46,038,320	2,976,928	3,378,845	45,636,403
Information Systems	331,534	-	38,922	292,612
Law	5,650	-	5,650	-
Legislative	11,578	-	11,578	-
City Court	14,889	-	5,881	9,008
Civil Service	67,336	-	60,381	6,955
Total general government	48,905,390	2,976,928	3,535,942	48,346,376
PUBLIC SAFETY				
Police	4,918,320	975,562	491,059	5,402,823
Fire	4,879,098	20,634	339,192	4,560,540
Emergency Management	344,595	-	179,987	164,608
Total public safety	10,142,013	996,196	1,010,238	10,127,971
HIGHWAYS AND STREETS				
Public Service	795,654	1,045,570	183,004	1,658,220
Engineering	168,986,002	10,964,527	209,443	179,741,086
Total highways and streets	169,781,656	12,010,097	392,447	181,399,306
OTHER				
Parks and Recreation	35,746,921	2,627,893	297,897	38,076,917
Community Development	8,017,074	-	48,820	7,968,254
Waterfront	10,296,420	-	-	10,296,420
Knoxville Zoo	19,227,303	-	24,750	19,202,553
Other	6,505,874	-	-	6,505,874
Total other	79,793,592	2,627,893	371,467	82,050,018
Total governmental funds capital assets	$ 308,622,651	$ 18,611,114	$ 5,310,094	$ 321,923,671

Note: This schedule presents only the changes in capital asset balances related to governmental funds. Accordingly, the changes in capital assets reported in the internal service funds and with the capital assets of governmental activities in the statement of net assets have been excluded from this schedule.

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CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF LONG-TERM BONDS AND NOTES PAYABLE
REQUIREMENTS BY ISSUE
JUNE 30, 2005

Fiscal Year Ended June 30,	General Government					
	General Obligation Public Improvement Bonds Series 2000A		General Obligation Public Improvement Bonds Series 2004A		General Obligation Refunding Bonds Series 2004B	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$715,000	$113,250	$1,310,000	$1,225,244	$8,405,000	$2,053,500
2007	755,000	77,500	1,330,000	1,199,044	7,535,000	1,633,250
2008	795,000	39,750	1,355,000	1,172,444	6,230,000	1,256,500
2009	-	-	1,385,000	1,145,344	5,055,000	945,000
2010	-	-	1,415,000	1,114,181	2,985,000	692,250
2011	-	-	1,455,000	1,043,431	2,155,000	543,000
2012	-	-	1,500,000	970,681	2,175,000	435,250
2013	-	-	1,550,000	895,681	2,200,000	326,500
2014	-	-	1,600,000	849,181	2,180,000	260,500
2015	-	-	1,655,000	799,181	2,160,000	192,380
2016	-	-	1,720,000	732,981	2,155,000	105,980
2017	-	-	1,785,000	664,181	565,000	19,780
2018	-	-	1,855,000	592,781	-	-
2019	-	-	1,930,000	518,581	-	-
2020	-	-	2,010,000	441,381	-	-
2021	-	-	2,095,000	360,981	-	-
2022	-	-	2,185,000	277,181	-	-
2023	-	-	2,285,000	189,781	-	-
2024	-	-	2,385,000	98,381	-	-
	$2,265,000	$230,500	$32,805,000	$14,290,644	$43,800,000	$8,463,890

Fiscal Year Ended June 30,	Metro Parking Fund		Convention Center							
	General Obligation Refunding Bonds Series 1999A		General Obligation Public Improvement Bonds Series IIIF		General Obligation Public Improvement Bonds Series A-4-A		General Obligation Refunding Bonds Series 2002A		Total Convention Center Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	$395,000	$48,393	$1,910,000	$798,500	-	$2,398,800	$1,110,000	$2,569,660	$3,020,000	$5,766,960
2007	415,000	32,593	1,995,000	760,300	-	2,398,800	1,155,000	2,530,810	3,150,000	5,689,910
2008	385,000	15,785	2,090,000	720,400	-	2,398,800	1,195,000	2,484,610	3,285,000	5,603,810
2009	-	-	2,185,000	678,600	-	2,398,800	1,245,000	2,436,810	3,430,000	5,514,210
2010	-	-	2,285,000	634,900	-	2,398,800	1,295,000	2,387,010	3,580,000	5,420,710
2011	-	-	2,390,000	589,200	-	2,398,800	1,345,000	2,335,210	3,735,000	5,323,210
2012	-	-	2,500,000	541,400	-	2,398,800	1,400,000	2,279,730	3,900,000	5,219,930
2013	-	-	2,610,000	491,400	-	2,398,800	1,465,000	2,220,230	4,075,000	5,110,430
2014	-	-	2,730,000	439,200	-	2,398,800	1,525,000	2,156,140	4,255,000	4,994,140
2015	-	-	2,855,000	384,600	-	2,398,800	1,595,000	2,087,510	4,450,000	4,870,910
2016	-	-	2,990,000	327,500	-	2,398,800	1,665,000	2,014,140	4,655,000	4,740,440
2017	-	-	3,125,000	267,700	-	2,398,800	1,745,000	1,935,890	4,870,000	4,602,390
2018	-	-	3,270,000	205,200	-	2,398,800	1,825,000	1,853,000	5,095,000	4,457,000
2019	-	-	3,415,000	139,800	-	2,398,800	1,920,000	1,761,750	5,335,000	4,300,350
2020	-	-	3,575,000	71,500	-	2,398,800	2,015,000	1,665,750	5,590,000	4,136,050
2021	-	-	-	-	-	2,398,800	5,855,000	1,565,000	5,855,000	3,963,800
2022	-	-	-	-	-	2,398,800	6,145,000	1,272,250	6,145,000	3,671,050
2023	-	-	-	-	-	2,398,800	6,455,000	965,000	6,455,000	3,363,800
2024	-	-	-	-	-	2,398,800	6,775,000	642,250	6,775,000	3,041,050
2025	-	-	-	-	1,055,000	2,398,800	6,070,000	303,500	7,125,000	2,702,300
2026	-	-	-	-	7,460,000	2,356,600	-	-	7,460,000	2,356,600
2027	-	-	-	-	7,760,000	2,058,200	-	-	7,760,000	2,058,200
2028	-	-	-	-	8,070,000	1,747,800	-	-	8,070,000	1,747,800
2029	-	-	-	-	8,390,000	1,425,000	-	-	8,390,000	1,425,000
2030	-	-	-	-	8,725,000	1,089,400	-	-	8,725,000	1,089,400
2031	-	-	-	-	9,075,000	740,400	-	-	9,075,000	740,400
2032	-	-	-	-	9,435,000	377,400	-	-	9,435,000	377,400
	$1,195,000	$96,771	$39,925,000	$7,050,200	$59,970,000	$57,770,800	$53,800,000	$37,466,250	$153,695,000	$102,287,250

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF LONG-TERM BONDS AND NOTES PAYABLE
REQUIREMENTS BY ISSUE
JUNE 30, 2005

General Government

General Obligation Refunding Bonds Series 2005		Total General Government Bonds		Animal Shelter Debt Participation		Total General Government Debt	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
$85,000	$611,819	$10,515,000	$4,003,813	$61,310	$69,460	$10,576,310	$4,073,273
90,000	609,269	9,710,000	3,519,063	63,310	66,400	9,773,310	3,585,463
90,000	606,569	8,470,000	3,075,263	65,590	62,910	8,535,590	3,138,173
900,000	603,869	7,340,000	2,694,213	68,060	59,310	7,408,060	2,753,523
925,000	576,869	5,325,000	2,383,300	70,630	55,730	5,395,630	2,439,030
950,000	549,119	4,560,000	2,135,550	73,480	52,030	4,633,480	2,187,580
985,000	518,244	4,660,000	1,924,175	76,520	47,990	4,736,520	1,972,165
1,020,000	485,000	4,770,000	1,707,181	79,840	43,780	4,849,840	1,750,961
1,070,000	434,000	4,850,000	1,543,681	83,360	39,590	4,933,360	1,583,271
1,120,000	380,500	4,935,000	1,372,061	87,070	35,210	5,022,070	1,407,271
1,175,000	324,500	5,050,000	1,163,461	91,060	30,860	5,141,060	1,194,321
1,230,000	265,750	3,580,000	949,711	95,430	26,300	3,675,430	976,011
1,295,000	204,250	3,150,000	797,031	99,990	21,530	3,249,990	818,561
1,360,000	139,500	3,290,000	658,081	104,840	16,530	3,394,840	674,611
1,430,000	71,500	3,440,000	512,881	110,070	11,290	3,550,070	524,171
-	-	2,095,000	360,981	115,680	5,790	2,210,680	366,771
-	-	2,185,000	277,181	-	-	2,185,000	277,181
-	-	2,285,000	189,781	-	-	2,285,000	189,781
-	-	2,385,000	98,381	-	-	2,385,000	98,381
$13,725,000	$6,380,756	$92,595,000	$29,365,790	$1,346,240	$644,710	$93,941,240	$30,010,500

Total Primary Government		Debt by Type					
		Total General Obligation Bonds		Total Debt Participation		Total Primary Government Debt	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
$13,991,310	$9,888,626	$13,930,000	$9,819,166	$61,310	$69,460	$13,991,310	$9,888,626
6,300,000	11,379,820	13,275,000	9,241,566	63,310	66,400	13,338,310	9,307,966
6,570,000	11,207,620	12,140,000	8,694,858	65,590	62,910	12,205,590	8,757,768
6,860,000	11,028,420	10,770,000	8,208,423	68,060	59,310	10,838,060	8,267,733
7,160,000	10,841,420	8,905,000	7,804,010	70,630	55,730	8,975,630	7,859,740
7,470,000	10,646,420	8,295,000	7,458,760	73,480	52,030	8,368,480	7,510,790
7,800,000	10,439,860	8,560,000	7,144,105	76,520	47,990	8,636,520	7,192,095
8,150,000	10,220,860	8,845,000	6,817,611	79,840	43,780	8,924,840	6,861,391
8,510,000	9,988,280	9,105,000	6,537,821	83,360	39,590	9,188,360	6,577,411
8,900,000	9,741,820	9,385,000	6,242,971	87,070	35,210	9,472,070	6,278,181
9,310,000	9,480,880	9,705,000	5,903,901	91,060	30,860	9,796,060	5,934,761
9,740,000	9,204,780	8,450,000	5,552,101	95,430	26,300	8,545,430	5,578,401
10,190,000	8,914,000	8,245,000	5,254,031	99,990	21,530	8,344,990	5,275,561
10,670,000	8,600,700	8,625,000	4,958,431	104,840	16,530	8,729,840	4,974,961
11,180,000	8,272,100	9,030,000	4,648,931	110,070	11,290	9,140,070	4,660,221
11,710,000	7,927,600	7,950,000	4,324,781	115,680	5,790	8,065,680	4,330,571
12,290,000	7,342,100	8,330,000	3,948,231	-	-	8,330,000	3,948,231
12,910,000	6,727,600	8,740,000	3,553,581	-	-	8,740,000	3,553,581
13,550,000	6,082,100	9,160,000	3,139,431	-	-	9,160,000	3,139,431
14,250,000	5,404,600	7,125,000	2,702,300	-	-	7,125,000	2,702,300
14,920,000	4,713,200	7,460,000	2,356,600	-	-	7,460,000	2,356,600
15,520,000	4,116,400	7,760,000	2,058,200	-	-	7,760,000	2,058,200
16,140,000	3,495,600	8,070,000	1,747,800	-	-	8,070,000	1,747,800
16,780,000	2,850,000	8,390,000	1,425,000	-	-	8,390,000	1,425,000
17,450,000	2,178,800	8,725,000	1,089,400	-	-	8,725,000	1,089,400
18,150,000	1,480,800	9,075,000	740,400	-	-	9,075,000	740,400
18,870,000	754,800	9,435,000	377,400	-	-	9,435,000	377,400
$315,341,310	$202,929,206	$247,485,000	$131,749,811	$1,346,240	$644,710	$248,831,240	$132,394,521

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF REVENUE DETAIL
GENERAL FUND
For the year ended June 30, 2005

Taxes	
Real - Current	$53,760,925
Real - Prior	2,133,493
Personal - Current	5,986,246
Personal - Prior	309,072
Public Utilities - Current	3,346,017
Public Utilities - Prior	103,507
Discount on Taxes	(295,594)
Knoxville Utilities Board - In Lieu of Tax	11,350,977
Knox County Development Corporation - In Lieu of Tax	34,618
Other In Lieu of Tax Payments	98,117
Local Shared Sales Tax	31,784,513
Beer Tax	5,871,154
Mixed Drink Tax	990,937
Alcoholic Beverage Tax	1,953,486
Business Tax	4,396,098
Interest & Penalties-Current	161,048
Interest & Penalties-Prior	1,109,966
Interest & Penalties-Business	74,369
Interest & Penalties-License	261
Interest & Penalties CBID	3,109
Cable TV Franchise Tax	1,216,437
Other	36,140
Total - Taxes	$124,424,894
Licenses and Permits	
Inspection Permits	$27,140
Liquor By Ounce	150,220
Alcoholic Beverage License	3,000
Beer Permit Fees	34,588
Beer Privilege Tax	58,601
Other	10,575
Total - Licenses and Permits	$284,124
Intergovernmental Revenue	
Federal Grants	$638,384
Sales Tax	10,566,880
Income Tax	2,527,831
Beer Tax	85,260
Alcoholic Beverage Tax	70,486
Streets & Transportation Gas	391,077
Excise Tax	396,750
TVA - Gross Receipts	1,268,995
State Contribution	161,773
Other	177,308
Total - Intergovernmental Revenue	$16,284,744

Charges For Services	
Facility Rentals	$4,315
Atty. Cost - Taxes	311,043
Recording & Collection	44,639
Accident Reports	197,210
Officer Costs	29,055
Codes Enforcement	76,776
State Reimb./Streets, Signs	119,066
Pool Fees	58,104
Team Registration Fees	36,380
Vending Concessions	19,026
Caswell Park Fees/Concessions	36,501
Other	31,376
Total - Charges For Services	$963,490
Fines and Forfeitures	
General Sessions Fines	$3,862
County Court Costs	106,436
KPD - Automated Information	98,383
KPD-Moving Violations	586
Criminal Court Fines	144,845
Total - Fines and Forfeitures	$354,111
Miscellaneous Revenues	
Interest On Investments	$337,383
Lease & Rental Income	28,970
Parking Meters	330,618
Other	10,897
Total - Miscellaneous Revenues	$707,869
Total - General Fund Revenue	$143,019,232

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF REVENUE AND EXPENDITURE DETAIL
STATE STREET AID FUND
For the Year Ended June 30, 2005

	Budget	Actual
Revenue:		
State Gas and Fuel Tax	4,900,000	4,930,830
Interest on Investments	6,000	20,181
Total revenue	4,906,000	4,951,011
Expenditures and Transfers		
Street Lighting	2,640,000	2,630,784
Capital Projects Transfers	1,275,000	1,275,000
Mass Transit Transfers	1,031,000	1,031,000
Total expenditures and transfers	4,946,000	4,936,784
Excess (deficiency) of revenue over expenditures and transfers	(40,000)	14,228

CITY OF KNOXVILLE, TENNESSEE
SCHEDULES OF ASSETS, LIABILITIES AND FUND BALANCE
DRUG SUB-FUND
For the year ended June 30, 2005

ASSETS	
Cash and temporary investments	$ 1,241,610
Accounts receivable	163,002
Total assets	$ 1,404,612
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	$ 109,347
Total liabilities	109,347
Fund balance:	
Unreserved, undesignated	1,295,266
Total assets and fund balance	$ 1,404,612

Note: The drug fund is a sub-fund of the City's Miscellaneous Grant Fund.
This schedule is presented to demonstrate compliance requirements of the State of Tennessee

CITY OF KNOXVILLE, TENNESSEE
SCHEDULES OF REVENUE AND EXPENDITURE DETAIL
DRUG SUB-FUND
For the year ended June 30, 2005

REVENUES	
Federal Contribution	$ 135,702
Fines and Forfeitures	172,108
Interest	7,058
Other	229,063
Total revenue	543,931
EXPENDITURES	
Drug purchases	38,725
Informants	13,375
Capital outlay	55,350
Other supplies and expenses	97,610
Drug dog equipment and expenses	18,600
Prevention programs	31,878
Other	81,657
Total expenditures	337,194
Excess of revenues over expenditures	206,737
Fund balance at the beginning of the year	1,088,529
Fund balance at the end of the year	$ 1,295,266

Note: The drug fund is a sub-fund of the City's Miscellaneous Grant Fund.
This schedule is presented to demonstrate compliance requirements of the State of Tennessee

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF PROPERTY TAX RECIEVABLES
For the year ended June 30, 2005
(in thousands)

Year of Levy	Balance July1, 2004	Taxes Levied	Collections and Write-offs	Balance June 30, 2005	Allowance for Uncollectibles	Net Receivables
Real property:						
1994	$ 78	$ -	$ 78	$ -	$ -	$ -
1995	48	-	13	35	35	-
1996	48	-	15	33	33	-
1997	53	-	18	35	35	-
1998	83	-	30	53	53	-
1999	138	-	68	70	70	-
2000	275	-	148	127	127	-
2001	500	-	319	181	181	-
2002	1,201	-	850	351	351	-
2003	3,069	-	2,324	745	335	410
2004	76,996	-	74,785	2,211	1,727	484
2005	-	80,751	-	80,751	808	79,943
	82,489	80,751	78,648	84,592	3,754	80,838
Personal property:						
1994	37	-	37	-		-
1995	29	-	-	29	29	-
1996	51	-	-	51	51	-
1997	71	-	-	71	71	-
1998	123	-	-	123	123	-
1999	183	-	18	165	165	-
2000	298	-	24	274	274	-
2001	376	-	40	336	336	-
2002	507	-	49	458	458	-
2003	618	-	175	443	199	244
2004	9,232	-	8,594	638	498	140
2005	-	8,873	-	8,873	89	8,784
	11,525	8,873	8,937	11,461	2,293	9,168
Public Utility:						
1994	3	-	3	-	-	-
1995	2	-	-	2	2	-
1996	7	-	-	7	7	-
1997	6	-	-	6	6	-
1998	13	-	-	13	13	-
1999	11	-	-	11	11	-
2000	13	-	-	13	13	-
2001	16	-	3	13	13	-
2002	203	-	188	15	15	-
2003	252	-	190	62	28	34
2004	4,361	-	4,248	113	88	25
2005	-	3,930	-	3,930	39	3,891
	4,887	3,930	4,632	4,185	235	3,950
Total:						
1994	118	-	118	-	-	-
1995	79	-	13	66	66	-
1996	106	-	15	91	91	-
1997	130	-	18	112	112	-
1998	219	-	30	189	189	-
1999	332	-	86	246	246	-
2000	586	-	172	414	414	-
2001	892	-	362	530	530	-
2002	1,911	-	1,087	824	824	-
2003	3,939	-	2,689	1,250	562	688
2004	90,589	-	87,627	2,962	2,313	649
2005	-	93,554	-	93,554	936	92,618
	$ 98,901	$ 93,554	$ 92,217	$ 100,238	$ 6,283	$ 93,955

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
June 30, 2005

Name of Company	Policy Number	Period of Coverage From	Period of Coverage To	Details of Coverage	Limits of Liability	Annual Premium
Travelers Companies	KTJCMB219T044A04	08/01/05	08/01/06	Property All Risks	$250,000,000 per occ	$106,123
Travelers Companies	M5JBM21272K5151	08/01/05	08/01/06	Boiler & Equipment	110% of stated value * $100,000,000	$12,654
Princeton E&S Munich American Risk Partners (MARP)	01-A3-RL-0000001-03	03/29/05	03/29/06	Excess General Liability	$10,000,000/Above SIR $500,000 RETENTION	$364,462
Safety National Casualty Corporation	SP-9729-TN	06/25/05	06/25/06	Excess Liability (Workers Comp)	STATUTORY/Above SIR **	$61,305
Travelers Companies	104451030	03/01/05	03/01/06	Faithful Performance Bond(Blanket)	$2,000,000	$7,558
Travelers Companies	104451030	03/01/05	03/01/06	Public Officials Bond (Treasurer) Public Officials Bond(Asst. Treasurer)	$2,000,000 $2,000,000	
Travelers Companies	104451030	03/01/05	03/01/06	Robbery & Safe Burglary	$2,000,000	
Gulf Insurance Company	GU2624047	03/26/01	03/26/11	Pollution/Liability	$10,000,000	$89,582
Tml Risk Management Pool	TML-0597-06	10/01/05	10/01/06	Senior Aides Comm. General Liab./Auto	$600,000/OCC. $250,000/PERSON	$1,309
Tml Risk Management Pool	TWC-0488-06	07/01/05	07/01/06	Senior Aides Workers' Compensation	STATUTORY **	$15,096
AIG	SRG9100271	06/07/05	06/07/06	Accident (Athletic Program Participants)	$250,000/OCC.	$46,723
Itt Hartford Insurance Co.	GL032069	07/01/03	06/30/06	Group Life Employees	1.5 x salary/up to $50,000 minimum - $35,000	$178,127 (APPROX.)
Itt Hartford Insurance Co.	GLT032069	07/01/03	06/30/06	Long Term Disability (Ltd) - Employees	60% salary $5,250/mo. max $50/mo. min	$119,144 (APPROX.)
Travelers Companies	103186274	07/01/05	07/01/06	Fiduciary Liability (Pension Bd.)	$10,000,000	$25,200
Westfield Companies	CWP 3911375	10/01/05	10/01/06	Business, Boiler & Machinery, Crime, Inland Marine	$1,000,000/OCC $510,000 CRIME	$14,683
Tml Risk Management Pool	TWC-0479-06	12/01/05	12/01/06	Workers Compensation	STATUTORY **	$447,524
Tml Risk Management Pool	GLP 2687900-03	07/01/05	07/01/06	Commercial General Liability Auto Liability Auto Physical Damage	$8,838,191	$200,690

* Property And Boiler & Machinery Coverage Are Under Policy Carried By Knox County Governr
** Subject to yearly audit

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF INVESTMENTS
JUNE 30, 2005

Description	Interest Rate	Maturity Date	Fair Value	Carrying Value
General Fund				
Local Government Investment Pool	Variable	Open End	$ 2,526,975	$ 2,526,975
General Electric Commercial Paper	2.95%	Jul 01, 2005	1,000,000	991,086
US Government Obligation - Federal Home Loan Mortgage Corporation Discount Note	2.99%	Jul 05, 2005	999,600	991,646
Cooper Association Tractor Commercial Paper	2.99%	Jul 08, 2005	1,000,000	991,314
US Government Obligation - Federal Home Loan Bank Discount Note	3.02%	Jul 11, 2005	999,100	991,068
Lockhart Funding Commercial Paper	3.11%	Jul 18, 2005	1,000,000	990,140
Citigroup Commercial Paper	3.07%	Jul 25, 2005	1,000,000	989,682
General Electric Commercial Paper	3.07%	Jul 29, 2005	1,000,000	989,346
US Government Obligation - Federal Home Loan Bank	3.23%	Aug 26, 2005	498,905	497,658
Memphis City Center Corp. Municipal Bonds	3.09%	Dec 01, 2005	179,815	180,000
US Government Obligation - Federal National Mortgage Association	3.00%	Nov 22, 2006	494,530	500,000
Total - General Fund			10,698,925	10,638,914
State Street Aid				
Local Government Investment Pool	Variable	Open End	916,054	916,054
Abandoned Vehicles				
Local Government Investment Pool	Variable	Open End	1,225,232	1,225,232
Animal Control				
Local Government Investment Pool	Variable	Open End	250,304	250,304
City Court				
Local Government Investment Pool	Variable	Open End	770,245	770,245
City Inspections				
Local Government Investment Pool	Variable	Open End	725,426	725,426
Stormwater				
Local Government Investment Pool	Variable	Open End	495,981	495,981
Solid Waste				
Local Government Investment Pool	Variable	Open End	3,790,830	3,790,830
Miscellaneous Special Revenue Funds				
Local Government Investment Pool	Variable	Open End	4,363,242	4,363,242
Miscellaneous Grant Funds				
Local Government Investment Pool	Variable	Open End	68,448	68,448
Miscellaneous Community Development Funds				
Local Government Investment Pool	Variable	Open End	991,247	991,247
Debt Service Fund				
Local Government Investment Pool	Variable	Open End	3,938,876	3,938,876
THDA Bonds	1.40%	Jul 01, 2005	100,000	100,000
US Government Obligation - Federal Home Loan Bank	1.52%	Jul 22, 2005	299,625	300,000
International Lease Fin. Commercial Paper	3.12%	Aug 01, 2005	1,000,000	989,852
US Government Obligation - Federal Farm Credit Bank	1.90%	Aug 05, 2005	249,610	249,512
Zion's Bancorp Commercial Paper	3.18%	Aug 05, 2005	1,000,000	989,306
US Government Obligation - Federal Home Loan Mortgage Corporation Discount Note	3.10%	Aug 30, 2005	994,600	987,760
Cooper Association Tractor Commercial Paper	3.31%	Sep 02, 2005	1,000,000	986,933
Citigroup Commercial Paper	3.19%	Sep 06, 2005	1,000,000	987,509
Three Crowns Funding Commercial Paper	3.24%	Sep 12, 2005	1,000,000	986,784
US Government Obligation - Federal Home Loan Bank	2.81%	Dec 19, 2005	498,125	500,000
Certificate of Deposit - Suntrust Bank	2.60%	Jan 05, 2006	500,000	500,000
US Government Obligation - Federal National Mortgage Association	1.97%	Feb 09, 2006	495,000	500,313
US Government Obligation - Federal National Mortgage Association	2.25%	Feb 17, 2006	247,735	250,000
US Government Obligation - Federal Home Loan Mortgage Corporation	2.00%	Feb 23, 2006	494,530	500,000
US Government Obligation - Federal Home Loan Bank	2.17%	Feb 27, 2006	247,500	250,000
US Government Obligation - Federal Home Loan Mortgage Corporation	2.16%	Mar 03, 2006	247,410	250,000
US Government Obligation - Federal Farm Credit Corporation	1.93%	Mar 15, 2006	492,815	500,000
US Government Obligation - Federal Home Loan Bank	1.86%	Mar 17, 2006	493,905	501,406
US Government Obligation - Federal Home Loan Bank	3.02%	Mar 23, 2006	776,100	780,000
US Government Obligation - Federal Home Loan Bank	2.10%	Mar 30, 2006	246,640	250,000
US Government Obligation - Federal Home Loan Bank	3.01%	Apr 17, 2006	271,219	271,238
US Government Obligation - Federal Home Loan Bank	3.06%	May 05, 2006	247,033	247,500
US Government Obligation - Federal Farm Credit Corporation	2.35%	May 12, 2006	494,065	500,000
Public Building Authority of Blount County Bonds	3.15%	Jun 01, 2006	163,979	165,000
US Government Obligation - Federal Home Loan Bank	3.57%	Jun 05, 2006	308,718	311,076
US Government Obligation - Federal Home Loan Bank	3.52%	Jun 16, 2006	492,190	491,935
US Government Obligation - Federal Home Loan Bank	2.98%	Jun 23, 2006	334,900	335,272
US Government Obligation - Federal Home Loan Bank	3.60%	Jul 07, 2006	493,905	493,770

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF INVESTMENTS
JUNE 30, 2005

Description	Interest Rate	Maturity Date	Fair Value	Carrying Value
US Government Obligation - Federal Farm Credit Bank	3.08%	Jul 17, 2006	491,565	492,720
US Government Obligation - Federal Home Loan Bank	3.03%	Jul 24, 2006	191,831	191,984
US Government Obligation - Federal Home Loan Mortgage Corporation	2.93%	Aug 04, 2006	989,030	996,978
US Government Obligation - Federal National Mortgage Association	2.85%	Aug 11, 2006	494,375	498,980
US Government Obligation - Federal Home Loan Bank	3.06%	Aug 28, 2006	644,313	649,594
US Government Obligation - Federal Home Loan Bank	3.13%	Aug 30, 2006	158,600	159,750
US Government Obligation - Federal Home Loan Bank	3.19%	Sep 14, 2006	495,000	497,891
US Government Obligation - Federal Home Loan Bank	3.47%	Sep 15, 2006	497,970	500,000
US Government Obligation - Federal Farm Credit Bank	2.62%	Oct 02, 2006	491,405	497,656
US Government Obligation - Federal Home Loan Bank	3.27%	Oct 20, 2006	493,905	496,172
US Government Obligation - Federal Home Loan Bank	3.00%	Nov 03, 2006	494,690	500,000
US Government Obligation - Federal National Mortgage Association	3.33%	Nov 09, 2006	493,905	495,781
US Government Obligation - Federal Home Loan Mortgage Corporation	3.15%	Nov 17, 2006	529,318	533,465
US Government Obligation - Federal National Mortgage Association	3.22%	Nov 24, 2006	494,845	498,400
Memphis City Center Corp. Municipal Bonds	3.48%	Dec 01, 2006	233,447	235,000
US Government Obligation - Federal Home Loan Mortgage Corporation	3.20%	Dec 22, 2006	495,740	500,000
US Government Obligation - Federal Home Loan Bank	3.81%	Dec 29, 2006	499,690	500,000
US Government Obligation - Federal Home Loan Bank	3.53%	Jan 10, 2007	497,190	499,250
US Government Obligation - Federal Home Loan Bank	3.74%	Jan 12, 2007	246,953	246,923
US Government Obligation - Federal National Mortgage Association	3.88%	Jan 19, 2007	495,155	493,906
US Government Obligation - Federal Home Loan Bank	3.50%	Feb 02, 2007	497,500	500,000
Total - Debt Service Fund			28,054,905	28,098,490
Capital Projects Funds				
Local Government Investment Pool	Variable	Open End	5,904,029	5,904,029
Zion's Bancorp Commercial Paper	3.24%	Aug 19, 2005	1,000,000	987,898
Zion's Bancorp Commercial Paper	3.24%	Aug 22, 2005	1,000,000	987,633
American Express Commercial Paper	3.16%	Aug 29, 2005	1,000,000	990,730
US Government Obligation - Federal National Mortgage Association	2.05%	Sep 12, 2005	352,188	379,110
Lockhart Funding Commercial Paper	3.48%	Oct 21, 2005	1,000,000	989,107
US Government Obligation - Federal Home Loan Bank Discount Note	3.43%	Oct 24, 2005	989,200	989,113
HSBC Commercial Paper	3.48%	Oct 28, 2005	1,000,000	988,606
US Government Obligation - Federal Home Loan Mortgage Corporation	2.14%	Nov 15, 2005	497,500	499,844
US Government Obligation - Federal Home Loan Mortgage Corporation	2.30%	Nov 17, 2005	248,673	250,000
US Government Obligation - Federal Home Loan Bank	3.02%	Jan 18, 2006	498,125	499,900
US Government Obligation - Federal Home Loan Bank	3.10%	Feb 10, 2006	498,125	500,000
US Government Obligation - Federal Home Loan Mortgage Corporation	2.66%	Feb 17, 2006	222,662	222,680
US Government Obligation - Federal Home Loan Bank	3.02%	Mar 23, 2006	173,031	173,113
Knox County, Tenn. Taxable G. O. Bonds	3.65%	May 01, 2006	109,722	110,000
US Government Obligation - Federal Home Loan Bank	2.83%	May 15, 2006	495,780	499,245
US Government Obligation - Federal National Mortgage Association	3.00%	Jun 02, 2006	495,780	500,000
US Government Obligation - Federal Home Loan Bank	3.22%	Jun 09, 2006	782,328	781,676
US Government Obligation - Federal Home Loan Mortgage Corporation	3.27%	Aug 16, 2006	155,907	159,630
US Government Obligation - Federal Home Loan Bank	3.24%	Sep 25, 2006	196,000	196,312
US Government Obligation - Federal Home Loan Bank	3.32%	Oct 25, 2006	153,047	155,415
US Government Obligation - Federal Farm Credit Bank	3.13%	Dec 01, 2006	495,315	500,000
US Government Obligation - Federal Home Loan Bank	4.03%	Feb 05, 2007	501,095	500,000
US Government Obligation - Federal National Mortgage Association	3.49%	Feb 23, 2007	493,595	495,000
Knox County, Tenn. Taxable G. O. Bonds	4.03%	May 01, 2007	105,014	105,000
US Government Obligation - Federal National Mortgage Association	1.59%	Jul 15, 2005	500,625	533,400
US Government Obligation - Federal Home Loan Bank	1.63%	Jul 27, 2005	499,375	500,000
US Government Obligation - Federal Home Loan Mortgage Corporation	1.58%	Aug 15, 2005	498,750	499,468
US Government Obligation - Federal Home Loan Bank	2.45%	Oct 17, 2005	497,500	494,775
US Government Obligation - Federal Home Loan Bank	2.00%	Oct 27, 2005	497,655	500,000
US Government Obligation - Federal Home Loan Bank	1.93%	Nov 04, 2005	497,345	500,000
US Government Obligation - Federal Home Loan Bank	2.07%	Nov 10, 2005	497,500	500,000
US Government Obligation - Federal National Mortgage Association	2.35%	Nov 25, 2005	252,613	260,363
US Government Obligation - Federal Home Loan Bank	2.56%	Dec 09, 2005	497,815	500,000
US Government Obligation - Federal Home Loan Mortgage Corporation	2.52%	Dec 15, 2005	496,245	498,190
US Government Obligation - Federal Home Loan Bank	2.57%	Dec 30, 2005	219,039	220,619
Greater Dickson Gas Authority Municipal Bonds	2.62%	Jan 01, 2006	196,542	202,704
US Government Obligation - Federal Home Loan Bank	1.71%	Jan 06, 2006	693,000	700,000
US Government Obligation - Federal Home Loan Bank	2.02%	Jan 27, 2006	495,315	500,000
US Government Obligation - Federal Home Loan Bank	2.11%	Jan 30, 2006	495,470	500,000
US Government Obligation - Federal Home Loan Bank	2.16%	Jan 30, 2006	495,625	500,000
US Government Obligation - Federal Home Loan Bank	2.46%	Feb 28, 2006	148,454	149,274
US Government Obligation - Federal Home Loan Bank	2.00%	Apr 06, 2006	492,030	500,000
US Government Obligation - Federal National Mortgage Association	2.10%	Apr 19, 2006	493,595	500,000
US Government Obligation - Federal Home Loan Mortgage Corporation	1.95%	Apr 26, 2006	985,460	1,000,000
US Government Obligation - Federal National Mortgage Association	2.25%	Jun 30, 2006	496,250	501,680
US Government Obligation - Federal Home Loan Bank	2.77%	Jul 28, 2006	246,640	248,750
US Government Obligation - Federal Home Loan Bank	3.17%	Aug 25, 2006	496,405	500,000
Certificate of Deposit - Amsouth Bank	3.10%	Sep 08, 2006	500,000	500,000
US Government Obligation - Federal Home Loan Mortgage Corporation	3.00%	Sep 29, 2006	494,105	500,000

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF INVESTMENTS
JUNE 30, 2005

Description	Interest Rate	Maturity Date	Fair Value	Carrying Value
Total - Capital Projects Funds			30,050,466	30,173,262
Public Assembly Facilities				
Local Government Investment Pool	Variable	Open End	2,827,457	2,827,457
Metro Parking				
Local Government Investment Pool	Variable	Open End	2,331,798	2,331,798
KCRF Trust				
Local Government Investment Pool	Variable	Open End	2,122,927	2,122,927
Krutch Park				
Local Government Investment Pool	Variable	Open End	371,482	371,482
Dow Chemical Common Stock (held in trust)	2,700 Shares		120,231	120,231
Duke Energy Common Stock (held in trust)	1,200 Shares		35,676	35,676
Firstenergy Corp. Common Stock (held in trust)	740 Shares		35,601	35,601
Total - Krutch Park			562,990	562,990
City Choice				
Local Government Investment Pool	Variable	Open End	175,022	175,022
Fleet Services				
Local Government Investment Pool	Variable	Open End	3,686,052	3,686,052
General Electric Commercial Paper	3.10%	Aug 08, 2005	1,000,000	989,325
General Electric Commercial Paper	3.10%	Aug 12, 2005	1,000,000	988,986
HSBC Commercial Paper	3.28%	Sep 30, 2005	1,000,000	987,594
Zion's Bancorp Commercial Paper	3.40%	Oct 03, 2005	1,000,000	986,892
Zion's Bancorp Commercial Paper	3.40%	Oct 07, 2005	1,000,000	986,525
Lockhart Funding Commercial Paper	3.40%	Oct 11, 2005	1,000,000	986,158
Lockhart Funding Commercial Paper	3.35%	Oct 14, 2005	1,000,000	985,883
US Government Obligation - Federal National Mortgage Association	4.01%	Jun 06, 2007	300,375	300,000
Total - Fleet Services			10,986,427	10,897,415
Risk Management				
Local Government Investment Pool	Variable	Open End	6,184,852	6,184,852
Lockhart Funding Commercial Paper	3.28%	Sep 09, 2005	1,000,000	989,290
US Government Obligation - Federal Farm Credit Bank	2.34%	Apr 28, 2006	345,954	350,000
Total - Risk Management			7,530,806	7,524,142
Health Care				
Local Government Investment Pool	Variable	Open End	4,221,085	4,221,085
Equipment Replacement				
Local Government Investment Pool	Variable	Open End	3,921,731	3,921,731
General Electric Commercial Paper	3.28%	Sep 16, 2005	1,000,000	988,800
American Express Commercial Paper	3.27%	Sep 19, 2005	1,000,000	988,569
American Express Commercial Paper	3.27%	Sep 23, 2005	1,000,000	988,215
HSBC Commercial Paper	3.27%	Sep 26, 2005	1,000,000	987,949
US Government Obligation - Federal Home Loan Bank	2.50%	Dec 29, 2005	248,515	250,000
Total - Equipment Replacement			8,170,246	8,125,264
City Buildings				
Local Government Investment Pool	Variable	Open End	459,855	459,855
Total - Primary Government			$ 121,789,918	$ 121,755,632
Mass Transit				
Local Government Investment Pool	Variable	Open End	789,415	789,415

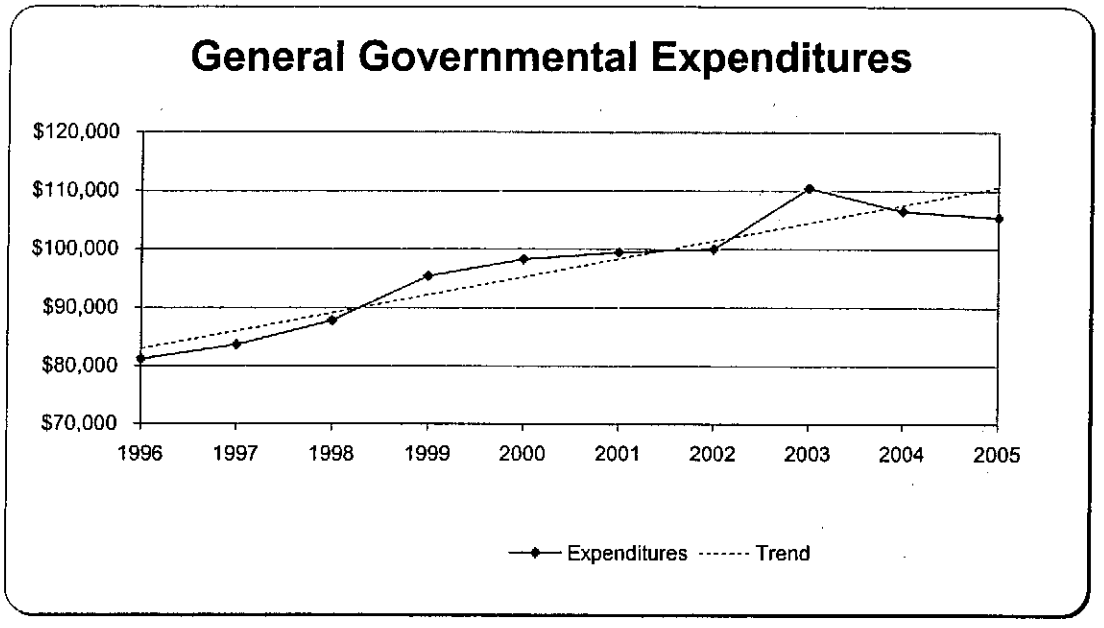
STATISTICAL SECTION

CITY OF KNOXVILLE, TENNESSEE
GENERAL FUND
EXPENDITURES BY FUNCTION
LAST TEN YEARS
(in thousands)
(Unaudited)

Expenditures	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General government	$ 2,629	$ 2,492	$ 2,925	$ 3,100	$ 3,574	$ 3,403	$ 3,636	$ 3,472	$ 3,532	$ 3,473
Finance	2,335	2,683	2,504	2,885	2,838	3,200	3,764	3,868	3,415	2,902
Law	971	1,000	1,130	1,212	1,467	1,399	1,586	1,413	1,451	1,441
Information systems	1,852	1,926	2,042	2,406	2,522	2,620	2,593	2,781	2,700	2,845
Public safety	44,986	45,814	49,838	53,964	56,306	58,272	57,154	60,343	60,129	62,810
Public service	11,753	11,818	12,466	12,695	13,589	14,161	14,932	16,202	14,519	15,804
Engineering	3,571	3,797	4,386	4,786	4,853	4,847	4,323	4,553	5,004	4,661
Recreation and welfare	4,422	4,721	5,194	5,085	5,524	5,607	5,724	5,967	5,966	5,703
Agency contributions	2,933	3,165	3,442	4,113	3,521	4,183	3,777	9,359	8,472	3,985
Knox County	4,815	4,743	2,586	3,760	2,567	115	-	-	-	
Other	860	1,430	1,252	1,350	1,439	1,587	2,498	2,495	1,255	1,778
	$ 81,127	$ 83,589	$ 87,765	$ 95,356	$ 98,200	$ 99,394	$ 99,987	$ 110,453	$ 106,443	$ 105,402

Note:
(1) Includes general fund expenditures only

Source:
City Finance Office

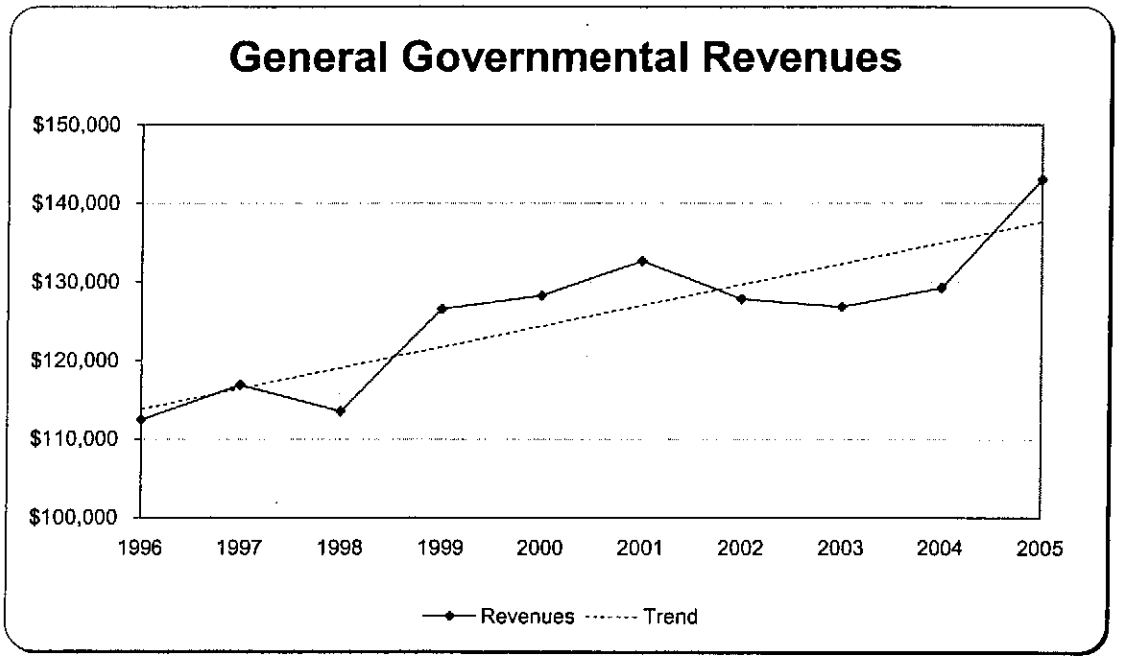


CITY OF KNOXVILLE, TENNESSEE
GENERAL FUND
REVENUES BY SOURCE
LAST TEN YEARS
(in thousands)
(Unaudited)

Revenues	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Taxes	$ 96,458	$ 99,116	$ 92,316	$ 104,108	$ 105,671	$ 105,554	$ 104,271	$ 106,580	$ 111,054	$ 124,425
	85.8%	84.8%	81.4%	82.3%	82.4%	79.6%	81.6%	84.0%	85.9%	87.0%
Licenses and permits	227	244	246	265	267	284	288	274	264	284
	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Intergovernmental revenue	14,450	15,071	16,330	17,482	19,144	20,973	19,363	16,421	15,280	16,285
	12.9%	12.9%	14.4%	13.8%	14.9%	15.8%	15.1%	12.9%	11.8%	11.4%
Charges for services	586	638	716	1,178	728	742	893	1,095	1,167	963
	0.5%	0.5%	0.6%	0.9%	0.6%	0.6%	0.7%	0.9%	0.9%	0.7%
Fines and forfeitures	515	518	396	348	231	270	317	273	330	354
	0.5%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%
Other	133	1,282	3,462	3,179	2,216	4,843	2,689	2,208	1,135	708
	0.1%	1.1%	3.1%	2.5%	1.7%	3.7%	2.1%	1.7%	0.9%	0.5%
	$ 112,369	$ 116,869	$ 113,466	$ 126,560	$ 128,257	$ 132,666	$ 127,821	$ 126,851	$ 129,230	$ 143,019

Note:
(1) Includes general fund revenues only

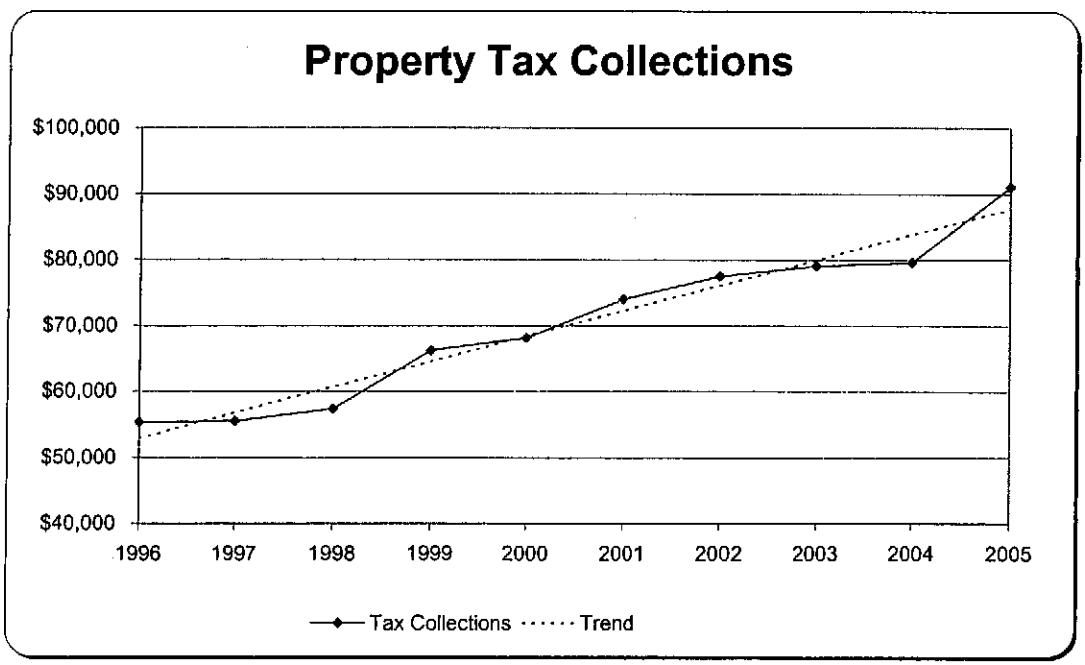
Source:
City Finance Office



CITY OF KNOXVILLE, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS
(In thousands)
(Unaudited)

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collections as a Percent of Tax Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Tax Levy
1996	$ 55,271	$ 51,961	94.01%	$ 2,877	$ 54,838	99.22%	$ 3,245	5.87%
1997	55,464	52,479	94.62%	2,195	54,674	98.58%	3,206	5.78%
1998	57,338	54,813	95.60%	2,377	57,190	99.74%	3,265	5.69%
1999	66,173	63,045	95.27%	2,916	65,961	99.68%	3,986	6.02%
2000	68,098	64,377	94.54%	3,069	67,446	99.04%	3,056	4.49%
2001	73,953	69,892	94.51%	3,262	73,154	98.92%	3,576	4.84%
2002	77,513	73,595	94.95%	3,760	77,355	99.80%	3,879	5.00%
2003	79,041	74,363	94.08%	3,431	77,794	98.42%	4,670	5.91%
2004	79,603	75,122	94.37%	4,309	79,431	99.78%	4,372	5.49%
2005	91,075	85,989	94.42%	3,589	89,578	98.36%	4,534	4.98%

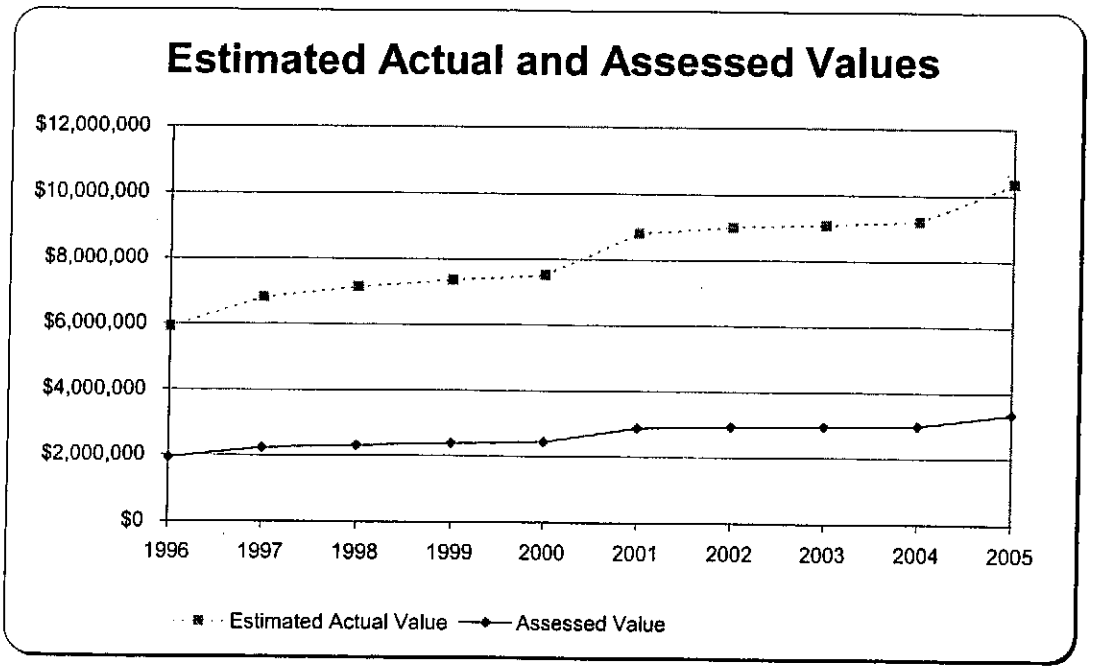
Note:
(1) Tax levies are the product of the assessed values and the tax rate. Assessed values are determined on a calendar year basis and the relationship to a fiscal year is one year in arrears (i.e. 2004 fiscal year is based on 2003 tax year).



CITY OF KNOXVILLE, TENNESSEE
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN YEARS
(In thousands)
(Unaudited)

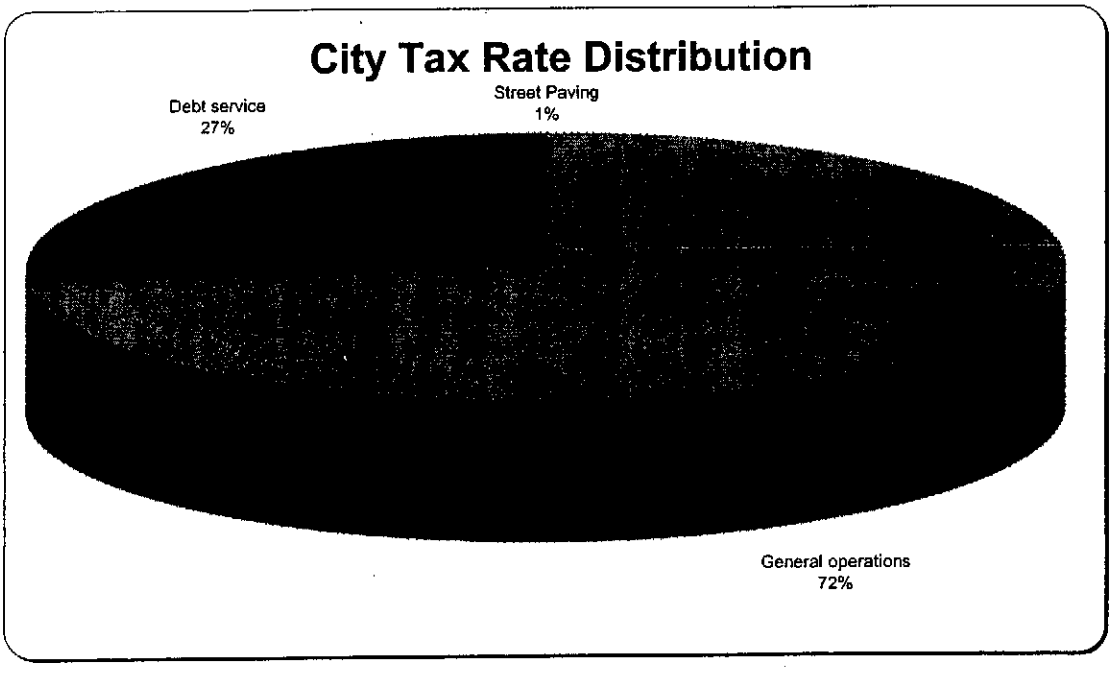
Tax Year	Real Property (1) Assessed Value	Real Property (1) Estimated Actual Value	Personal Property (1) Assessed Value	Personal Property (1) Estimated Actual Value	Public Utilities (2) Assessed Value	Public Utilities (2) Estimated Actual Value	Total Assessed Value	Total Estimated Actual Value	Ratio of Total Assessed To Total Estimated Actual Value
1996	$1,623,660	$ 5,065,819	$ 184,553	$ 615,171	$ 119,786	$ 217,793	$ 1,927,999	$ 5,898,783	33%
1997	1,878,801	5,861,859	218,591	728,629	124,017	225,485	2,221,409	6,815,973	33%
1998	1,934,291	6,105,166	242,537	808,457	126,747	230,449	2,303,575	7,144,072	32%
1999	1,982,169	6,249,055	258,271	860,904	137,010	249,109	2,377,450	7,359,068	32%
2000	2,026,589	6,385,290	260,950	869,833	139,643	253,896	2,427,182	7,509,019	32%
2001	2,383,807	7,491,294	296,306	987,685	180,022	327,313	2,860,135	8,806,292	32%
2002	2,440,340	7,670,304	304,602	1,015,340	180,108	327,469	2,925,050	9,013,113	32%
2003	2,480,556	7,785,942	309,107	1,030,356	150,265	273,209	2,939,928	9,089,507	32%
2004	2,524,282	7,929,640	302,688	1,008,960	143,165	260,302	2,970,135	9,198,902	32%
2005	2,862,056	9,034,476	315,572	1,052,508	151,638 (4)	275,705 (4)	3,329,266	10,362,689	32%

Note:
(1) Assessed by the Knox County Property Assessor's Office
(2) Assessed by the Division of State Assessed Properties, State Comptroller's Office
(3) Assessed Ratios:
a) Real property:
Residential at 25%
Commercial at 40%
Industrial at 40%
b) Personal property at 30%
c) Public utilities at 55%
(4) Estimated



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

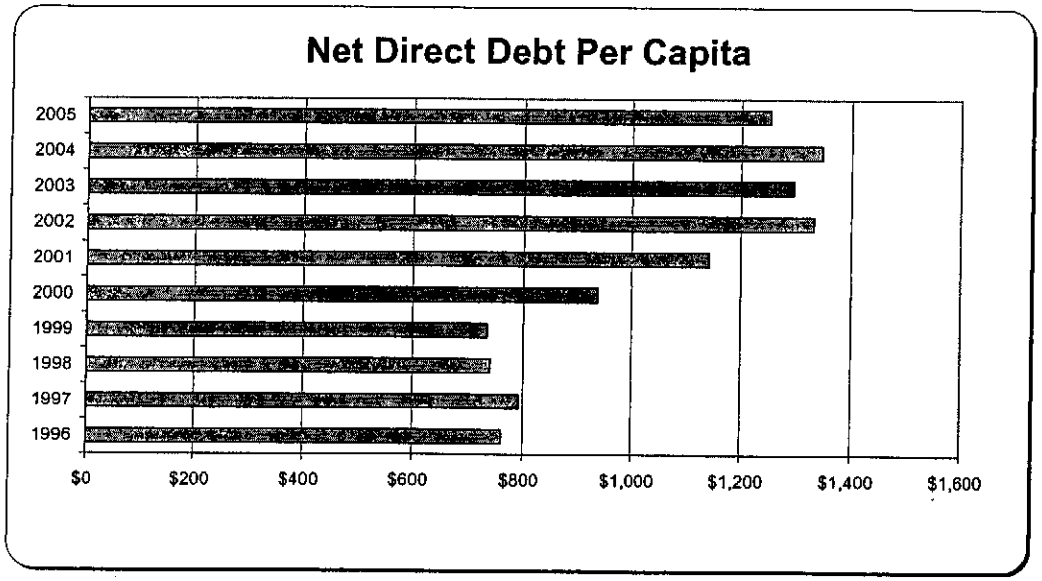
	City Tax Rate Distribution					Knox County Tax Rate (Inside the City) Distribution			
Tax Year	General Operations	Debt Service	City County Building Lease	Street Paving	Total	General Operations	Debt Service	School Construction	Total
1996	2.31	0.41	0.11	0.04	2.87	1.36	0.29	1.51	3.16
1997	2.25	0.47	0.11	0.04	2.87	1.35	0.29	1.52	3.16
1998	1.93	0.52	0.09	0.04	2.58	1.24	0.26	1.27	2.77
1999	2.20	0.52	0.09	0.04	2.85	1.56	0.32	1.44	3.32
2000	2.20	0.52	0.09	0.04	2.85	1.51	0.31	1.50	3.32
2001	2.09	0.82	0.09	0.04	3.04	1.58	0.31	1.43	3.32
2002	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96
2003	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96
2004	2.20	0.81	-	0.04	3.05	1.34	0.28	1.34	2.96
2005	2.06	0.75	-	0.00	2.81	1.24	0.22	1.23	2.69



CITY OF KNOXVILLE, TENNESSEE
RATIO OF NET GENERAL BONDED DEBT TO
ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN YEARS
(in thousands)
(Unaudited)

Fiscal Year	Population	Assessed Value (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Direct Debt Per Capita (Not in Thousands)
1996	165	$ 1,915,796	$ 125,750	6.56%	$ 762
1997	165	1,927,999	130,789	6.78%	793
1998	165	2,221,409	122,265	5.50%	741
1999	165	2,303,575	121,280	5.26%	735
2000	165	2,377,450	154,751	6.51%	938
2001	174	2,427,182	198,763	8.19%	1,142
2002	174	2,860,135	231,902	8.11%	1,333
2003	174	2,925,050	225,451	7.71%	1,296
2004	174	2,939,928	234,489	7.98%	1,348
2005	174	3,329,446	217,996	6.55%	1,253

Note:
(1) Source: U.S. Census.
(2) By state law (TCA 67-5-1601, et. Seq.), all City property appraisals are made by Knox County.
For tax years 1995 through 2001 the ratio of appraisal value of all property in Knox County (including the City) to true market value was 89.6%.
The ratio for subsequent tax years is 100%.
Assessed value is for previous property tax year.
(3) Includes general obligation bonds, Section 108 loans (1995 through 2001), and capital outlay notes.



CITY OF KNOXVILLE, TENNESSEE
LEGAL DEBT MARGIN
(Unaudited)

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

CITY OF KNOXVILLE, TENNESSEE
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2005
(In thousands)
(Unaudited)

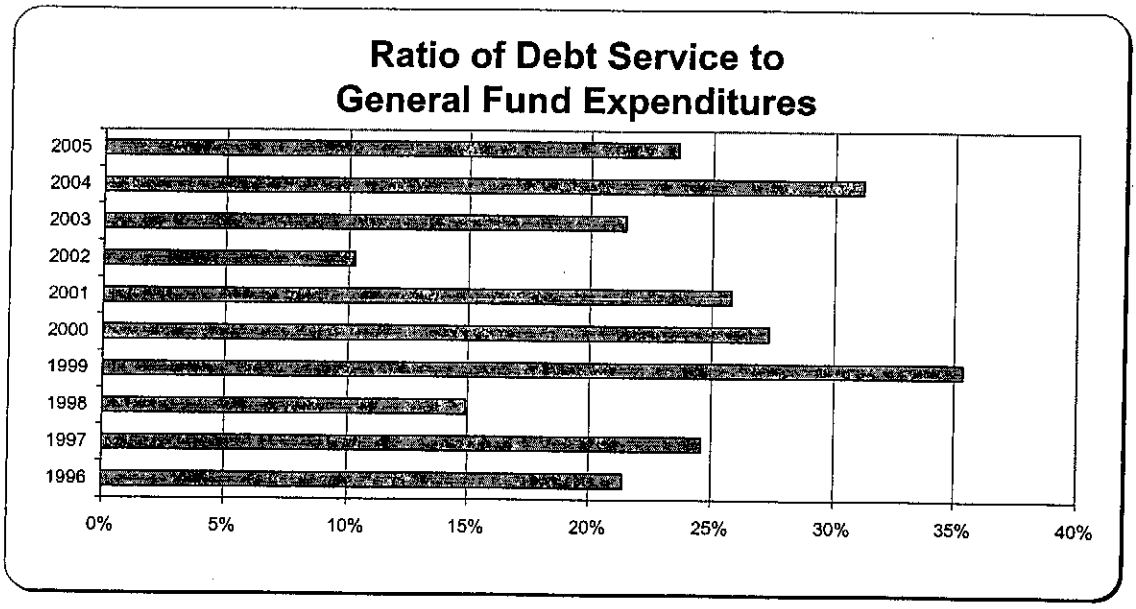
Jurisdiction	Net Direct Outstanding Debt (1)	Percentage Applicable to Knoxville	Amount Applicable to Knoxville
Knoxville	$ 64,149	100.00%	$ 64,149
Knox County	449,962	44.38%	199,693
Total	$ 514,111		$ 263,842

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

CITY OF KNOXVILLE, TENNESSEE
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES
LAST TEN YEARS
(in thousands)
(Unaudited)

Fiscal Year	Principal	Interest	Total General Obligation Debt	Total General Fund Expenditures	Ratio of Debt Service to General Fund Expenditures
1996	$ 9,825	$ 7,528	$ 17,353	$ 81,127	21.39%
1997	14,515	6,061	20,576	83,589	24.62%
1998	7,015	6,089	13,104	87,765	14.93%
1999	27,390	6,340	33,730	95,356	35.37%
2000	19,557	7,317	26,874	98,200	27.37%
2001	15,893	9,750	25,643	99,394	25.80%
2002	4,837	5,419	10,256	99,987	10.26%
2003	13,630	10,070	23,700	110,453	21.46%
2004	23,917	9,274	33,191	106,443	31.18%
2005	14,135	10,651	24,786	105,098	23.58%

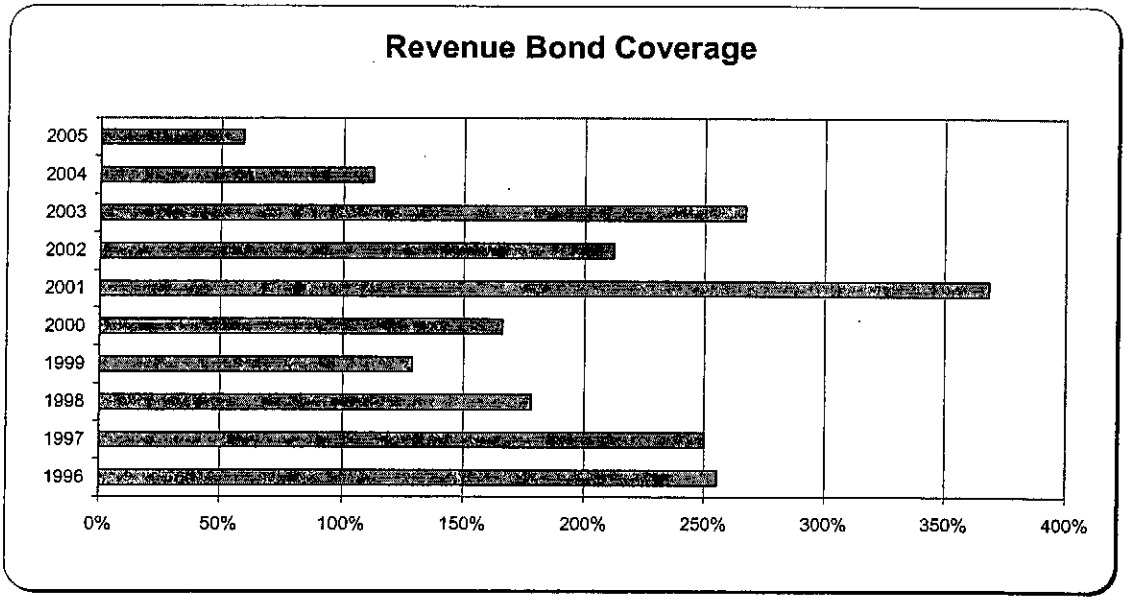
Note:
(1) Tax levies are the product of the assessed values and the tax rate. Assessed values are determined on a calendar year basis and the relationship to a fiscal year is one year in arrears (i.e. 2005 fiscal year is based on 2004 tax year).
(2) General Fund expenditures exclude transfers to other funds.



CITY OF KNOXVILLE, TENNESSEE
REVENUE BOND COVERAGE
LAST TEN YEARS
(In thousands)
(Unaudited)

Fiscal Year	Gross Revenue	Expenses (net of depreciation and interest)	Net Revenue Available for Debt Service	Debt Service	Revenue Bond Coverage
1996	$ 413,817	$ 358,388	$ 55,429	$ 21,704	2.55
1997	398,261	345,148	53,113	21,231	2.50
1998	428,044	369,032	59,012	33,087	1.78
1999	431,185	374,103	57,082	44,290	1.29
2000	443,313	382,151	61,162	36,787	1.66
2001	501,830	439,372	62,458	16,951	3.68
2002	464,208	413,129	51,079	24,068	2.12
2003	500,073	429,096	70,977	26,568	2.67
2004	529,340	460,396	68,944	61,308	1.12
2005	538,101	471,762	66,339	112,034	0.59

Note:
(1) Includes KUB revenue bond coverage only



CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC STATISTICS
POPULATION
(Unaudited)

Fiscal Year	City	County	Metropolitan Area[4]
Actual [1]			
1960	111,827	250,563	424,586
1970	174,587 [2]	276,293	461,876
1980	175,045	319,694	546,488
1990	165,121	335,749	585,926
2000	173,890	382,032	687,249
2003	173,278	392,898	712,366
2004	178,118	400,061	647,170
Projected[3]			
2010	184,487	429,730	Not available

Note:
(1) Source: U.S. Bureau of the Census and Knoxville - Knox County Metropolitan Planning Commission
(2) Large increase in population due to annexation
(3) Source: University of Tennessee Center for Business and Economic Research and Knoxville - Knox County Metropolitan Planning Commission
(4) Knoxville's Metropolitan Statistical Area includes Anderson, Blount, Knox, Loudon, and Union Counties.
Prior to 2004, the MSA included Anderson, Blount, Knox, Loudon, Sevier, and Union Counties.
Prior to 1983, the MSA only included Anderson, Blount, Knox and Union Counties.

CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC STATISTICS
PER CAPITA PERSONAL INCOME
LAST TEN YEARS
(Unaudited)

Fiscal Year	Knox County	Tennessee	United States[1]
1995	$ 23,107	$ 21,949	$ 21,696
1996	23,902	22,032	24,436
1997	24,688	23,018	25,598
1998	24,932	23,615	26,482
1999	26,451	23,574	28,577
2000	28,281	25,878	29,451
2001	29,926	26,988	30,472
2002	30,327	27,671	30,941
2003	30,901	28,455	31,632
2004	N/A	30,005	32,937

Note:
(1) Source: Bureau of Economic Analysis, U.S. Department of Commerce.
Center for Business and Economic Research, University of Tennessee

CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC STATISTICS
UNEMPLOYMENT DATA
LAST TEN YEARS
(Unaudited)

Fiscal Year	National[1]	Tennessee[1]	Major Tennessee Metropolitan Areas[1]			
			Chattanooga	Knoxville[2]	Memphis	Nashville
1996	5.4%	5.2%	4.3%	3.4%	4.3%	3.1%
1997	4.6%	4.1%	3.5%	3.3%	4.0%	2.6%
1998	4.1%	3.6%	3.1%	3.2%	3.4%	2.5%
1999	4.2%	4.0%	3.5%	3.3%	3.6%	2.7%
2000	4.0%	3.9%	3.0%	3.0%	3.9%	2.8%
2001	4.5%	4.3%	3.2%	3.3%	4.2%	3.3%
2002	5.7%	4.5%	3.0%	2.5%	4.7%	3.5%
2003	6.0%	5.5%	3.7%	3.2%	6.0%	4.2%
2004	5.8%	5.5%	3.7%	3.6%	6.0%	4.2%
2005	5.7%	5.7%	4.8%	4.5%	6.4%	4.5%

Note:
(1) Source: Tennessee Department of Labor and Workforce Development
(2) Knoxville's Metropolitan Statistical Area includes Anderson, Blount, Knox, Loudon, Sevier, and Union Counties.

CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC STATISTICS
ASSESSMENT CLASSIFICATIONS
TAX YEAR 2005
(in thousands)
(Unaudited)

Class of Property[1]	Estimated Actual Value	Assessed Value as Statutory Percentage of Estimated Actual Value	Assessed Value
Commercial	$ 3,981,045	40%	$ 1,592,418
Industrial	196,688	40%	78,675
Residential	5,157,497	25%	1,289,374
Personal Tangible	1,067,422	30%	320,227
Public Utility - Local	334	55%	183
Public Utility - State	251,311 (2)	55%	138,221 (2)
	$ 10,654,297		$ 3,419,098

Note:
(1) Source: Knox County Assessor's Office and Tennessee Public Service Commission
(2) Estimated

CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC STATISTICS
MANUFACTURERS WITH LARGEST EMPLOYMENT
FISCAL YEAR 2005
(Unaudited)

Manufacturer's Name [1]	Product	Approximate Number of Employees
Sea Ray Boats, Inc	Fiberglass boats	1,186
DeRoyal Industries	Healthcare products	905
Atlantic Research Corp. (ARC Automotive)	Automotive parts	650
Knoxville News-Sentinel Company	Newspaper publisher	584
CTI Molecular Imaging, Inc.	Medical imaging	575
Shaw Environmental and Infrastructure, Inc.	Environmental engineering	500
Bush Brothers & Co.	Food products	480
Panasonic (Matsushita Electronic Components)	Electronic components and car speakers	475
Knoxville Coca-Cola Bottling Company	Soft drink bottling and distribution	460
CVS Distribution	Pharmaceutical distribution	450

Note:
(1) Source: Knoxville Area Chamber Partnership

CITY OF KNOXVILLE, TENNESSEE
DEMOGRAPHIC STATISTICS
UTILITY CONNECTIONS
LAST TEN YEARS
(Unaudited)

Calendar Year	Electric Meters	Water Meters	Gas Meters
1995	162,057	69,487	57,092
1996	165,024	70,921	62,006
1997	168,692	71,920	66,229
1998	171,745	72,905	70,259
1999	174,595	73,765	74,023
2000	177,253	74,563	77,650
2001	180,220	75,072	80,140
2002	184,468	77,342	83,826
2003	187,727	81,206	88,232
2004	187,708	73,993	86,341

Note:
(1) Source: Knoxville Utilities Board Annual Report

CITY OF KNOXVILLE, TENNESSEE
PROPERTY VALUES AND CONSTRUCTION
LAST TEN YEARS
(in thousands)
(Unaudited)

Calendar Year	Property Value (1)	Residential and Commercial Construction Value (2)
1995	$5,049,405	$ 186,234
1996	5,065,819	193,842
1997	6,105,166	196,598
1998	6,249,055	198,421
1999	6,329,199	201,830
2000	6,385,290	205,362
2001	7,491,294	340,187
2002	7,661,001	290,728
2003	7,785,897	315,810
2004	7,931,974	328,092

Note:

(1) By State law (TCA 67-5-1601, et. Seq.) all City property appraisals are made by the Knox County Property Assessor. For tax years 1994 through 2001 the ratio of appraisal value of all property in Knox County, including the City, to true market value was 89.6%. Beginning in tax year 2002 the ratio is 100%.

(2) Source: City building inspection office. All values are estimated construction cost.

CITY OF KNOXVILLE, TENNESSEE
PRINCIPAL TAXPAYERS
FISCAL YEAR 2005
(In thousands)
(Unaudited)

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation
Bell South Telecom	Telephone utility	$ 66,252	1.99%
West Town Mall	Shopping mall	29,875	0.90%
Knoxville Center	Shopping mall	21,824	0.66%
First American National Bank	Banking services	19,058	0.57%
Wal-Mart Stores	Department stores	14,894	0.45%
Parkway Property	Property management	13,368	0.40%
Fort Sanders Regional	Hospital	13,039	0.39%
Verizon Wireless	Cellular communications	12,268	0.37%
Goody's Family Clothing	Department stores	11,858	0.36%
Atlantic Research Corp.	Automotive parts	11,738	0.35%
		$ 214,174	6.43%

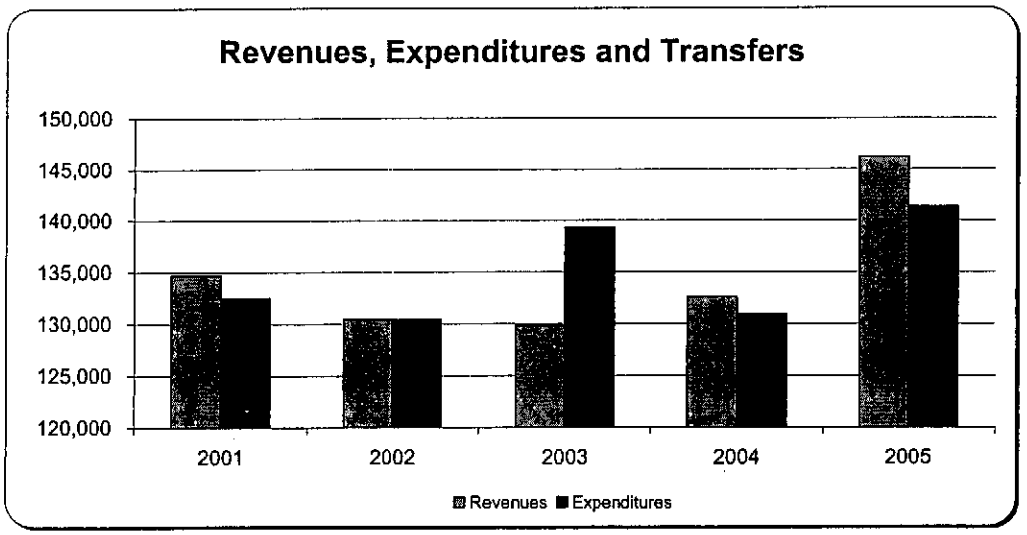
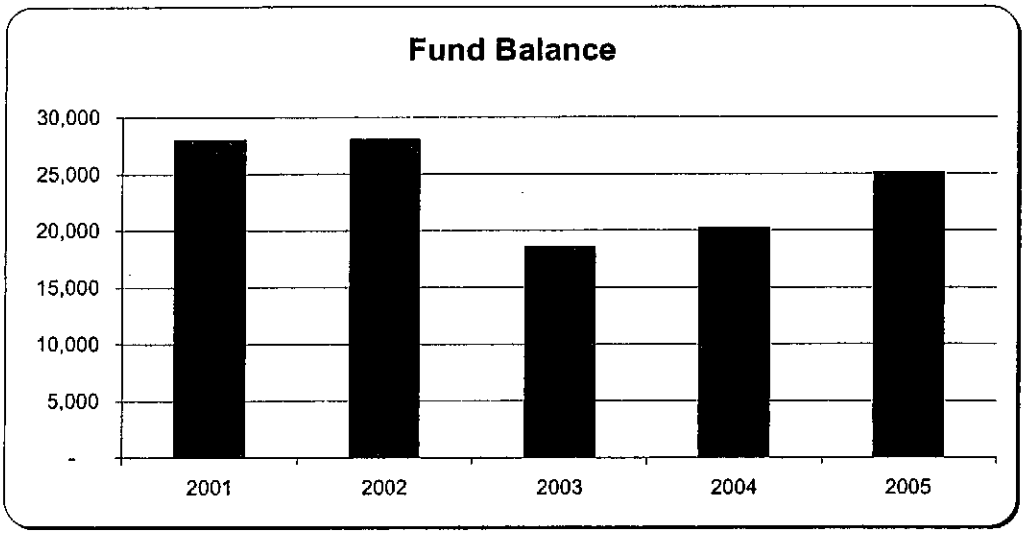
Note:
(1) Source: City property tax office

CITY OF KNOXVILLE, TENNESSEE
SALARIES OF PRINCIPAL OFFICIALS
FISCAL YEAR 2005
(Unaudited)

Name	Position	Annual Salary
Bill Haslam	Mayor	$ 100,000
John Rossen	City Judge	70,000
Joseph Hultquist	Council - first district	19,000
Barbara Pelot	Council - second district	19,000
Steve Hall	Council - third district	19,000
Rob Frost	Council - fourth district	19,000
Bob Becker	Council - fifth district	19,000
Mark Brown	Council - sixth district	19,000
Joe Bailey	Council - at large	19,000
Marilyn Roddy	Council - at large	19,000
Chris Woodhull	Council - at large	19,000

CITY OF KNOXVILLE, TENNESSEE
MISCELLANEOUS STATISTICS
FISCAL YEAR 2005
(Unaudited)

Founded	1791
Form of government	Mayor/Council
City facilities and services:	
Employees (excluding uniformed police and fire)	900
Land area	102.95 square miles
Convention Center - Capacity	500,000 square feet
Civic Coliseum - Capacity	4,414 fixed seats
Civic Auditorium - Capacity	2,407 seats
Parking garages	3 facilities - 1,953 parking spaces
Miles of streets maintained by the City	1,264.32 miles
Street lights maintained by the City	28,983
Stormwater sewers maintained by the City	371 miles
Solid waste handled by City (annual total wastestream)	138,052 tons
Recreational facilities:	
Community and recreation centers	17 facilities
Parks maintained by the City	65 facilities
Greenways maintained by the City	35 miles
Swimming pools maintained by the City	5
Golf courses maintained by the City	2
Fire Protection:	
Fire halls	18
Uniformed personnel	312
Annual calls answered	28,781
Police Protection:	
Uniformed personnel	387
Patrol units	240
Annual law violations:	
Physical arrests	14,682
Citations	84,183
Facilities and services not included in the primary government:	
Knoxville Utilities Board:	
Electric distribution system:	
Supplier	Tennessee Valley Authority
Purchased power	5.7 million MW
Customers	183,000
Deliver voltages	up to 161KV
Gas distribution system:	
Pipeline	East Tennessee Natural Gas
Purchased gas	11.4 million dth
Customers	83,000
Peak day capacity	138,000 dth
Water system:	
Rated capacity	61 Mg
Reservoir capacity	28 Mg
Customers	73,000
Average flow	35 Mgd
Wastewater system:	
Rated capacity	62 Mg
Customers	63,000
Average flow	48 Mgd
Metropolitan Knoxville Airport Authority:	
Airport area	2,000 acres
Commercial airline service:	
Daily capacity	4,600 seats
Daily arrivals and departures	162
Annual passengers	1.6 million
Air cargo service:	
Air cargo complex	21 acres
Knox Area Transit:	
Buses/ minibuses/ LIFT ADA vans	67/ 19/ 14 units
Trolleys	14 units
Annual passengers	3.3 million
Facilities and services not included in the reporting entity:	
Education:	
Public Schools (Knox County):	
Schools	89 facilities
Students enrolled	52,000
Faculty	4,000
Colleges and universities:	
University of Tennessee	
Students	25,500
Faculty & staff	8,160
Pellissippi State	
Students	7,000
Faculty	635
Knoxville College	
Students	400
Faculty	18
Other facilities:	
Libraries (Knox County)	1 Main and 17 branches
Zoological Park	53 acres, 33 developed 20 major exhibits
Museums	5 significant facilities
Health Care (Knox County):	
Hospitals	8 facilities equipped for inpatient stay
Capacity	2,630 patient beds
Lodging (within City limits):	
Hotels/Motels	65 facilities
Capacity	6,000

CITY OF KNOXVILLE, TENNESSEE
GENERAL FUND REVENUES, EXPENDITURES, TRANSFERS AND FUND BALANCE
LAST FIVE YEARS
(in thousands)
(Unaudited)

	2001	2002	2003	2004	2005
Revenues	$ 132,666	$ 127,821	$ 126,851	$ 129,230	$ 143,019
Transfers in	2,009	2,578	2,940	3,360	3,138
	134,675	130,399	129,791	132,590	146,157
Expenditures	99,394	99,987	110,453	106,443	105,255
Transfers out	33,069	30,399	28,837	24,453	36,048
	132,463	130,386	139,290	130,896	141,303
Net change in fund balance	2,212	13	(9,499)	1,694	4,854
Fund balance - beginning of the year	22,356	27,984	27,997	18,498	20,192
Change in accounting principles	3,416	-	-	-	-
Fund balance - end of the year	$ 27,984	$ 27,997	$ 18,498	$ 20,192	$ 25,046