CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2012

KNOXVILLE, TENNESSEE

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF KNOXVILLE, TENNESSEE

FOR THE FISCAL YEAR ENDED

June 30, 2012

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

JAMES YORK,
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COMPTROLLER

CITY OF KNOXVILLE, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2012

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INTRODUCTORY SECTION

CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR

James York
Director of Finance

January 30, 2013

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, 2012. This report discusses the financial results for the year, provides information on budgetary performance, and includes information on the financial condition of the City. I am pleased to report that the financial condition of the City remains strong.

The report has been prepared in accordance with the principles and standards for financial reporting as set forth by the Governmental Accounting Standards Board (GASB) and the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133. GASB Statement 54 was adopted in FY2011, which required the re-statement of beginning fund balances. The changes were minor in nature, and are discussed further in the footnotes and the Management's Discussion and Analysis.

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

This report consists of four sections: Introductory, Financial, Statistical and the Compliance section. The Introductory Section includes the City's Letter of Transmittal, a listing of officials, an organization chart, and a facsimile of the Certificate of Achievement for Excellence in Financial Reporting. The Financial Section is comprised of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. The Statistical Section provides selected unaudited financial and demographic information on a multi-year basis. Finally, the Compliance Section incorporates information associated with Federal and State grants and our compliance therewith.

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

This report covers all financial operations of the City of Knoxville, as well as its component units. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. The City also has financial accountability over three component units, Knoxville Utilities Board (KUB), the Metropolitan Knoxville Airport Authority (MKAA), and Knoxville Area Transit (KAT). The financial statements of KUB, MKAA and KAT are included in the body of this report, noted as Component Units on the Government Wide Statements. The financial statements of the City Employees' Pension Trust Fund are included in the Fiduciary funds section along with two minor health related benefit agency funds.

Governmental Structure

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

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the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments.

Local Economic Condition

The City of Knoxville is the third largest City in the State of Tennessee, having a population of 178,874 (2010 Census). Located in East Tennessee at the headwaters of the Tennessee River, the City serves as the economic center of the East Tennessee area, including portions of Kentucky, North Carolina and Virginia. Its trade sector is one of the strongest in the state.

According to the Brookings Institution, Knoxville is one of only three major U.S. metropolitan areas experiencing an economic recovery based upon their employment levels and gross domestic product per capita. Business Facilities, a trade publication that targets site selection consultants and executives looking for places to grow their companies ranks Knoxville eighth among the fastest growing cities and tenth for economic growth potential.

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

Year	Collections	Change
FY 02/03	$29,031	0.74%
FY 03/04	$30,529	5.16%
FY 04/05	$31,785	4.11%
FY 05/06	$34,514	8.59%
FY 06/07	$36,659	6.21%
FY 07/08	$37,274	1.68%
FY 08/09	$34,186	(8.28%)
FY 09/10	$32,654	(4.48%)
FY 10/11	$33,849	3.66%
FY 11/12	$36,379	7.47%

As shown above, the City, in FY 11/12 experienced a 7.47% increase in local sales tax. The growth appears to be due to an overall improvement in the economy coupled with spending following major spring storms in the latter part of FY 10/11.

The presence of the University of Tennessee along with Tennessee Valley Authority, Oak Ridge National Laboratories and other large governmental installations lend stability to the area, making the local economy less cyclical than either the national or state economy. This is also reflected in the fact that Knoxville's unemployment rate which averaged 7.0% (Knoxville MSA) in FY2012, is lower than both the state and national average. This compares very favorably to the national unemployment rate of 8.2% as well as the other major metropolitan areas of the state (Chattanooga (8.2%), Memphis (9.6%), and Nashville (7.3%)). On a positive note, Knoxville's unemployment rate has continued to decrease. As of October 2012, Knoxville's unemployment rate has decreased to 6.2%. The Knoxville MSA had a labor force of 379,840 in 2012.

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

The Knoxville Utility Board (KUB) provides electricity, water and wastewater, and gas to approximately 442,500 customers in Knox, Union, Granger, Jefferson and Sevier Counties. It is comprised of 5 major plants, 297 remote facilities, and has over 900 employees. Operating with a

$869 million budget and $1.8 billion in plant assets, it is the fourth largest customer of the Tennessee Valley Authority.

The McGhee Tyson Airport (MKAA) is served by eight major airlines serving 19 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Miami, New York, Chicago, Denver and Washington D.C. Departures and arrivals total 1.7 million passengers annually. The direct and indirect economic impact of the airport is estimated by the Metropolitan Knoxville Airport Authority to be approximately $1 billion annually. This figure includes payroll, local spending, transportation cost savings, capital spending and other benefits.

Knoxville Area Transit (KAT) provides around 30 public bus routes, operating 100 vehicles and carrying around 3.6 million passengers a year in the city. A new downtown *John Duncan Jr. Knoxville Station Transit Center* was completed in August 2010. The total cost of the facility was $25,154,192 with funding provided by federal grants (80%), state grants (10%), and the balance (10%) being the local match. This state of the art facility serves as the major transportation hub for metropolitan Knoxville.

Knoxville boasts an active tourism and convention trade. The 500,545 square foot convention center on the World's Fair Park site, which opened in June 2002, features spacious meeting rooms and a 400-seat lecture hall. Other facilities include a civic coliseum/auditorium, an exhibition hall/convention center, a 25,000-seat arena, and a conference center at the University of Tennessee. Among Knoxville's many annual events are the Dogwood Arts Festival, Tennessee Valley Fair, Boomsday, Christmas in the City and many other cultural activities. The City is increasingly becoming an outdoor destination with the development of an urban wilderness area in south Knoxville and the enhancement of its park system.

Knox County is the principal Gateway to the Great Smoky Mountains National Park, located 40 miles to the southeast. There are over 500,000 acres that make up the nations most visited National Park, extending over the States of Tennessee and North Carolina. Between 8 and 10 million people visit the park annually, making it the most visited park in the country. Two tourist towns are located at the foothills of the Smoky Mountains, Gatlinburg and Pigeon Forge. Gatlinburg has accommodations for over 60,000 people, features numerous restaurants, craft shops, and gift stores, along with a ski lodge, ski-lifts, convention center and tramway, making it a year-round resort town. Pigeon Forge is also a shopper's mecca and has accommodations for approximately 40,000 people. Its attractions include Dollywood - a country-style theme park, a waterslide park, a rodeo dinner theater, and numerous miniature golf courses, bumper boat rides, and theme museums.

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

The Knoxville Symphony, the Knoxville Opera Company, and the Tennessee Children's Dance Ensemble are among the many exceptional arts organizations in the city. Choral groups, dance companies, and eleven performance theatres, including the renovated Tennessee and Bijou Theaters, also promote the arts. Live entertainment includes touring Broadway productions, ice shows, concerts, and circuses. The Knoxville Museum of Art and the Emporium Center for Arts and Culture feature changing exhibits throughout the year, while the area's libraries, historic sites, and museums, such as the Museum of Appalachia and the Beck Cultural Center, celebrate Knoxville's heritage.

Knoxville consistently receives high honors for quality of life. According to the 2010 American Chamber of Commerce Researchers Association (ACCRA) Cost of Living (COL) Index, which measures the relative price levels for consumer goods and services in metropolitan and nonmetropolitan areas whose chambers agree to participate, Knoxville ranked as one of the top southeast urban areas with a COL Index of 89.6 and is cited by Kiplinger.com (2011) as number five of best value cities in the nation. With the average of all participating cities equaling 100.0, Knoxville consistently ranks among the top markets for low cost of living.

The quality of life, low cost of living, convenient interstate access, along with other factors make the area an attractive location for many types of operations, particularly those in the growing field of telecommunications. Knoxville serves as home to numerous customer service centers, including Jewelry Television by ACN, Cendant Corporation, ClientLogic Corporation, G.C Services, Kimberly-Clark Corporation, Nova Information Systems, U.S. Cellular and Whirlpool Corporation. The City has worked with these firms, and others, to help foster relocation to Knoxville, or expansion of existing facilities. Companies having their corporate headquarters in Knoxville include Home and Garden Television (HGTV), AC Entertainment, Clayton Homes, CTI Molecular Imaging Corporation, DeRoyal Industries, Pilot Corporation, Pet Safe/Radio Systems, Regal Entertainment and Sea Ray Boats. In addition, Sysco, a major food service corporation, has a distribution center in Knoxville.

Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's (UTK) main campus with an average enrollment of more than 27,000 students, including its teaching hospital and veterinary school. U.S. News and World Report ranks UTK in the top third, 46 of 164 national public universities. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are five hospitals including the only two trauma centers for a 27-county area. The presence of the Tennessee Valley Authority, UT-Battelle, and BWXT-Bechtel serve as a magnet for technology-based corporations in the East Tennessee area. The growing trend toward allowing technology transfer to private industry is also benefiting the region. 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 the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

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

Other information

Independent Audit

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee selected Pugh & Company, P.C., Certified Public Accountants, to perform the fiscal year 2012 audit.

MAJOR INITIATIVES

I. Energy and Sustainability –

The City of Knoxville is helping to define a new paradigm for Knoxville's development through its Office of Sustainability. The office promotes reduced energy consumption while enhancing the quality of life and competitiveness of the community. In 2012, the office was instrumental in several initiatives and generated publicity for its efforts in national campaigns.

The Department of Energy (DOE) named the Office a Better Buildings Challenge Partner for supporting commercial and industrial building owners with technical assistance and solutions to energy efficiency. The program also incorporates energy efficiency into routine business operations. As part of its commitment to the Better Buildings Challenge, Knoxville pledged to demonstrate savings of 20 percent reduction in energy intensity by 2020. Through the creation and management of the City's Energy Savings Performance Contract, the City's Finance and Purchasing Departments have invested in energy efficiency to reduce long-term utility costs. Knoxville's Challenge projects will focus on improving the energy efficiency of additional City-owned facilities and sharing implementation successes and challenges with the community.

The Sustainability Office installed 24 public electric vehicle charging stations in partnership with DOE and Oak Ridge National Laboratories. The stations were opened in City garages, parks and other facilities. The charging stations at the Coliseum Garage and Market Square Garage are accompanied by solar panels: a 14.4 kilowatt array at the Coliseum, and an 8.64 kilowatt array at Market Square. Both are capable of offsetting heavy EV charging usage onsite.

In keeping with a commitment to promote energy conservation, the office spearheaded a "Mayor's Energy Efficiency Challenge" with Knoxville Mayor Madeline Rogero. The challenge encourages area businesses to become more energy efficient through a variety of projects. The City of Knoxville is partnering with Pathway Lending to provide $10 million in financing and critical insights on potential energy efficiency projects to businesses in Knoxville and Knox County. These funds can also be leveraged with other programs available to maximize the long-term benefits of energy efficiency improvements.

The City's sustainability efforts branched out to include a proposal for an urban food corridor. The office made application for a Bloomberg Philanthropies' Mayors Challenge grant, a competition created to inspire American cities to generate innovative ideas that solve major challenges and improve city life. The Knoxville proposal called for a unique business model that encompasses the entire urban food cycle by connecting land, farming jobs, processing facilities, food transit, sale, and composting. The City became a Top 20 finalist to compete for the $5 million grand prize as well as one of four additional prizes of $1 million each. Winners will be announced in Spring 2013.

II. Redevelopment –

The Office of Policy and Redevelopment continued to move from disinvestment to investment in the core of the City by working with property owners, developers, City Council and others to set up projects totaling more than $100 million in investment.

The largest of these projects is the University Commons, near the University of Tennessee. The project is located on property that was designated a brownfield. The remediation and redevelopment of this property was a major goal of the Redevelopment Office. The project includes two major national retailers.

The office has created incentives to attract several developers who now have plans in the works for downtown buildings. The Arnstein building and the Arby's building will bring a combination of retail, restaurant, office and living space. All of these will contribute to the local economy and likely attract more development.

To keep redevelopment of existing spaces a priority, the staff has worked diligently with the Public Works Development on a number of public infrastructure improvement projects including:

a. Downtown Wayfinding
b. State street Garage expansion—Under construction
c. Cumberland Ave Streetscape
d. Jackson Ave. streetscapes
e. Jackson Ave. ramps
f. North Gay St streetscape Improvements
g. I275 Business Park Road
h. North Central Street road diet and streetscape
i. Cityview Riverwalk extension—ready for construction
j. Suttree Landing Park
k. Ft. Dickerson realignment
l. South Waterfront Pedestrian Bridge
m. Magnolia Ave Improvements

Redevelopment along the South Waterfront has been re-energized. The office was able to meet the Tennessee Department of Transportation's deadline to obligate the riverwalk extension for construction by the August 25, 2012, deadline. The project was put out to bid in October. The three lowest bids were sent to TDOT for review and concurrence. The contract will also go to City Council for approval.

Along the SW Pedestrian Bridge, Lawrie and Associates are continuing with Phase 2 design work. It includes more detail design work on the main crossing and north and south landings. S&ME, an engineering and environmental services firm, is continuing the environmental documentation. This project is funded from a TSCP grant. All preliminary engineering and environmental documentation must be completed by September 25, 2014.

III. Livability – Knoxville has been ranked nationally for economic and quality of living factors. It was named one of the Top 10 cities for economic growth potential by Business Facilities Magazine in 2012; one of "20 Best Vacation Destinations" by Frommers.com.; one of "25 Best Places to Retire in 2012" by Forbes.com; and one of the "Best Mid-Size Cities for Jobs" by Forbes.com. Additionally, a Brookings Institution study found that Knoxville was one of only three cities nationwide to have fully recovered from the recession, based on Gross Domestic Product (GDP) per capita and employment change, among other factors.

A partnership with Legacy Parks Foundation was created to preserve an area called the Urban Wilderness. The area contains ten city parks, nearly 20 miles of hiking and biking trails, three Civil War forts, historic settlement sites, and diverse ecological features and recreational amenities. The partnership also allowed for the Outdoor Knoxville Adventure Center, which provides hiking and biking tours along trails. The partnership is focused on making East Tennessee the best place to play outdoors which, in turn, will drive the economic engine of outdoor recreation in our region.

IV. Employee Compensation – Due to the economic downturn in 2008, the stock market has not performed to meet the level of benefits promised. A Task Force determined that the City's current pension system was no longer sustainable, which resulted in as much as $12 million to be transferred from the General Fund in 2012 to cover losses. While the administration is committed to make good on future benefits to present employees and retirees, it sought to make changes in the pension plan for those hired after Jan. 1, 2013. The staff worked with actuaries to develop a new plan that would be more sustainable. That plan, a hybrid of defined contribution/defined benefit, was approved by Council, then sent to voters in a referendum and passed. Thus, the City can avoid greater pension shortfalls in the future.

V. Economic Development - The city has created the Office of Business Support to help businesses navigate City offices and to provide overview of the steps a prospective business owner must go through to establish or expand a business in Knoxville. The office oversees a newly created Business Advisory Council (BAC.) The BAC helps promote communication between city government and businesses and is a sounding board and advisor for city initiatives that affect businesses. In

addition, the office collaborated with the Chamber and other partners to create an Entrepreneur Center in the downtown area. The center will open by Spring 2013.

VI. Other – A Blighted Properties Initiative has implemented three new tools for use in addressing vacant and blighted properties in City neighborhoods. These include; (i) A Public Hearing Officer program; (ii) Demolition by Neglect funding; and (iii) the Administrative Hearing Officer (AHO) program. These new tools will ensure that historic properties are not condemned to destruction due to inaction of owners; and that chronic problem and blighted properties do not linger in neighborhoods, negatively affecting the tax base.

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, 2011. This was the twenty-fifth 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, 2012. This marks the twenty-fourth consecutive year that the City has won this Award. The Distinguished Budget Presentation Award recognizes that the City's budget document is a proficient policy document, financial plan, operation guide and communications medium.

Acknowledgments

The preparation of this report results from the combined efforts of many people. Special recognition and appreciation goes to the City's Finance Department, Melissa Peters, the City's Internal Auditor, the City's independent auditors, Pugh & Company, P.C., and the City Council audit committee comprised of Nick Della Volpe (Chair), Daniel Brown, Brenda Palmer, Finbarr Saunders and Marshall Stair. The national recognition afforded the City of Knoxville could not have been achieved without the increasing participation and enthusiasm of the citizens of this community. Their exceptional response has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvillians.

Sincerely,

James York

James York
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Knoxville
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

President

Executive Director

City of Knoxville, Tennessee

Organizational Structure by Function

Citizens of the City of Knoxville

- **Mayor**
- **Council**
- **City Judge**

Appointed Boards

Civic Auditorium/Coliseum/Chilhowee Park Board
Civil Service Merit Board
Knoxville Transit Authority
Knoxville Utilities Board
Metro Knoxville Airport Authority

General Government

Mayor's Office
- Community Relations
- Economic Development & Communications
- 311 Call Center

Finance
- Accounting & Budget
- Treasury, Revenue Collection & Enforcement
- Purchasing

Information Systems
- Enterprise & Application Services

Risk Management
- Health Benefits, W/C & Liability Claims Admin.

Community Development
- Program Administration

Law

Fleet

Civil Service

Elections

Recorder's Office

South Knoxville Waterfront

Special Events

Health & Sanitation

Public Works
- Solid Waste Collection & Landfill Operations
- Recycling Programs
- Treansfer Station Operations

Public Safety

Police Dept.
- Operations
- Patrol
- Investigative
- Safety City
- Emergency Management
- Animal Control

Fire Dept.
- Fire Suppression
- Arson Investigation
- Emergency Medical Services
- Inspection Services

Transportation

Operating Subsidies to:
- Knoxville Area Transit System

Parks & Recreation

Mayor's Office
- Community Grants

Parks & Recreation
- Athletics
- Special Programs
- Aquatic Programs
- Recreation Centers
- Parks
- Senior Aides Program

Physical Environment

Engineering
- Engineering Services
- Building Plans Review and Inspections
- Stormwater

Public Works
- Facilities Maintenance
- Street Maintenance
- Solid Waste Collection
- Public Grounds Maintenance

Economic Development

Mayor's Office
- Ten Year Plan to End Homelessness
- Chamber of Commerce Partnership Programs
- Community Action Committee
- Community Grants

Finance & Accountability
- Community Developmnt Programs
- Empowerment Zone Programs

Business Type Activities

Engineering
- Metro Parking

Public Assembly Facilities
- Coliseum
- Convention Center

Parks & Recreation
- Municipal Golf Courses

SCHEDULE OF PRINCIPAL OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR
Madeline Rogero

CITY COUNCIL

George Wallace
Brenda Palmer
Marshall Stair

Nick Pavlis, Vice Mayor
Nick Della Volpe
Mark Campen

Duane Grieve
Daniel Brown
Finbarr Saunders

CITY JUDGE
John Rosson

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Deputy to the Mayor – Eddie Mannis, Chief Operating Officer
Deputy to the Mayor – William Lyons, Chief Policy Officer
Community Relations Director and Special Assistant to the Mayor – Thomas E. Strickland, Jr.
Communications – Angela Starke – Sr. Director
Airport – Bill Marrison, President
City Recorder – Cindy Mitchell
Civil Service – Vicki Hatfield, Director
Community Development – Becky Wade, Director
Finance & Accountability – Jim York, Sr. Director
Fire – Stan Sharp, Chief
Information Systems – Janet Wright, Director
Knoxville Area Transit – Cindy McGinnis, General Manager
Knoxville Utilities Board – Mintha Roach, President
Law – Charles W. Swanson, Sr. Director
Police – David B. Rausch, Chief
Public Assembly Facilities – Robert Polk, Director
Public Works – Christi Branscom, Director
Engineering – James Hagerman, Director
Public Service – David Brace, Director
Parks & Recreation – William Walsh, Director
Special Events – Judith Foltz, Director
Accounting – Clyde “Boe” Cole, CGFO, CMFO, Comptroller

FINANCIAL SECTION

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
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PUGH CPAs

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Knoxville Area Transit, which is presented as a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Knoxville Utilities Board or the Metropolitan Knoxville Airport Authority. The Knoxville Utilities Board comprises 86 percent of the assets, 83 percent of net assets and 91 percent of revenues of the total discretely presented component units. The Metropolitan Knoxville Airport Authority comprises 11 percent of the assets, 12 percent of net assets and 4 percent of revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Knoxville Utilities Board and Metropolitan Knoxville Airport Authority, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the general fund and miscellaneous community development funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Members of the Tennessee Society Of Certified Public Accountants

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McGladrey Alliance member firms maintain their respective names, autonomy and independence
and are responsible for their own client fee arrangements delivery of services and maintenance of client relationships.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 30, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-19 and the schedules of funding progress of the pension plans on pages 90 and 91 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us and the other auditors with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's financial statements. The combining and individual fund financial statements and schedules on pages 94 to 130 and schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules on pages 94 to 130 and schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 30, 2013

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, 2012.

Financial Highlights

- The assets of the City of Knoxville primary government exceeded its liabilities at the close of the most recent fiscal year by $567,957,031 (*net assets*). Of this amount, $275,816,641 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets increased by $11,301,284, an increase of 2.03% over fiscal 2011 as a result of effective budgetary controls and involvement of all employees in controlling expenses in light of declining revenues associated with the world-wide economic downturn.
- As of the close of the fiscal year, the city's governmental funds reported combined ending fund balances of $204,605,529, a decrease of only $503,827 in comparison with the prior year. Approximately 70.1% ($143,407,345) is available for spending at the City's discretion.
- Fund Balance for the City's General Fund decreased by $5,539,173, a decrease of 8.5%. A mid-year budget appropriation of $10,000,000 to supplement the Employee Pension Fund was a major factor in the General Fund's loss of Fund Balance. Stronger than anticipated tax collections augmented by efficient use of resources helped offset the supplemental pension contribution. $384,753 is considered nonspendable under the new fund balance standard and $59,339,739 is considered spendable but of that amount $39,447,247 is assigned or committed, leaving $19,892,492 available for spending at the City's discretion.
- Overall, the City's total debt for the primary government decreased by $15,250,000 (7.9%) to $178,390,000 during the current fiscal year as a result of a debt refunding and normal debt service payment activity.

Overview of the Financial Statements

There are four sections to the City's financial report – *Introductory, Financial, Statistical and the Compliance* sections. The Introductory Section contains the City's Letter of Transmittal, a facsimile of the Certificate of Achievement for Excellence in Financial Reporting, an organization chart, and a list of officials. The Financial Section is comprised of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. The Statistical Section discloses data designed to further enhance the readers understanding of the City's financial health. The Compliance Section contains the Single Audit Report and any findings and recommendations.

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

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Knoxville's finances, in a manner similar to a private-sector business. Government-wide statements are provided on a full accrual basis. Activities are considered either as those of Primary Government (the government as legally defined) or those of Component Units (legally separate entities for which the primary government is financially accountable). Public utility and transportation services are performed by the Component Units. Activities are delineated as noted:

Primary Government	**Component Units**
Governmental Activities	Knoxville Utilities Board
Business-Type Activities	Metropolitan Knoxville Airport Authority
	Knoxville Area Transit

STATEMENT OF NET ASSETS

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

The statement of net assets presents the consolidated financial condition of the City at a moment of time. This statement presents assets, liabilities and total net assets categorized as either primary government or component units. Primary government activities are further delineated as either governmental or business-type. Component units are organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

STATEMENT OF ACTIVITIES

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

The focus of the statement of activities is to present the City's combined operational activities over the past fiscal year. Governmental and business-type items are shown using all revenues and expenses. Governmental activities are financed primarily by local taxes, user fees, charges for services, or subsidized by direct appropriations from the City's General Fund. Business-type operations, by their very nature, recover costs through user fees and/or operational transfers.

Funds Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Knoxville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Knoxville can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the

governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Major Governmental Funds
- General
- Debt Service
- Capital Projects
- Special Revenue Fund - Miscellaneous Community Development Funds

Non-Major Governmental Funds/Special Revenue Funds
- State Street Aid
- Community Development Block Grants
- Abandoned Vehicles
- City Inspections
- City Court
- Miscellaneous Grants
- Animal Control
- Miscellaneous Special Revenue Funds
- Storm Water
- Solid Waste
- Knoxville Civic Revitalization

Permanent Fund
- Krutch Park Trust

A budgetary comparison statement for the General Fund (Statement of Revenues, Expenditures, and Changes in Fund Balances) is presented in the Fund Financial Statements section of the Basic Financial Statements.

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

The Balance Sheet provides a picture of the financial (but not capital) assets associated with governmental activities, liabilities payable from current financial resources and the net fund balance.

The Statement of Revenues, Expenditures and Changes in Fund Balances is used for reporting all transactions, events and inter-fund activity that increase or decrease fund balances.

Because Government-Wide Statements are provided on a full accrual basis and governmental funds statements are provided on a modified accrual basis, reconciliation is necessary. Reconciliation statements are provided following the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

Proprietary Funds

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

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

Business-Type Activities	**Governmental Activities/Internal Service Funds**
Knoxville Convention Center	Fleet Maintenance
Other Business-Type Activities -	Risk Management
Metro Parking	Health Insurance
Public Assembly Facilities	Equipment Replacement
Municipal Golf Courses	City Buildings

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

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

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

Fiduciary and Component Unit Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Knoxville programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Combined Agency Funds (City Choice Plus Fund and the Employee Health Savings Fund) account for monies designated by employees to offset the cost of their personal health care. The City Employees' Pension Trust Fund accounts for assets set aside for employee retirements.

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

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

Notes to the Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

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

Statement of Net Assets at June 30, 2012

A condensed version of the Statement of Net Assets 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	
	2012	2011	2012	2011	2012	2011
Current and other assets:						
Cash and investments	$ 278,947	$ 273,377	$ 32,286	$ 24,538	$ 311,233	$ 297,915
Other assets	168,033	166,951	8,622	11,476	176,655	178,427
Capital assets	277,366	277,138	153,845	158,961	431,211	436,099
Deferred Outflows	-	-	3,693	3,194	3,693	3,194
Total assets	724,346	717,466	198,446	198,169	922,792	915,635
Other liabilities	156,811	153,372	6,254	6,160	163,065	159,532
Noncurrent liabilities	63,187	67,225	128,583	132,222	191,770	199,447
Total liabilities	219,998	220,597	134,837	138,382	354,835	358,979
Net assets:						
Invested in capital assets, net of related debt	220,585	220,028	24,881	26,075	245,466	246,103
Restricted	46,675	43,399	-	-	46,675	43,399
Unrestricted	237,088	233,442	38,728	33,712	275,816	267,154
Total net assets	$ 504,348	$ 496,869	$ 63,609	$ 59,787	$ 567,957	$ 556,656

Governmental Activities

Assets have increased by 1% and liabilities have decreased by 0.3% when compared to 2011 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. The change in liabilities was primarily due to the reduction in debt by routine current year debt payment activity. The net result of these changes is an increase of 1.51% in total net assets. No particular activity is responsible for a disproportionate amount of the changes. Overall positive financial performance of all activities contributed to the positive results of this category.

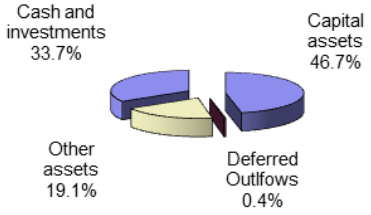
Business-Type Activities

Assets only increased by 0.14% and liabilities have decreased by 2.6% from 2011 levels, resulting in an increase of 6.4% in total net assets. Increased cash and investments from positive financial activities accounted for the bulk of the increase in assets while the reduction in long term debt accounted for the change in noncurrent liabilities.

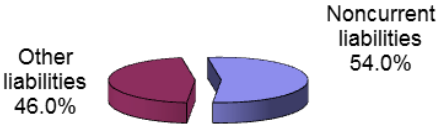
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 46.7% of $922.8 million in total assets. Taxes and governmental receivables constitute 19.1%. Deferred outlflows representing interest rate swaps account for 0.4% and current liquidity, as shown by cash and investments, composes the remaining 33.7% of total assets.

Primary Government Total Assets



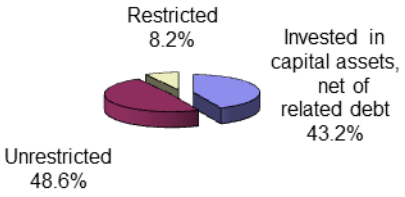
Primary Government Total Liabilities



54% of the total government liabilities are in long-term debt outstanding. Of long-term debt, approximately $128.8 million, or 68.9% is related to debt issued to finance the convention center complex.

A portion of the City's total net assets is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. The unrestricted net assets of the City's governmental activities represent 48.6% of total primary government net assets.

Primary Government Total Net Assets



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

A summary version of the Statement of Activities follows:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
Revenues:	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	$ 10,966	$ 12,893	$ 9,802	$ 9,786	$ 20,768	$ 22,679
Operating grants & contributions	10,088	14,811	1,750	1,500	11,838	16,311
Capital grants & contributions	3,318	3,777	-	-	3,318	3,777
General revenues:						
Taxes	200,318	195,747	10,109	9,757	210,427	205,504
Interest	1,573	2,042	268	255	1,841	2,297
Other	2,296	3,669	358	344	2,654	4,013
Total revenues	228,559	232,939	22,287	21,642	250,846	254,581
Expenses:						
General government	34,883	13,495	-	-	34,883	13,495
Public safety	85,416	83,060	-	-	85,416	83,060
Physical Environment	48,046	46,977	-	-	48,046	46,977
Transportation	11,201	10,466	-	-	11,201	10,466
Economic development	8,459	11,878	-	-	8,459	11,878
Parks and recreation	11,827	12,308	-	-	11,827	12,308
Health & Sanitation	11,111	10,361	-	-	11,111	10,361
Interest on long-term debt	1,989	2,152	-	-	1,989	2,152
Other	-	-	26,613	29,355	26,613	29,355
Total expenses	212,932	190,697	26,613	29,355	239,545	220,052
Increase (decrease) in net assets before transfers	15,627	42,242	(4,326)	(7,713)	11,301	34,529
Transfers	(8,148)	(16,352)	8,148	16,352	-	-
Changes in net assets	7,479	25,890	3,822	8,639	11,301	34,529
Beginning net assets	496,869	470,979	59,787	51,148	556,656	522,127
Ending net assets	$ 504,348	$ 496,869	$ 63,609	$ 59,787	$ 567,957	$ 556,656

Governmental Activities

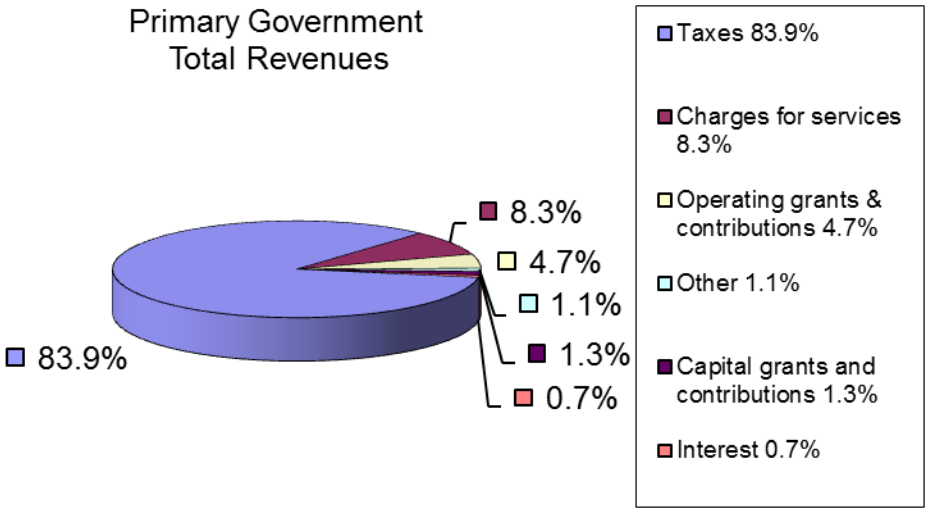
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2012, only the Debt Service, State Street Aid, City Court and Animal Control Funds generated material revenues in excess of current expenditures. Excess revenue generated by the City Court is transferred to the General Fund to finance general operations. General government expenditures increased significantly due to a one-time supplemental contribution of $10 million to the City's Pension Fund, increased insurance costs and depreciation on recently acquired assets. Public safety operations accounted for approximately 35.6% of the City's total governmental operations of $213 million. All other City of Knoxville sections and operations are financed by either local or state taxes, grants, or various shared revenues.

Business-type Activities

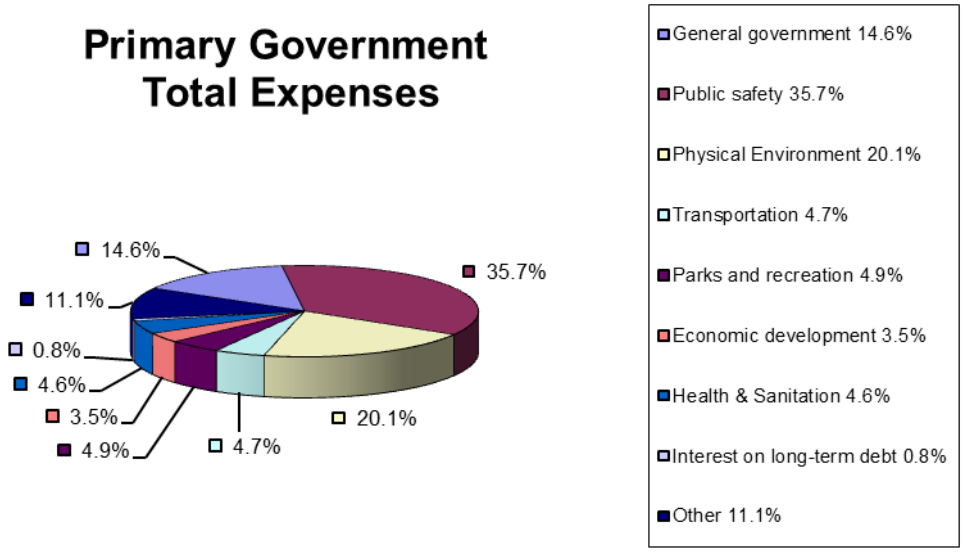
The City's business-type activities include public parking, public assembly facilities and the municipal golf courses. The City also operates the Knoxville Convention Center and the Knoxville Civic Coliseum/ Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands of visitors yearly for various sporting events. Neyland Stadium, the nation's second largest on-campus college football stadium, attracts over one hundred thousand loyal fans per home game. Proximity to outdoor recreational facilities such as the lake region and The Great Smoky Mountains National Park makes the Knoxville area an ideal tourist destination. With this in mind, local government leaders deemed it necessary to build a new convention center to take advantage of Knoxville's unique geographic location. Although current expenses exceed revenues for these activities, the local economy benefits greatly by the impact of lodging, restaurant, and various recreational consumer spending. To assist with repayment of the debt associated with the Convention Center, Hotel/Motel taxes were pledged and are being used. Additional redevelopment efforts in the city's downtown area are expected to increase the cost effectiveness of the city's infrastructure investments.

Total Government

Primary Government Revenues were $250.8 million. The largest portion of these revenues ($210.4 MM - 83.9%) was from taxes.



Total primary government expenses totaled $239.5 million, 35.7% of which was directed toward public safety.



Component Units

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

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

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Program Revenues	$ 696,611	$ 724,623	$ 34,277	$ 34,479	$ 27,262	$ 28,285	$ 758,150	$ 787,387
Program Expenses	(671,778)	(698,767)	(34,336)	(34,529)	(35,284)	(34,761)	(741,398)	(768,057)
Total General Revenues	1,504	1,876	87	807	9,924	9,377	11,515	12,060
Change in Net Assets	$ 26,337	$ 27,732	$ 28	$ 757	$ 1,902	$ 2,901	$ 28,267	$ 31,390
Net Assets at Year End	$ 835,306	$ 808,969	$ 121,027	$ 120,999	$ 45,708	$ 43,807	$1,002,041	$ 973,775

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2012

The total Governmental Funds balance as of June 30, 2012 is $204.6 million of which the general fund's balance is approximately $59.7 million, debt service fund is $45.8 million, capital projects comprise $70.3 million, miscellaneous community development $1.6 million and the remaining $27.2 million is distributed between the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances decreased by $0.5 million over the prior year. The general fund was responsible for most of the decrease in the governmental funds fund balance. It decreased by $5.5 million as a result of a

supplemental pension fund contribution of $10 million and the scheduled utilization of fund balance to help offset declining revenues. The debt service fund increased by $3.3 million, capital projects increased by $1.9 million as a result of scheduled capital project activity and the remaining $0.1 million was spread over various special revenue and permanent funds. Significant causes of the various increases are explained in the following section.

Statement of Revenues, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2012

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, 2012, 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	2012	2011	Percent of Total 2012	Change from Prior Year Increase (Decrease)	Change from Prior Year Percent Change
Taxes, assessments, interest & penalties	$180,542	$173,425	79.17%	$ 7,117	4.10%
Licenses, permits and inspection charges	1,975	1,708	0.87%	267	15.63%
Intergovernmental revenue	30,040	37,081	13.17%	(7,041)	(18.99%)
Charges for services	6,502	6,859	2.85%	(357)	(5.20%)
Fines and forfeitures	3,637	5,536	1.59%	(1,899)	(34.30%)
Other	5,370	6,207	2.35%	(837)	(13.48%)
Totals	$228,066	$230,816	100.00%	$ (2,750)	(1.19%)

A comparison of revenues between FY11 and FY12 shows the total general government revenues decreased approximately $2.75 million or 1.19%.

The increase in Revenues from Taxes was primarily the result of increased current and prior year property tax collections ($2.13 million) and Local shared sales tax collections ($2.5 million). The balance of the increased tax collections was relatively evenly distributed between business taxes, beverage taxes, payments in lieu of taxes and franchise fees. The major decrease in intergovernmental revenues came from reductions in Community Development Fund proceeds ($0.8 million) associated with grant activities and a reduction in the Hall Income Tax ($3.4 million), a state tax on investment interest and dividends, a portion of which is distributed to the City. While we also had swings in revenues from charges for services and other revenues, the most significant decrease occurred in the fines and forfeiture category due to the changes in State law regulating red light camera violations and the closure of a major artery due to bridge rehabilitation.

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, 2012, and the percentage of increases and decreases in relation to prior year amounts.

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

Expenditures	2012	2011	Percent of Total 2012	Change from Prior Year Increase (Decrease)	Change from Prior Year Percent Change
Administration	$ 3,551	$ 4,003	1.64%	$ (452)	(11.29%)
Finance	18,886	7,424	8.71%	11,462	154.39%
Engineering	12,816	13,051	5.91%	(235)	(1.80%)
Community Development	52,228	53,554	24.08%	(1,326)	(2.48%)
Law	2,573	2,405	1.19%	168	6.99%
Police	51,787	49,092	23.87%	2,695	5.49%
Fire	33,665	32,521	15.51%	1,144	3.52%
Legislative	1,019	791	0.47%	228	28.82%
Civil Service	889	882	0.41%	7	0.79%
City Elections	231	5	0.11%	226	4520.00%
Metropolitan Planning Commission	905	905	0.42%	-	0.00%
Knoxville Zoological Park	1,010	906	0.47%	104	11.48%
Community agency grants	715	819	0.33%	(104)	(12.70%)
Waterfront operations	520	571	0.24%	(51)	(8.93%)
Community Action Committee	636	580	0.29%	56	9.66%
Mass Transit	10,564	9,886	4.87%	678	6.86%
Capital and grant projects	17,497	19,155	8.07%	(1,658)	(8.66%)
Debt service:					
Principal retirement	4,852	5,577	2.24%	(725)	(13.00%)
Interest on bonds and notes	2,116	2,188	0.98%	(72)	(3.29%)
Refunding bonds issuance costs	411	-	0.19%	411	-
Total Expenditures	$ 216,871	$ 204,315	100.00%	$ 12,556	6.15%

General government expenditures in FY12 increased by $12.56 million. A significant portion of the increase was the utilization of fund balance in the general fund to make a $10 million supplemental contribution to the general employee's pension fund. The supplemental pension contribution was accounted for under Finance and was in addition to the normal required annual contribution to the pension funds. Changes in the Community Development area reflects reduced grant activities through the marginal reduction in Federal grants. Public Safety expenditures accounted for the majority of the operational increases and are in keeping with providing a safe environment for the citizens of the City.

Proprietary Funds Statements

Statement of Net Assets at June 30, 2012

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

Statement of Revenues, Expenditures and Changes in Fund Net Assets for the Year Ended June 30, 2012

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 $8.1 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2012

The four main business type activities of the City are the Convention Center, Metro Parking, Public Assembly Facilities and the Municipal Golf Courses. As expected, overall operations experienced a net operating loss. The Convention Center continues to operate at a loss but the amount of the annual loss has continued to decline over the years. Both parking garages had a small loss from operations mostly due to construction closures associated with increasing their capacity. Public Assembly Facilities operated at a loss this year due to a general decline in public amusement attendance. The city's two golf courses continued to have a small operating loss which was covered with nonoperating revenues and subsidies from the General Fund. When the city reacquired the courses from the private operators four years ago, the condition of the courses and their reputations had diminished. The city is working to rebuild the public's confidence in the courses and has achieved a certain degree of success but general economic factors have taken their toll by leveling off of customer revenues.

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

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

Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2012	2011	2012	2011	2012	2011
I. Business-type Activities						
A. Knoxville Convention Center	$16,307	$15,950	$18,869	$19,395	$ 5,263	$ 6,256
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,425	1,574	1,624	1,610	18	4,411
2. Public Assembly Facilities	2,556	2,580	4,534	6,540	2,738	5,141
3. Municipal Golf Courses	1,469	1,285	1,440	1,811	128	544
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	15,711	14,262	13,400	11,777	1,698	2,133
2. Risk Management	7,559	6,817	6,418	5,354	435	426
3. Health Insurance	14,486	15,880	17,400	15,963	1,336	897
4. Equipment Replacement	2,193	2,463	2,043	2,435	112	148
5. City Buildings	1,201	1,664	1,615	2,303	381	930
Totals	$62,907	$62,475	$67,343	$67,188	$12,109	$20,886

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

	Capital Contributions		Change in Net Assets		Net Assets at Year End	
	2012	2011	2012	2011	2012	2011
I. Business-type Activities						
A. Knoxville Convention Center	$ 250	$ -	$ 2,951	$ 2,811	$ 24,209	$ 21,258
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	(181)	4,375	20,727	20,908
2. Public Assembly Facilities	-	-	760	1,181	17,873	17,113
3. Municipal Golf Courses	136	254	294	272	801	507
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	51	358	4,060	4,976	52,391	48,331
2. Risk Management	-	-	1,576	1,890	18,063	16,487
3. Health Insurance	-	-	(1,578)	814	10,888	12,466
4. Equipment Replacement	-	-	262	176	18,878	18,616
5. City Buildings	-	-	(33)	291	4,384	4,417
Totals	$ 437	$ 612	$ 8,111	$ 16,786	$ 168,214	$ 160,103

Fiduciary Funds Statements

The City Employees' Pension Trust Fund is reported with the Combined Agency Funds (City Choice Plus and the Employee Health Savings Fund) in the fiduciary funds statements. The City's defined benefit plan consists of contributions for general government, uniformed, and a few school board employees that elected to stay in the City's pension plan when the schools were turned over to Knox County. The following table notes the contribution rates:

Condensed Financial Information
Pension Trust Fund Contribution Rates

	FY 11/12 Contribution Rates	FY 10/11 Contribution Rates	Estimated FY 12/13 Contribution Rates
General Government Employees	11.72%	9.72%	13.60%
Police and Fire Employees	21.64%	18.57%	24.07%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 77.6%. The fund, like similar funds, has been affected by the declining interest rate environment and relatively unstable stock market. It is expected that net outflows will exceed contributions, before investment income, in the near term. The loss in investments will result in increased contributions by the City in the future. These increases have been budgeted. The City Choice Plus Fund and the Employee Health Savings Fund account for employee contributions to IRS Section 125 health benefit plans.

General Fund Budgetary Highlights

During the year there was approximately $12 million in increases in appropriations between the original and final General Fund's budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2012

Department	Carry Forward of Prior Year Encumbrances	Other	Total Changes
Administration	$ 12,500	$ 254,040	$ 266,540
Finance	5,636	(6,420)	(784)
Information Systems	138,750	94,800	233,550
Purchasing	70,477	6,450	76,927
Community Development	306	107,500	107,806
Waterfront Operations	-	(124,580)	(124,580)
Parks & Recreation	29,502	352,700	382,202
Public Services	42,437	1,685,499	1,727,936
Engineering	45,034	130,000	175,034
Law	22,217	(39,200)	(16,983)
Police	73,665	285,200	358,865
Fire	37,622	47,000	84,622
Legislative	-	187,500	187,500
Community Action Committee	-	71,000	71,000
Reserve	-	(1,425,000)	(1,425,000)
Transfers	-	9,881,860	9,881,860
Total General Fund	$ 478,146	$ 11,508,349	$ 11,986,495

The largest change occurred in Transfers which accounted for $10 million of the $12 net in revisions. It was decided mid-year to increase the city's contribution to the pension fund with a supplemental $10 million contribution. The contribution was over and above that which was required however it should reduce contributions in the future.

The $1.4 million reduction in Reserve budget was to support increased service levels in the Public Services Department.

Capital Asset and Debt Administration

As of June 30, 2012 the primary government of the City had invested $431.2 million in capital assets as reflected by the following table. The total belies the fact that the investment in Infrastructure increased by $19.7 million due to the completion of various projects and revitalization efforts throughout the city and in the downtown area. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets in the other categories, primarily equipment, which includes vehicles. For additional information on the capital assets of the City, please refer to Note 7 of the Notes to Financial Statements.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land and site improvements	$ 50,322	$ 51,729	$ 7,336	$ 7,272	$ 57,658	$ 59,001
Buildings and improvements	58,474	57,894	223,290	222,968	281,764	280,862
Equipment, furniture & fixtures	83,974	75,278	7,265	5,847	91,239	81,125
Infrastructure	310,238	296,394		-	310,238	296,394
Construction in progress	3,405	6,247		998	3,405	7,245
Less accumulated depreciation	(229,047)	(210,404)	(84,045)	(78,123)	(313,092)	(288,527)
Totals	$ 277,366	$ 277,138	$ 153,846	$ 158,962	$ 431,212	$ 436,100

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

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Beginning balance	$ 487,542	$ 462,841	$ 237,085	$ 234,957	$ 724,627	$ 697,798
Additions	22,706	54,029	999	3,550	23,705	57,579
Deletions	(3,835)	(29,328)	(193)	(1,422)	(4,028)	(30,750)
Balance before depreciation	506,413	487,542	237,891	237,085	744,304	724,627
Accumulated depreciation	(229,047)	(210,404)	(84,045)	(78,123)	(313,092)	(288,527)
Balance after depreciation	$ 277,366	$ 277,138	$ 153,846	$ 158,962	$ 431,212	$ 436,100

As of the year-end, the City's Total Primary Government had $178.4 million in general obligation debt outstanding. In FY 11/12, in an effort to benefit from lower interest rates, the City refunded $77,370,000 in outstanding general obligation debt, and paid off a $13,470,609 (present value) master lease purchase agreement covering the construction and related debt associated with an energy savings construction and enhancement program. The nominal savings from this refunding were approximately $18.2 million, or $1.4 million per year. The true interest costs on the transaction were 1.93 percent with a net present value savings of 17.97%. The savings were split 76.4% for governmental activities and 23.6% for business activities.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current - Due in 1 year						
General Obligation Bonds	$ 5,413	$ 4,660	$ 4,082	$ 3,900	$ 9,495	$ 8,560
Capital Lease	-	4	21	78	21	82
Note Payable	-	-	65	12	65	12
Total Current	5,413	4,664	4,168	3,990	9,581	8,654
Non Current - Due in more than 1 year						
General Obligation Bonds	45,149	42,015	123,746	129,595	168,895	171,610
Capital Lease	-	13,467	81	102	81	13,569
Note Payable	-	-	-	65	-	65
Total Non Current	45,149	55,482	123,827	129,762	168,976	185,244
Subtotal	50,562	60,146	127,995	133,752	178,557	193,898
Unamortized Premiums, Discounts and Gain on Refunding	6,219	1,073	970	(865)	7,189	208
Total Long Term Debt	$ 56,781	$ 61,219	$ 128,965	$ 132,887	$ 185,746	$ 194,106

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

	2012	2011
Moody's Investors Service	Aa1	Aa1
Standard & Poor's	AA+	AA+
Fitch Ratings	AAA	AAA

For additional information on the long-term debt of the City, please refer to Note 9 of the Notes to Financial Statements.

Economic Factors

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes $147.6 million or 86% of the total operating revenue to the General Fund. Within this category of revenue, the largest amount comes from property taxes. In turn, property taxes are divided among realty, personal, and public utility. The growth rate for assessed value on real estate has historically been relatively moderate, a trend that is expected to continue. In FY12 the taxable value of real property increased by 1.7% and the overall tax roll increased by 2.8%. Historically, the city has collected an average of 95% of property taxes in the year they are due. The trend in recent years has been higher than the long-term average due to better economic conditions and enhanced collection efforts but has slipped somewhat with the current recession but not to a worrisome level. Personal property growth has been higher than real property in the recent past and has also declined with the economic downturn that is facing the country. We expect no real growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately $36.4 million or 21.2% of total General Fund revenues. Like the rest of the country, Knoxville experienced a slight increase in sales tax receipts in FY12 – a trend continued from last fiscal year which started out strong but midway through the fiscal year, started to taper off. While our revenues have declined in this area, we have been fortunate in that our diverse economy has limited our decline in relation to the general economy.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for $20.4 million or 11.9% of total revenue. The decrease in this category was due to a reduction in the Hall Income Tax (an intangible tax on investments), generating $3.9 million for the city, a decrease of $3.4 million from FY11. We have not been able to determine the nature of the root causes of the decrease in this revenue and do not budget or anticipate that it will continue at this high level.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system were impacted by court rulings negating the ability of the city to issue tickets for red light camera violations for people making improper turns on red. The category of miscellaneous revenue includes interest earnings which have fallen due to the general reduction in short term interest rates.

Health care benefits are accounted for in a separate internal service fund. The City's Employee Health Insurance Fund is funded by both employer and employee contributions. The City has experienced double digit premium increases in recent years. In FY07, the City was able to slow these increases and keep the premiums the same due to a change in plans, and the implementation of programs that focus on wellness and disease prevention. In FY08, the City terminated its outside health care insurance plans and converted to a self insurance plan. FY10 and FY11, claims versus revenues were such that we have been able to stabilize premiums through controlled plan expenses and deductible revisions. FY12 saw an increase in expenditures and a slight deterioration in the fund balance for the fund but not to the point of great concern.

Other areas experiencing particularly high expenditure growth include pension costs and utility increases. The city uses a multi-year smoothing technique to determine pension contributions. Lower than expected returns in the portfolio in the last few years has resulted in increased contributions. To help offset some of the accrued pension liability, a supplemental $10 million contribution from the city's General Fund was made. Through this infusion, it is expected that the fund will be able to reduce its need for increasing contributions from the city in the future.

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

On the plus side, the performance of the new Convention Center has improved in the past several years, which will lower the expected operating loss on the facility. The downtown area is also experiencing a rebirth, and should continue to grow in the future. Many family oriented programs are offered in the area known as Market Square and its adjoining Gay Street which bring people into the downtown area from the surrounding areas. What was once was an almost deserted area is now a bustling area with many entertainment offerings.

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

FINANCIAL CONTACT

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

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CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets

June 30, 2012

	Primary Government			Combined	
	Governmental Activities	Business Type Activities	Total Primary Government	Discretely Presented Component Units	Total Reporting Unit
Assets					
Cash & cash equivalents	$ 12,999,775	$ 6,621,124	$ 19,620,899	$ 82,009,975	$ 101,630,874
Investments	265,947,053	25,665,238	291,612,291	131,084,588	422,696,879
Receivables (net of allowance for uncollectibles):					
Accounts	8,399,700	2,121,957	10,521,657	80,865,698	91,387,355
Taxes	125,310,970	-	125,310,970	-	125,310,970
Notes and leases	22,144,874	646,928	22,791,802	-	22,791,802
TVA conservation program	-	-	-	9,552,209	9,552,209
Other	114,905	-	114,905	898,384	1,013,289
Internal balances	(4,745,549)	4,745,549	-	-	-
Due from component units	9,624,000	-	9,624,000	-	9,624,000
Inventories	1,335,454	135,728	1,471,182	8,862,093	10,333,275
Prepaid items	49,501	34,601	84,102	14,879,641	14,963,743
Net pension obligation asset	3,044,099	-	3,044,099	-	3,044,099
Equity interest in joint venture	2,755,267	936,772	3,692,039	-	3,692,039
Deferred charges	-	-	-	4,419,055	4,419,055
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	22,213,323	22,213,323
Unused bond proceeds	-	-	-	13,803,726	13,803,726
Receivables	-	-	-	500,000	500,000
Other	-	-	-	23,769	23,769
Other assets	-	-	-	27,626,485	27,626,485
Capital assets:					
Land & site improvements	50,321,482	7,336,303	57,657,785	174,990,495	232,648,280
Building & building improvements	58,474,249	223,290,115	281,764,364	174,993,208	456,757,572
Utility plant in service	-	-	-	1,866,937,094	1,866,937,094
Equipment, furniture & fixtures	83,974,266	7,264,533	91,238,799	40,488,452	131,727,251
Infrastructure	310,238,439	-	310,238,439	-	310,238,439
Construction in progress	3,405,344	-	3,405,344	161,694,280	165,099,624
Less accumulated depreciation	(229,047,487)	(84,044,520)	(313,092,007)	(850,225,955)	(1,163,317,962)
Total assets	724,346,342	194,754,328	919,100,670	1,965,616,520	2,884,717,190
Deferred outflow of resources:					
Deferred outflow of resources - interest rate swap	-	3,692,512	3,692,512	9,199,020	12,891,532
Total assets and deferred outflow of resources	724,346,342	198,446,840	922,793,182	1,974,815,540	2,897,608,722
Liabilities					
Accounts payable	8,395,366	1,238,545	9,633,911	54,948,828	64,582,739
Matured principal & interest on bonds	-	-	-	10,150,676	10,150,676
Accrued liabilities	5,963,023	33,934	5,996,957	27,713,156	33,710,113
Due to primary government	-	-	-	9,624,000	9,624,000
Due to other governmental agencies	483,986	-	483,986	-	483,986
Unearned revenue	128,598,179	41,603	128,639,782	2,650	128,642,432
Customer deposits, plus accrued interest	435,461	455,379	890,840	14,720,397	15,611,237
Accrued interest	193,717	252,444	446,161	146,230	592,391
Noncurrent liabilities:					
Long-term debt due within one year	12,741,641	4,378,585	17,120,226	22,290,000	39,410,226
Long-term debt due in more than one year	52,587,357	124,744,419	177,331,776	799,271,457	976,603,233
Other noncurrent liabilities due within one year	5,000,000	-	5,000,000	4,561,000	9,561,000
Other noncurrent liabilities due in more than one year	5,600,000	-	5,600,000	20,146,412	25,746,412
Derivative instrument - interest rate swap	-	3,692,512	3,692,512	9,199,020	12,891,532
Total liabilities	219,998,730	134,837,421	354,836,151	972,773,826	1,327,609,977
Net assets					
Invested in capital assets, net of related debt	220,585,371	24,880,953	245,466,324	743,005,791	988,472,115
Restricted for:					
Debt service	45,810,605	-	45,810,605	11,203,959	57,014,564
Park Maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	239,396	-	239,396	-	239,396
Other	-	-	-	1,382,456	1,382,456
Unrestricted	237,088,175	38,728,466	275,816,641	246,449,508	522,266,149
Total net assets	$ 504,347,612	$ 63,609,419	$ 567,957,031	$ 1,002,041,714	$ 1,569,998,745

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, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General Government	$ 34,882,442	$ 817,408	$ 1,421,635	$ -
Public Safety	85,415,890	6,971,378	2,139,965	990,702
Physical Environment	48,046,005	1,538,712	1,294,838	1,232,680
Transportation	11,200,472	640,454	-	-
Economic Development	8,459,891	427,659	5,230,080	993,401
Parks & Recreation	11,826,959	530,582	-	-
Health & Sanitation	11,110,772	40,244	1,500	101,357
Interest on Long-Term Debt	1,989,210	-	-	-
Total governmental activities	212,931,641	10,966,437	10,088,018	3,318,140
Business-type activities:				
Metro Parking	1,624,444	1,417,843	-	-
Public Assembly Facilities	4,535,267	2,089,836	-	-
Knoxville Convention Center	19,013,325	4,961,660	1,750,000	-
Municipal Golf Courses	1,440,279	1,332,170	-	-
Total business-type activities	26,613,315	9,801,509	1,750,000	-
Total primary government	$ 239,544,956	$ 20,767,946	$ 11,838,018	$ 3,318,140
Combined Discretely Presented Component Units	$ 741,895,920	$ 726,522,845	$ 6,406,549	$ 25,221,787

General revenues:
- Property taxes
- Intergovernmental revenue, unrestricted
- Admissions tax
- Hotel/motel tax
- Excise tax
- Alcoholic beverage tax
- Business tax
- Cable television franchise tax
- Other unrestricted revenue
- Unrestricted investment earnings
- Gain on disposal of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Combined	
Governmental Activities	Business-type Activities	Total	Discretely Presented Component Units	Total Reporting Unit
$ (32,643,399)	$ -	$ (32,643,399)	$ -	$ (32,643,399)
(75,313,845)	-	(75,313,845)	-	(75,313,845)
(43,979,775)	-	(43,979,775)	-	(43,979,775)
(10,560,018)	-	(10,560,018)	-	(10,560,018)
(1,808,751)	-	(1,808,751)	-	(1,808,751)
(11,296,377)	-	(11,296,377)	-	(11,296,377)
(10,967,671)	-	(10,967,671)	-	(10,967,671)
(1,989,210)	-	(1,989,210)	-	(1,989,210)
(188,559,046)	-	(188,559,046)	-	(188,559,046)
-	(206,601)	(206,601)	-	(206,601)
-	(2,445,431)	(2,445,431)	-	(2,445,431)
-	(12,301,665)	(12,301,665)	-	(12,301,665)
-	(108,109)	(108,109)	-	(108,109)
-	(15,061,806)	(15,061,806)	-	(15,061,806)
(188,559,046)	(15,061,806)	(203,620,852)	-	(203,620,852)
-	-	-	16,255,261	16,255,261
119,551,654	-	119,551,654	-	119,551,654
60,798,481	4,689,338	65,487,819	9,821,703	75,309,522
-	2,083,545	2,083,545	-	2,083,545
-	3,336,540	3,336,540	-	3,336,540
262,638	-	262,638	-	262,638
11,378,034	-	11,378,034	-	11,378,034
6,571,702	-	6,571,702	-	6,571,702
1,755,363	-	1,755,363	-	1,755,363
2,295,590	304,878	2,600,468	311,123	2,911,591
1,572,566	268,486	1,841,052	1,831,658	3,672,710
-	53,321	53,321	48,128	101,449
(8,147,953)	8,147,953	-	-	-
196,038,075	18,884,061	214,922,136	12,012,612	226,934,748
7,479,029	3,822,255	11,301,284	28,267,873	39,569,157
496,868,583	59,787,164	556,655,747	973,773,841	1,530,429,588
$ 504,347,612	$ 63,609,419	$ 567,957,031	$ 1,002,041,714	$ 1,569,998,745

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

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Governmental Funds
June 30, 2012

	General	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Assets						
Cash & cash equivalents	$ 107,892	$ 6,419,680	$ 505,594	$ 469,781	$ 1,706,326	$ 9,209,273
Investments	51,731,483	30,510,834	71,544,374	1,317,112	26,706,459	181,810,262
Accounts receivable	2,191,916	203,464	2,809,174	486,638	2,143,489	7,834,681
Taxes receivable	95,299,315	30,011,655	-	-	-	125,310,970
Notes receivable	-	1,448,400	-	16,856,838	3,839,636	22,144,874
Due from other funds	34,451	-	1,288,000	-	4,298	1,326,749
Due from component units	-	6,954,000	2,670,000	-	-	9,624,000
Inventories	335,252	-	-	83,300	31,586	450,138
Prepaid items	49,501	-	-	-	-	49,501
Total assets	$ 149,749,810	$ 75,548,033	$ 78,817,142	$ 19,213,669	$ 34,431,794	$ 357,760,448
Liabilities and fund balances						
Liabilities:						
Accounts payable	$ 2,056,258	$ -	$ 2,426,063	$ 552,083	$ 1,392,112	$ 6,426,516
Accrued liabilities	2,675,013	-	2,033,208	703	171,324	4,880,248
Customer deposits	-	-	-	3,979	431,482	435,461
Due to other funds	3,214,000	-	1,283,000	56,000	1,432,298	5,985,298
Due to other governmental agencies	471,127	-	8,824	-	4,547	484,498
Deferred revenue	81,608,920	29,737,428	2,771,096	16,985,469	3,839,985	134,942,898
Total liabilities	90,025,318	29,737,428	8,522,191	17,598,234	7,271,748	153,154,919
Fund balances:						
Reserved for:						
Nonspendable	384,753	-	-	83,300	655,651	1,123,704
Restricted	-	45,810,605	-	1,532,135	12,731,740	60,074,480
Committed	39,136,512	-	70,294,951	-	13,772,655	123,204,118
Assigned	310,735	-	-	-	-	310,735
Unassigned	19,892,492	-	-	-	-	19,892,492
Total fund balances	59,724,492	45,810,605	70,294,951	1,615,435	27,160,046	204,605,529
Total liabilities and fund balances	$ 149,749,810	$ 75,548,033	$ 78,817,142	$ 19,213,669	$ 34,431,794	$ 357,760,448

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, 2012

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

Ending fund balance - governmental funds		$ 204,605,529
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheets of the governmental funds.		251,147,862
Revenues that have been deferred in the balance sheet of the governmental funds because they were not available to pay current liabilities of the period are recognized as revenue in the statement of activities and therefore are not included in the statement of net assets.		6,344,719
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.		104,604,802
Accrued interest payable is not due and payable in the current period and therefore is not reported as a liability in the balance sheets of the governmental funds.		(193,717)
Negative net pension obligation recorded as an asset as an adjustment to net assets.		3,044,099
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Debt	$ (50,561,920)	
Discounts and Premiums (net)	(6,219,002)	
Compensated Absences	(8,424,760)	(65,205,682)
Net assets of governmental activities		$ 504,347,612

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, 2012

	General	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes, assessments, interest & penalties	$ 147,600,858	$ 27,710,514	$ -	$ -	$ 5,231,072	$ 180,542,444
Licenses, permits & inspection charges	338,762	-	-	-	1,636,669	1,975,431
Intergovernmental	20,400,989	-	993,401	3,062,585	5,583,226	30,040,201
Charges for services	1,649,258	-	-	412,652	4,439,556	6,501,466
Fines & forfeitures	648,282	-	-	-	2,989,095	3,637,377
Other	964,193	629,750	2,177,933	515,308	1,082,495	5,369,679
Total revenues	171,602,342	28,340,264	3,171,334	3,990,545	20,962,113	228,066,598
Expenditures						
Current:						
Administration	2,834,258	-	-	-	666,902	3,501,160
Finance	3,570,456	-	-	-	201,498	3,771,954
Information Systems	3,998,585	-	-	-	-	3,998,585
Community Development	12,208,597	-	-	-	-	12,208,597
South Knoxville Waterfront	520,006	-	-	-	-	520,006
Parks & Recreation	6,711,986	-	-	-	-	6,711,986
Mass Transit	10,564,220	-	-	-	-	10,564,220
Engineering	5,534,471	-	-	-	7,466,915	13,001,386
Public Services	22,671,990	-	-	4,127,908	16,149,167	42,949,065
Law	1,618,864	-	-	-	954,088	2,572,952
Police	48,528,072	-	-	-	3,118,640	51,646,712
Fire	33,662,860	-	-	-	1,745	33,664,605
Legislative	1,018,606	-	-	-	-	1,018,606
Civil Service	889,184	-	-	-	-	889,184
City Elections	230,870	-	-	-	-	230,870
Knoxville Partnership	619,100	-	-	-	-	619,100
Metropolitan Planning Commission	905,000	-	-	-	-	905,000
Knoxville Zoological Park	1,009,570	-	-	-	-	1,009,570
Community Agency Grants	714,938	-	-	-	-	714,938
Other Nondepartmental	74,856	-	-	-	-	74,856
Community Action Committee	636,252	-	-	-	-	636,252
Tax Increment Payments	785,231	-	-	-	-	785,231
Capital & grant projects	-	-	17,497,253	-	-	17,497,253
Debt service:						
Principal retirement	-	4,852,502	-	-	-	4,852,502
Interest payments on bonds & notes	-	2,116,189	-	-	-	2,116,189
Refunding bonds issuance costs	-	410,715	-	-	-	410,715
Total expenditures	159,307,972	7,379,406	17,497,253	4,127,908	28,558,955	216,871,494
Excess (deficiency) of revenues over (under) expenditures	12,294,370	20,960,858	(14,325,919)	(137,363)	(7,596,842)	11,195,104
Other financing sources (uses)						
Issuance of refunding debt	-	47,288,303	-	-	-	47,288,303
Payment of refunded bonds to escrow agent	-	(46,877,589)	-	-	-	(46,877,589)
Transfers in	3,965,145	-	19,237,810	-	12,294,070	35,497,025
Transfers out	(21,798,688)	(18,092,957)	(3,014,504)	-	(4,700,521)	(47,606,670)
Total other financing sources (uses)	(17,833,543)	(17,682,243)	16,223,306	-	7,593,549	(11,698,931)
Net change in fund balances	(5,539,173)	3,278,615	1,897,387	(137,363)	(3,293)	(503,827)
Fund balances - beginning	65,263,665	42,531,990	68,397,564	1,752,798	27,163,339	205,109,356
Fund balances - ending	$ 59,724,492	$ 45,810,605	$ 70,294,951	$ 1,615,435	$ 27,160,046	$ 204,605,529

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, 2012

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

Net change in fund balances - total governmental funds	$ (503,827)
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 depreciation expenses ($13,812,992) exceed the net capital outlay ($12,812,790).	(1,000,202)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	324,144
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	4,088,744
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.	126,979
Change in net pension obligation.	154,243
The internal service fund is used by management to charge the costs of fleet maintenance.	4,060,882
The internal service fund is used by management to charge the costs of risk management.	1,576,311
The internal service fund is used by management to charge the costs of employee health insurance.	(1,577,578)
The internal service fund is used by management to charge the costs of equipment replacement.	262,435
The internal service fund is used by management to charge the costs of City buildings.	(33,102)
Change in net assets of governmental activities	$ 7,479,029

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, 2012

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
REVENUES						
Property taxes -						
Current	$ 73,179,950	$ 73,179,950	$ 72,481,769	$ -	$ 72,481,769	$ (698,181)
Prior years	3,912,860	3,912,860	5,053,297	-	5,053,297	1,140,437
Business taxes	4,705,180	4,705,180	6,571,537	-	6,571,537	1,866,357
Local shared sales tax	33,989,330	33,989,330	36,378,928	-	36,378,928	2,389,598
Alcoholic beverage taxes	10,633,360	10,633,360	11,378,034	-	11,378,034	744,674
Payments in lieu of taxes	13,661,080	13,661,080	13,981,930	-	13,981,930	320,850
Franchise fees	1,728,620	1,728,620	1,755,363	-	1,755,363	26,743
Intergovernmental -						
Federal	401,670	401,670	849,370	-	849,370	447,700
State -						
Sales tax	11,217,130	11,217,130	12,133,944	-	12,133,944	916,814
Income tax	5,000,000	5,000,000	3,925,698	-	3,925,698	(1,074,302)
Other	3,313,300	3,313,300	3,438,977	-	3,438,977	125,677
Local	53,000	1,128,250	68,007	-	68,007	(1,060,243)
Licenses & permits	322,270	322,270	338,762	-	338,762	16,492
Fines & forfeits	2,233,650	2,233,650	648,282	-	648,282	(1,585,368)
Charges for services	1,583,020	1,583,020	1,649,258	-	1,649,258	66,238
Other -						
Interest	474,800	474,800	251,731	-	251,731	(223,069)
Rents & concessions	439,410	439,410	379,903	-	379,903	(59,507)
Miscellaneous	257,880	472,788	317,552	-	317,552	(155,236)
Appropriated fund balance	1,725,000	12,303,237	-	-	-	(12,303,237)
Total revenues	168,831,510	180,699,905	171,602,342	-	171,602,342	(9,097,563)
EXPENDITURES						
Current:						
Administration	2,755,300	3,007,160	2,834,258	35,682	2,869,940	137,220
Finance	3,672,480	3,747,023	3,570,456	21,320	3,591,776	155,247
Information systems	4,208,220	4,390,190	3,998,585	120,664	4,119,249	270,941
Community development	2,382,560	12,382,866	12,208,597	17,392	12,225,989	156,877
South Knoxville Waterfront	670,590	546,011	520,006	-	520,006	26,005
Parks & recreation	6,955,330	7,332,532	6,711,986	(5,692)	6,706,294	626,238
Mass transit	11,314,220	10,564,220	10,564,220	-	10,564,220	-
Public services	20,979,060	22,704,867	22,671,990	(8,125)	22,663,865	41,002
Engineering	6,059,230	6,232,224	5,534,471	56,427	5,590,898	641,326
Law	1,809,540	1,792,557	1,618,864	24,775	1,643,639	148,918
Police	48,257,240	48,605,574	48,528,072	40,109	48,568,181	37,393
Fire	33,653,620	33,732,441	33,662,860	5,576	33,668,436	64,005
Legislative	1,030,160	1,217,660	1,018,606	162,400	1,181,006	36,654
Civil Service	1,024,640	1,024,640	889,184	1,423	890,607	134,033

Continued:

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Nondepartmental -						
City Elections	$ 280,000	$ 280,000	$ 230,870	$ -	$ 230,870	$ 49,130
Knoxville Partnership	642,970	642,970	619,100	-	619,100	23,870
Metropolitan Planning Commission	905,000	905,000	905,000	-	905,000	-
Knoxville Zoological Gardens	1,009,570	1,009,570	1,009,570	-	1,009,570	-
Community Agency Grants	717,000	717,000	714,938	-	714,938	2,062
Other Nondepartmental	96,060	96,060	74,856	-	74,856	21,204
Community Action Committee	565,640	636,640	636,252	-	636,252	388
Budgeted Reserve	1,725,000	300,000	-	-	-	300,000
Tax Increment Payments	774,990	785,490	785,231	-	785,231	259
Total expenditures	151,488,420	162,652,695	159,307,972	471,951	159,779,923	2,872,772
Excess (deficiency) of revenues over (under) expenditures	17,343,090	18,047,210	12,294,370	(471,951)	11,822,419	(6,224,791)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,757,460	3,757,460	3,965,145	-	3,965,145	207,685
Transfers out	(21,100,550)	(21,804,670)	(21,798,688)	-	(21,798,688)	5,982
Total other financing sources (uses)	(17,343,090)	(18,047,210)	(17,833,543)	-	(17,833,543)	213,667
Net change in fund balances	$ -	$ -	(5,539,173)	(471,951)	(6,011,124)	$ (6,011,124)
FUND BALANCE - BEGINNING			65,263,665	-	65,263,665	
FUND BALANCE - ENDING			$ 59,724,492	$ (471,951)	$ 59,252,541	

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 - GAAP Basis
Miscellaneous Community Development Funds
For the Year Ended June 30, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 1,307,950	$ 3,059,150	$ 3,062,585	$ 3,435
Charges for services	-	425,000	412,652	(12,348)
Other	350,000	765,850	515,308	(250,542)
Total revenues	1,657,950	4,250,000	3,990,545	(259,455)
Expenditures				
Current:				
Public Services	1,657,950	4,250,000	4,127,908	122,092
Total expenditures	1,657,950	4,250,000	4,127,908	122,092
Excess (deficiency) of revenues over (under) expenditures	-	-	(137,363)	(137,363)
Net change in fund balances	$ -	$ -	(137,363)	$ (137,363)
Fund balances - beginning			1,752,798	
Fund balances - ending			$ 1,615,435	

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, 2012

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Assets				
Current assets				
Cash & temporary investments	$ 4,677,694	$ 1,943,430	$ 6,621,124	$ 3,790,502
Investments	13,963,203	11,702,035	25,665,238	84,136,791
Accounts receivable	2,098,992	22,965	2,121,957	679,924
Leases receivable	-	646,928	646,928	-
Due from other funds	1,000,000	4,000,000	5,000,000	215
Inventories	91,486	44,242	135,728	885,316
Prepaid items	25,053	9,548	34,601	-
Total current assets	21,856,428	18,369,148	40,225,576	89,492,748
Noncurrent assets				
Land & site improvements	2,952,020	4,384,283	7,336,303	-
Building & building improvements	180,566,774	42,723,341	223,290,115	257,391
Equipment	4,467,098	2,797,435	7,264,533	76,478,748
Less: accumulated depreciation	(55,449,978)	(28,594,542)	(84,044,520)	(50,517,708)
Total capital assets (net of accumulated depreciation)	132,535,914	21,310,517	153,846,431	26,218,431
Equity interest in joint venture	53,054	883,718	936,772	2,755,267
Total noncurrent assets	132,588,968	22,194,235	154,783,203	28,973,698
Total assets	154,445,396	40,563,383	195,008,779	118,466,446
Deferred outflow of resources:				
Deferred outflow of resources - interest rate swap	3,692,512	-	3,692,512	-
Total assets and deferred outflow of resources	158,137,908	40,563,383	198,701,291	118,466,446
Liabilities				
Current liabilities				
Accounts payable	926,085	312,460	1,238,545	1,968,432
Accrued liabilities	252,444	33,934	286,378	1,082,681
Customer deposits	259,117	196,262	455,379	-
Due to other funds	-	254,451	254,451	87,215
Deferred revenue	-	41,603	41,603	-
Compensated absences	-	77,000	77,000	123,316
Long-term debt due within one year	4,155,715	145,870	4,301,585	5,000,000
Total current liabilities	5,593,361	1,061,580	6,654,941	8,261,644
Noncurrent liabilities				
Long-term debt due in more than one year	124,643,155	101,264	124,744,419	-
Estimated litigation liability	-	-	-	5,600,000
Derivative instrument - interest rate swap	3,692,512	-	3,692,512	-
Total noncurrent liabilities	128,335,667	101,264	128,436,931	5,600,000
Total liabilities	133,929,028	1,162,844	135,091,872	13,861,644
Net assets				
Invested in capital assets, net of related debt	3,737,044	21,143,909	24,880,953	26,218,431
Unrestricted	20,471,836	18,256,630	38,728,466	78,386,371
Total net assets	$ 24,208,880	$ 39,400,539	$ 63,609,419	$ 104,604,802

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

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CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating revenues				
Charges for services	$ 4,817,977	$ 4,839,849	$ 9,657,826	$ 39,888,512
Total operating revenues	4,817,977	4,839,849	9,657,826	39,888,512
Operating expenses				
Personal services	-	2,106,801	2,106,801	3,539,328
Materials & supplies	66,211	178,139	244,350	2,035,721
Maintenance	1,161,767	1,063,124	2,224,891	949,118
Depreciation & amortization	4,611,713	1,505,206	6,116,919	6,834,634
Other services and charges	9,141,886	2,740,842	11,882,728	27,515,412
Total operating expenses	14,981,577	7,594,112	22,575,689	40,874,213
Operating income (loss)	(10,163,600)	(2,754,263)	(12,917,863)	(985,701)
Nonoperating revenue (expense)				
Interest income	251,534	16,952	268,486	78,946
Intergovernmental revenue	11,152,295	457,128	11,609,423	631,554
Other revenues	85,015	83,517	168,532	185,324
Gain (loss) on disposal of capital assets	-	53,321	53,321	366,066
Interest expense	(3,888,065)	(5,878)	(3,893,943)	-
Total nonoperating revenue (expense)	7,600,779	605,040	8,205,819	1,261,890
Income (loss) before transfers and capital contributions	(2,562,821)	(2,149,223)	(4,712,044)	276,189
Transfers in	5,263,423	2,891,360	8,154,783	3,961,692
Transfers out	-	(6,830)	(6,830)	-
Capital contributions	250,000	136,346	386,346	51,067
Change in net assets	2,950,602	871,653	3,822,255	4,288,948
Total net assets - beginning	21,258,278	38,528,886	59,787,164	100,315,854
Total net assets - ending	$ 24,208,880	$ 39,400,539	$ 63,609,419	$ 104,604,802

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, 2012

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating activities				
Cash received from customers and users	$ 4,837,315	$ 5,250,564	$ 10,087,879	$ -
Receipts from interfund services provided	-	-	-	40,185,070
Cash paid to suppliers	(10,567,725)	(3,649,790)	(14,217,515)	(12,020,232)
Cash paid to employees	-	(2,156,424)	(2,156,424)	(3,637,734)
Cash paid for interfund services used	(89,495)	(247,322)	(336,817)	(333,174)
Payments of claims and insurance	-	-	-	(15,748,425)
Net cash provided by (used in) operating activities	(5,819,905)	(802,972)	(6,622,877)	8,445,505
Noncapital financing activities				
Transfers from other funds	4,263,423	2,663,801	6,927,224	4,183,292
Transfers to other funds	-	(2,854,703)	(2,854,703)	-
Transfers to component units	5,344,577	1,253,086	6,597,663	-
Tax and intergovernmental revenues	11,237,310	540,645	11,777,955	814,772
Net cash provided by (used in) noncapital financing activities	20,845,310	1,602,829	22,448,139	4,998,064
Capital and related financing activities				
Principal paid on general obligation bond maturities	(3,831,520)	(90,138)	(3,921,658)	-
Interest paid	(3,888,065)	(5,878)	(3,893,943)	-
Acquisition and construction of capital assets	(542,338)	(405,556)	(947,894)	(7,696,713)
Capital contributions	250,000	136,346	386,346	51,067
Net cash provided by (used in) capital and related financing activities	(8,011,923)	(365,226)	(8,377,149)	(7,645,646)
Investing activities				
Sales/(purchases) of investments, net	(2,739,145)	(896,821)	(3,635,966)	(5,840,882)
Investment earnings	251,534	16,952	268,486	78,946
Net change in equity investment in joint venture	151,823	(119,772)	32,051	1,086,866
Net cash provided by (used in) investing activities	(2,335,788)	(999,641)	(3,335,429)	(4,675,070)
Net increase (decrease) in cash and cash equivalents	4,677,694	(565,010)	4,112,684	1,122,853
Cash and cash equivalents				
Beginning of year	-	2,508,440	2,508,440	2,667,649
End of year	$ 4,677,694	$ 1,943,430	$ 6,621,124	$ 3,790,502

Continued:

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ (10,163,600)	$ (2,754,263)	$ (12,917,863)	$ (985,701)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,611,713	1,505,206	6,116,919	6,834,634
Change in assets and liabilities				
(Increase) decrease in receivables	(17,258)	313,253	295,995	259,699
(Increase) decrease in prepayments	(17,050)	12,246	(4,804)	-
(Increase) decrease in inventories	16,855	(8,156)	8,699	(106,359)
Increase (decrease) in accounts payable	(34,280)	80,903	46,623	1,141,638
Increase (decrease) in accrued expenses	(252,881)	(49,623)	(302,504)	(98,406)
Increase (decrease) in deferred revenue	-	(2,447)	(2,447)	-
Increase (decrease) in estimated liability for litigation and claims	-	-	-	1,400,000
Increase (decrease) in customer deposits	36,596	99,909	136,505	-
Total adjustments	4,343,695	1,951,291	6,294,986	9,431,206
Net cash provided by (used in) operating activities	$ (5,819,905)	$ (802,972)	$ (6,622,877)	$ 8,445,505

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	$ 2,188	$ 656,460
Cash equivalents	17,749,626	-
United States government securities	35,889,205	-
State & municipal government securities	5,041,434	63,137
International securities	133,492,663	-
Corporate bonds & debentures	51,138,815	-
Real estate investment trusts	60,689,258	-
Domestic equity securities	148,286,251	-
Pending sales proceeds	1,195,237	-
Other receivables	4,634	-
Accrued interest & dividends	1,556,825	-
Equipment, furniture & fixtures	43,564	-
Accumulated depreciation	(35,798)	-
Total assets	455,053,902	$ 719,597
Liabilities		
Accounts payable	817,632	$ 63,137
Investment purchases pending	1,190,735	-
Health care claims liability	-	656,460
Total liabilities	2,008,367	$ 719,597
Net assets		
Held in Trust for:		
Pension benefits	$ 453,045,535	

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	City Employees' Pension Trust Fund
Additions	
Employee contributions	$ 3,847,851
Employer contributions	21,810,499
Total contributions	25,658,350
Investment earnings:	
Interest and dividends	9,227,204
Net appreciation/(depreciation) in the fair value of investments	(7,204,625)
Other income	109,965
Total investment earnings (loss)	2,132,544
Less investment expense	(3,215,825)
Net investment earnings (loss)	(1,083,281)
Total additions (net)	24,575,069
Deductions	
Benefits paid	39,262,300
Refunds	422,958
Administrative expenses	670,739
Total deductions	40,355,997
Change in net assets	(15,780,928)
Total net assets - beginning	468,826,463
Total net assets - ending	$ 453,045,535

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets - Discretely Presented Component Units
June 30, 2012

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Assets				
Cash & cash equivalents	$ 69,858,112	$ 11,117,478	$ 1,034,385	$ 82,009,975
Investments	102,897,967	27,112,212	1,074,409	131,084,588
Receivables (net of allowance for uncollectibles):				
Accounts	68,491,633	2,974,627	9,399,438	80,865,698
TVA conservation program	9,552,209	-	-	9,552,209
Other	115,080	783,304	-	898,384
Inventories	7,642,232	-	1,219,861	8,862,093
Prepaid items	14,534,632	345,009	-	14,879,641
Deferred charges	3,586,800	832,255	-	4,419,055
Restricted assets:				
Temporarily restricted:				
Bond funds	21,354,636	858,687	-	22,213,323
Unused bond proceeds	13,803,726	-	-	13,803,726
Receivables	-	500,000	-	500,000
Other	23,769	-	-	23,769
Other assets	26,769,833	856,652	-	27,626,485
Capital assets:				
Land & site improvements	-	173,135,715	1,854,780	174,990,495
Building & building improvements	-	142,532,704	32,460,504	174,993,208
Utility plant in service	1,866,937,094	-	-	1,866,937,094
Equipment, furniture & fixtures	-	10,817,142	29,671,310	40,488,452
Construction in progress	148,047,816	13,646,464	-	161,694,280
Less accumulated depreciation	(647,505,932)	(182,647,971)	(20,072,052)	(850,225,955)
Total assets	1,706,109,607	202,864,278	56,642,635	1,965,616,520
Deferred outflow of resources:				
Deferred outflow of resources - interest rate swap	-	9,199,020	-	9,199,020
Total assets and deferred outflows of resources	1,706,109,607	212,063,298	56,642,635	1,974,815,540
Liabilities				
Accounts payable	52,273,543	1,463,571	1,211,714	54,948,828
Matured principal & interest on bonds	10,150,676	-	-	10,150,676
Accrued liabilities	26,741,204	876,271	95,681	27,713,156
Due to primary government	-	-	9,624,000	9,624,000
Unearned revenue	-	-	2,650	2,650
Customer deposits, plus accrued interest	14,720,397	-	-	14,720,397
Accrued interest	-	146,230	-	146,230
Noncurrent liabilities:				
Long-term debt due within one year	21,635,000	655,000	-	22,290,000
Long-term debt due in more than one year	720,575,000	78,696,457	-	799,271,457
Other noncurrent liabilities due within one year	4,561,000	-	-	4,561,000
Other noncurrent liabilities due in more than one year	20,146,412	-	-	20,146,412
Derivative instrument - interest rate swap	-	9,199,020	-	9,199,020
Total liabilities	870,803,232	91,036,549	10,934,045	972,773,826
Net assets				
Invested in capital assets, net of related debt	621,992,896	77,098,353	43,914,542	743,005,791
Restricted for:				
Debt service	11,203,959	-	-	11,203,959
Other	23,769	1,358,687	-	1,382,456
Unrestricted	202,085,751	42,569,709	1,794,048	246,449,508
Total net assets	$ 835,306,375	$ 121,026,749	$ 45,708,590	$ 1,002,041,714

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Activities - Discretely Presented Component Units
For the Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Component Units			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Component units:								
Knoxville Utilities Board	$ 671,778,161	$ 693,530,780	$ -	$ 3,081,451	$ 24,834,070	$ -	$ -	$ 24,834,070
Metropolitan Knoxville Airport Authority	34,833,881	28,678,065	-	5,598,693	-	(557,123)	-	(557,123)
Knoxville Area Transit	35,283,878	4,314,000	6,406,549	16,541,643	-	-	(8,021,686)	(8,021,686)
Total component units	$ 741,895,920	$ 726,522,845	$ 6,406,549	$ 25,221,787	24,834,070	(557,123)	(8,021,686)	16,255,261
		General revenues:						
		Intergovernmental revenue, unrestricted			-	-	9,821,703	9,821,703
		Other unrestricted revenue			-	258,349	52,774	311,123
		Unrestricted investment earnings			1,503,523	326,692	1,443	1,831,658
		Gain on disposal of capital assets			-	-	48,128	48,128
		Total general revenues			1,503,523	585,041	9,924,048	12,012,612
		Change in net assets			26,337,593	27,918	1,902,362	28,267,873
		Net assets - beginning			808,968,782	120,998,831	43,806,228	973,773,841
		Net assets - ending			$ 835,306,375	$ 121,026,749	$ 45,708,590	$ 1,002,041,714

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

All component units are discretely presented and are reported in a single separate column in the combined financial statements to emphasize that they are legally separate from the City. The governing bodies of each of these component units are appointed by the City Council. All component units have a June 30 year-end.

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

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

3. Knoxville Area Transit (KAT) operates the public transportation system in Knoxville. The City approves the KAT budget. The City also provides significant operating subsidies to KAT. Additional information may be obtained from Cindy McGinnis, General Manager, 1135 Magnolia Avenue, Knoxville, Tennessee 37917.

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

Knoxville Utilities Board	Metropolitan Knoxville Airport Authority
626 South Gay Street	P. O. Box 15600
Knoxville, Tennessee 37929	Knoxville, Tennessee 37901
www.kub.org	www.tys.org

Joint Ventures

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

Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA)
Knoxville, Knox County, KUB Geographic Information Systems
Knoxville-Knox County Animal Center

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related and Jointly Governed Organizations

The following related agencies provide services within the City:

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

Knoxville Zoological Park and *IJAMS Nature Center* - the City has management agreements with each of these entities (Note 14) but has no involvement in directing the respective entities' budgets, rates, debt obligations and board membership.

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

Internal Service Funds - Internal service funds account for replacement of capital assets, office services, fleet management, risk management, and employee health insurance services provided to other departments or agencies of the City, on a cost reimbursement basis.
Pension Trust Fund - The City Employees' Pension Trust Fund accounts for the assets and the investment activities of the City of Knoxville Pension System which accumulates resources for pension benefit payments to qualified employees.
Agency Funds - The City Choice Plus fund accounts for the flexible spending accounts of the participating employees of the City and any funds not expended by March 31st of the following year revert back to the City. In addition, the Employee Health Reimbursement fund accounts for health reimbursement accounts of the participating employees of the City.

As 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Assets, Liabilities, and Net Assets or Equity

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

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

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

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

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

Inventories and Prepaid Items - Inventories in proprietary fund types are stated at the lower of average cost or replacement value. Inventories in the governmental fund types are stated at cost. Proprietary fund inventories consist of expendable supplies held for consumption. Inventories of governmental funds consist of land for development and supplies held for consumption.

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Total interest expense incurred by the Knoxville Convention Center was $4,809,338 and no interest was capitalized because there were no major construction projects associated with the Convention Center in the current year. Total interest expense incurred by the Metropolitan Knoxville Airport Authority was $3,598,949 and no interest was capitalized as part of construction.

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

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

The original cost of KUB utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in results of operations.

Compensated Absences - City employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee can be reimbursed twice the annual accrual of accumulated vacation, up to a maximum of 48 days. Employees are reimbursed up to 45 days of accumulated sick leave upon retirement or death only if the individual has accumulated 120 or more days. The cost of accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation and sick leave that is payable as a result of employee resignation or retirement and which is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it (i.e. the fund that pays the employee's salary or wages).

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Passenger Facility Charges - The collection of Passenger Facility Charges ("PFCs") has been approved to be used for qualifying capital improvement projects. PFCs, along with related interest earnings, are recorded as deferred revenue until used or authorized for use under FAA approved application to use. Once authorized to use, the PFC receipts are recognized and recorded as non-operating revenue in the year collected by the air carriers. In 2010, all PFCs were authorized for use and no deferred revenue was recorded.

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

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

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

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

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

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

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

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

Stabilization Arrangement - The City has a fund balance policy that requires the general fund to maintain a minimum unrestricted fund balance of 20% of ensuing year's appropriated general fund expenditures. For the current fiscal year ending June 30, 2012, the City did meet the minimum general fund balance policy.

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

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

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2012.

General Fund	$	11,771,587
Special Revenue Funds		898,873
Capital Projects Funds		1,332,900

Encumbrance accounting is employed in governmental funds. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are classified as restricted, committed or assigned fund balances depending on the governmental fund purpose and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbered appropriations are reappropriated in the ensuing year's budget.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Enterprise Funds						
Knoxville Convention Center	$ 21,835,661	$ 21,820,244	$ (15,417)	$ 21,835,661	$ 18,869,642	$ 2,966,019
Metro Parking	1,613,110	1,443,443	(169,667)	1,613,110	1,624,444	(11,334)
Public Assembly Facilities	5,545,883	5,301,430	(244,453)	5,545,883	4,542,097	1,003,786
City Golf Courses	1,562,240	1,733,600	171,360	1,562,240	1,440,279	121,961
Knoxville Area Transit (Component unit)	23,120,244	36,977,526	13,857,282	23,120,244	35,075,164	(11,954,920)
Internal Service Funds						
Fleet Maintenance	14,031,310	17,460,324	3,429,014	14,031,310	13,399,442	631,868
Risk Management	7,394,993	7,994,176	599,183	7,394,993	6,417,865	977,128
Employee Health Insurance	17,663,712	15,821,509	(1,842,203)	17,663,712	17,399,087	264,625
Equipment Replacement	2,665,518	2,305,136	(360,382)	2,665,518	2,042,701	622,817
City Buildings	1,333,925	1,582,016	248,091	1,333,925	1,615,118	(281,193)

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Deposits - Deposits are included in the City's financial statements as "Cash and cash equivalents", "Cash and temporary investments", "Restricted cash and investments", "Cash float on pooled cash", and "Unused bond proceeds". Certain certificates of deposit are included in "Investments". Cash equivalents are defined as short-term, highly liquid investments.

Investments - Statutes authorize the City to invest in direct obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool, prime commercial paper, bankers' acceptance notes and certificates of deposit. The state treasurer's investment pool is a SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value.

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

The Pension Trust Fund's investment policies allow its agents to invest in government securities, certificates of deposit, bankers' acceptances, repurchase agreements, bonds and notes (with "A" or better ratings) and common stocks and common stock equivalents. The Pension Trust Fund is required to maintain a minimum of 25% of its carrying value in fixed income accounts. State statutes and Pension Trust Fund investment policies allow the Pension Trust Fund to lend its securities to a list of approved broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The total amount of securities on loan is restricted to no more than 30% of the assets of the fund. The lending is managed by the Pension Trust Fund's custodial bank. The Pension Trust Fund lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102%.

Investment Policies

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limit investments to terms of no more than two years. As of June 30, 2012, the average weighted maturity of the City's portfolio was 266 days.

Credit Risk: Statutes authorize the City to invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and, the state treasurer's investment pool. The state treasurer's investment pool is a non-rated, SEC 2a-7-like fund and the amount stated is based on the pool price per share. The pool is reported at its amortized book value.

The City's Investment Policy allows only investments in the highest-grade securities. Investments in commercial paper require that the issuer be rated A1, P1, or F1 by at least two rating agencies. The City's investments meet this requirement.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of failure of the custodian, the City will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The City's investments are typically uninsured and unregistered investments for which the securities are held by the custodian's trust department or agent in the City's name. Certificates of deposit are secured by collateral held by the State's Collateral Pool. These would again include uninsured and unregistered investments for which the securities are held by the custodian's trust department or agent in the State's name.

Concentration of Credit Risk: The City's Investment Policy imposes several limits on the amount and type of investments in order to avoid having a large percentage of the portfolio in a single issuer. First, the policy states that, with the exception of U.S. treasuries, agency securities, and the state investment pool, no more than thirty-five percent of the portfolio shall be invested in a single security type. The policy further limits, with respect to banker's acceptances and commercial paper, that no more than ten percent of the portfolio, or $10 million whichever is less, shall be from a single issuer. As of June 30, 2012, the City held securities in various Tennessee municipal bonds of $81.2 million or approximately 28% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from Baa2 to Baa3 and are part of the permanent fund for Krutch Park.

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2012, the City had the following investments and maturities.

Investments:	Fair Value	Less Than 1 Year	1 - 2 Years	2 - 4 Years
Primary Government:				
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	$ 3,546,200	$ -	$ 1,034,040	$ 2,512,160
Private Equity Funding Corporation (PEFCO)	1,506,472	-	978,667	527,805
Federal Farm Credit Bureau (FFCB)	2,278,513	-	-	2,278,513
Bankers Acceptance	500,888	500,888	-	-
Other Governmental Bonds	81,178,245	35,893,591	17,785,728	27,498,926
Certificates of Deposit	4,750,000	750,000	3,625,000	375,000
Corporate Equities	166,559	166,559	-	-
Tennessee Local Government Investment Pool	197,685,414	197,685,414	-	-
	$ 291,612,291	$ 234,996,452	$ 23,423,435	$ 33,192,404
Fiduciary Activities:				
Tennessee Local Government Investment Pool	$ 63,137	$ 63,137	$ -	$ -

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".

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Deposits:				
Bank balances	$ 185,953,397	$ 12,176,449	$ 1,034,385	$ 2,188
Carrying amounts:				
Deposits (net of outstanding checks) in financial institutions	$ 69,881,881	$ 11,976,165	$ 1,034,385	$ 2,188
Certificates of deposit	92,121,114	-	-	-
Total deposits - carrying value	$ 162,002,995	$ 11,976,165	$ 1,034,385	$ 2,188

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	$ -	$ -	$ -	$ 17,749,626	$ 17,749,626	$ 17,749,626
United States government securities	42,683,415	-	-	34,530,195	77,213,610	77,213,610
Domestic Equity securities	-	-	-	134,273,280	134,273,280	134,273,280
Corporate bonds	-	-	-	45,085,756	45,085,756	45,085,756
State and municipal government securities	-	-	-	5,041,434	5,041,434	5,041,434
Real Estate Investment Trusts	-	-	-	60,689,258	60,689,258	60,689,258
International securities	-	-	-	133,492,663	133,492,663	133,492,663
Total classified investments	42,683,415	-	-	430,862,212	473,545,627	473,545,627
Investments not categorized:						
Investments held by broker-dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States government securities	-	-	-	1,359,010	1,359,010	1,359,010
Domestic equity securities	-	-	-	14,012,971	14,012,971	14,012,971
Corporate bonds	-	-	-	6,053,059	6,053,059	6,053,059
Investments in state treasurer's Investment pool	3,017,701	27,112,212	1,074,409	-	31,204,322	31,204,322
Total investments	$ 45,701,116	$ 27,112,212	$ 1,074,409	$ 452,287,252	$ 526,174,989	$ 526,174,989
Total deposits and investments	$ 207,704,111	$ 39,088,377	$ 2,108,794	$ 452,289,440		

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	$ 69,858,112	$ 11,117,478	$ 1,034,385	$ 2,188
Investments	102,912,517	27,112,212	1,074,409	452,287,252
Unused bond proceeds	13,789,178	-	-	-
Bond funds	21,354,636	858,687	-	-
Other temporarily restricted assets	23,769	-	-	-
	207,938,212	39,088,377	2,108,794	452,289,440
Less accrued interest	(234,101)	-	-	-
Total deposits and investments	$ 207,704,111	$ 39,088,377	$ 2,108,794	$ 452,289,440

The Pension Trust Fund also has a credit risk exposure for cash held in its securities lending short-term collateral investment pools (not included in the Pension Trust Fund financial statements) for $21,570,859 held by broker dealers. The contract with the Pension Trust Fund's custodian requires it to indemnify the Pension Trust Fund if the borrowers fail to return the borrowed securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan. Because collateral exceeds the fair value of securities lent, there is no credit risk exposure to the borrowers at June 30, 2012.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2012, including the applicable allowance for uncollectible accounts, consisted of the following:

	Intergovern-mental	Interest and Dividends	Grants	Customers	Other	Allowance for Doubtful Accounts	Total
General fund	$ 832,275	$ 71,208	$ 1,288,433	$ -	$ -	$ -	$ 2,191,916
Debt service fund	-	6,368	-	-	197,096	-	203,464
Capital projects fund	-	36,461	2,730,568	-	42,145	-	2,809,174
Special Revenue Funds:							
Miscellaneous Community Development Funds	-	-	486,638	-	-	-	486,638
Other governmental funds	823,275	868	1,319,346	-	-	-	2,143,489
Knoxville Convention Center	-	-	-	-	2,098,992	-	2,098,992
Other enterprise funds	-	-	-	22,965	-	-	22,965
Internal service funds	-	-	-	679,924	-	-	679,924
Total primary government	1,655,550	114,905	5,824,985	702,889	2,338,233	-	10,636,562
Component units:							
Knoxville Utilities Board	9,552,209	115,080	-	64,912,705	4,533,993	(955,065)	78,158,922
Metropolitan Knoxville Airport Authority	-	111,921	2,243,530	731,097	671,383	-	3,757,931
Knoxville Area Transit	-	-	9,399,438	-	-	-	9,399,438
Total reporting entity	$ 11,207,759	$ 341,906	$ 17,467,953	$ 66,346,691	$ 7,543,609	$ (955,065)	$ 101,952,853
Fiduciary Activities:							
City Employees' Pension Trust F	$ -	$ 1,556,825	$ -	$ -	$ 4,634	$ -	$ 1,561,459

NOTE 6 - NOTES AND LEASES RECEIVABLE

Notes and leases receivable consisted of the following**:**

Governmental Funds:		
Notes Receivable		
Debt Service Fund	$	1,448,400
Special Revenue fund - Miscellaneous Community Development Funds		16,856,838
Other Governmental Funds - Community Development Block Grant Funds		3,839,636
Total Notes Receivable		22,144,874
Proprietary Funds:		
Lease Receivable - Public Assembly Facilities Fund		646,928
Total Notes and Lease Receivable	$	22,791,802

The $1,448,400 due the Debt Service Fund is related to the Knoxville Community Development Corporation's ("KCDC") participation in the City's 2000A bond issue in the original amount of $15,860,000. This bond issue was refunded and is now listed as the 2005A General Obligation Bond issue. $2,540,000 of the bond issue was set aside for KCDC to use in a HOPE 6 project that needed additional funding. KCDC makes annual amortizing payments to the City which offset the net amount due by the City on the bonds.

The $16,856,838 due the Miscellaneous Community Development Funds and the $3,839,636 due the Community Development Block Grant Funds are notes due the City that were funded by Federal Community Development grant programs. The combined amount of $20,696,474 is fully reserved as deferred revenue.

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, 2012, are as follows:

Total minimum lease payments receivable	$	1,075,275
Less unearned income		(428,347)
Net investment in lease receivable	$	646,928

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

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2036. As of June 30, 2012, minimum future base rentals to be received on noncancellable leases are as follows:

Years ended June 30:		
2013	$	8,421,475
2014		5,731,436
2015		2,213,051
2016		2,101,971
2017		1,889,067
Thereafter		10,890,407
	$	31,247,407

NOTE 6 - NOTES AND LEASES RECEIVABLE (Continued)

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 $814,000 are included in other assets in the accompanying statement of net assets as of June 30, 2012. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to $1,719,784 for the year ended June 30, 2012.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2012 was as follows:

Primary Government	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Governmental activities:				
Nondepreciable:				
Land & site improvements	$ 51,729,175	$ 422,884	$ (1,830,577)	$ 50,321,482
Construction in progress	6,247,291	5,429,240	(8,271,187)	3,405,344
Total nondepreciable capital assets	57,976,466	5,852,124	(10,101,764)	53,726,826
Depreciable:				
Buildings and building improvements	57,893,479	812,909	(232,139)	58,474,249
Equipment, furniture and fixtures	75,278,249	10,700,685	(2,004,668)	83,974,266
Infrastructure	296,394,095	13,844,344	-	310,238,439
Total depreciable capital assets	429,565,823	25,357,938	(2,236,807)	452,686,954
Accumulated depreciation:				
Buildings and building improvements	(27,483,487)	(1,741,158)	-	(29,224,645)
Equipment, furniture and fixtures	(49,427,801)	(7,440,132)	2,004,078	(54,863,855)
Infrastructure	(133,492,651)	(11,466,336)	-	(144,958,987)
Total accumulated depreciation	(210,403,939)	(20,647,626)	2,004,078	(229,047,487)
Total depreciable capital assets, net	219,161,884	4,710,312	(232,729)	223,639,467
Governmental activities capital assets, net	$ 277,138,350	$ 10,562,436	$ (10,334,493)	$ 277,366,293
Business-type activities:				
Nondepreciable:				
Land & site improvements	$ 7,271,646	$ 64,657	$ -	$ 7,336,303
Artwork	764,875	-	-	764,875
Construction in progress	997,753	326,445	(1,324,198)	-
Total nondepreciable capital assets	9,034,274	391,102	(1,324,198)	8,101,178
Depreciable:				
Buildings and building improvements	222,968,187	321,928	-	223,290,115
Equipment, furniture and fixtures	5,082,275	1,612,383	(195,000)	6,499,658
Total depreciable capital assets	228,050,462	1,934,311	(195,000)	229,789,773
Accumulated depreciation:				
Buildings and building improvements	(74,439,173)	(5,571,927)	-	(80,011,100)
Equipment, furniture and fixtures	(3,683,428)	(544,992)	195,000	(4,033,420)
Total accumulated depreciation	(78,122,601)	(6,116,919)	195,000	(84,044,520)
Total depreciable capital assets, net	149,927,861	(4,182,608)	-	145,745,253
Business-type activities capital assets, net	$ 158,962,135	$ (3,791,506)	$ (1,324,198)	$ 153,846,431
Fiduciary activities:				
Knoxville Employees' Pension Plan				
Depreciable: Equipment, furniture and fixture	$ 50,674	$ 1,378	$ (8,488)	$ 43,564
Accumulated Depreciation	(39,865)	(4,421)	8,488	(35,798)
Total Knoxville Employees' Pension Plan	$ 10,809	$ (3,043)	$ -	$ 7,766

NOTE 7 - CAPITAL ASSETS (Continued)

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

Governmental Activities		
General Government	$	1,794,298
Public Safety		4,480,202
Physical Environment		11,328,731
Economic Development		162,816
Parks & Recreation		2,793,358
Health & Sanitation		88,221
	$	20,647,626

Business-type Activities		
Knoxville Convention Center	$	4,611,713
Metro Parking		678,629
Public Assembly Facilities		160,733
Municipal Golf Courses		665,844
	$	6,116,919

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for component units for the year ended June 30, 2012 was as follows:

Component Units	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Knoxville Utilities Board:				
Nondepreciable: Construction in Progress	$ 107,852,362	$ 141,164,809	$ (100,969,355)	$ 148,047,816
Depreciable:				
Pumping and treatment plant	210,466,093	17,603,960	(222,765)	227,847,288
Distribution & collection plant	1,440,137,884	74,700,004	(6,425,109)	1,508,412,779
General plant	122,147,343	12,591,181	(4,061,497)	130,677,027
Total depreciable assets	1,772,751,320	104,895,145	(10,709,371)	1,866,937,094
Accumulated depreciation	(610,679,323)	(46,758,259)	9,931,650	(647,505,932)
Total depreciable capital assets, net	1,162,071,997	58,136,886	(777,721)	1,219,431,162
Total Knoxville Utilities Board	$ 1,269,924,359	$ 199,301,695	$ (101,747,076)	$ 1,367,478,978
Metropolitan Knoxville Airport Authority:				
Nondepreciable:				
Land	$ 31,034,555	$ 24,250	$ (3,564)	$ 31,055,241
Construction in progress	9,246,329	6,356,686	(1,956,551)	13,646,464
Total nondepreciable capital assets	40,280,884	6,380,936	(1,960,115)	44,701,705
Depreciable:				
Land improvements	141,754,422	326,052	-	142,080,474
Buildings and building improvements	145,456,395	339,280	(3,262,971)	142,532,704
Equipment, furniture and fixtures	10,050,673	874,424	(107,955)	10,817,142
Total depreciable assets	297,261,490	1,539,756	(3,370,926)	295,430,320
Accumulated depreciation:				
Land improvements	(99,002,279)	(4,941,235)	-	(103,943,514)
Buildings and building improvements	(66,012,470)	(6,319,837)	2,047,545	(70,284,762)
Equipment, furniture and fixtures	(7,698,210)	(795,876)	74,391	(8,419,695)
Total accumulated depreciation	(172,712,959)	(12,056,948)	2,121,936	(182,647,971)
Total depreciable capital assets, net	124,548,531	(10,517,192)	(1,248,990)	112,782,349
Total Metropolitan Knoxville Airport Authority	$ 164,829,415	$ (4,136,256)	$ (3,209,105)	$ 157,484,054
Knoxville Area Transit:				
Nondepreciable:				
Land	$ 1,854,780	$ -	$ -	$ 1,854,780
Artwork	14,000	35,000	-	49,000
Construction in progress	2,538,045	842,967	(3,381,012)	-
Total nondepreciable capital assets	4,406,825	877,967	(3,381,012)	1,903,780
Depreciable:				
Buildings and building improvements	30,381,959	2,120,092	(41,547)	32,460,504
Equipment, vehicles, furniture and fixtures	27,568,144	6,287,460	(4,233,294)	29,622,310
Total depreciable assets	57,950,103	8,407,552	(4,274,841)	62,082,814
Accumulated depreciation:				
Buildings and building improvements	(3,719,594)	(978,077)	18,419	(4,679,252)
Equipment, vehicles, furniture and fixtures	(17,259,164)	(2,366,930)	4,233,294	(15,392,800)
Total accumulated depreciation	(20,978,758)	(3,345,007)	4,251,713	(20,072,052)
Total depreciable capital assets, net	36,971,345	5,062,545	(23,128)	42,010,762
Total Knoxville Area Transit	$ 41,378,170	$ 5,940,512	$ (3,404,140)	$ 43,914,542

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, 2012 is as follows:

	Due From Other Funds	Due to Other Funds	Internal Balances	Due From Component Units	Due to Primary Government
Governmental activities					
General Fund	$ 34,451	$ 3,214,000	$ (3,179,549)	$ -	$ -
Special Revenue Fund:					
Abandoned Vehicle	-	4,298	(4,298)	-	-
Miscellaneous Special Revenue	-	28,000	(28,000)	-	-
Animal Control	-	1,000	(1,000)	-	-
Community Development Block Grants	-	139,000	(139,000)	-	-
City Inspections	-	268,000	(268,000)	-	-
Miscellaneous Grants	4,298	523,000	(518,702)	-	-
Storm Water	-	68,000	(68,000)	-	-
Solid Waste	-	401,000	(401,000)	-	-
Miscellaneous Community Development Funds	-	56,000	(56,000)	-	-
Debt Service Fund	-	-	-	6,954,000	-
Capital Projects Fund	1,288,000	1,283,000	5,000	2,670,000	-
Total governmental activities	1,326,749	5,985,298	(4,658,549)	9,624,000	-
Business-type activities					
Knoxville Convention Center	1,000,000	-	1,000,000	-	-
Pubic Assembly Facilities	-	82,000	(82,000)	-	-
Metro Parking	4,000,000	2,000	3,998,000	-	-
City Golf Courses	-	170,451	(170,451)	-	-
Internal Service Funds:					
Health Insurance	215	-	215	-	-
Fleet Management	-	86,000	(86,000)	-	-
Equipment Replacement	-	1,215	(1,215)	-	-
Total business-type activities	5,000,215	341,666	4,658,549	-	-
Component Units:					
Knoxville Area Transit	-	-	-	-	9,624,000
	$ 6,326,964	$ 6,326,964	$ -	$ 9,624,000	$ 9,624,000

NOTE 9 - LONG-TERM DEBT

Bonds at June 30, 2012, are comprised of the following issues:

	General Obligation Bonds		
Primary Government	Governmental Activities	Business-type Activities	Total
General Obligation Bonds Series 2009 - VI-L-1 through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	$ -	$ 24,570,000	$ 24,570,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	9,700,000	-	9,700,000
General Obligation Refunding Bonds, Series 2012 maturing through 2025 at varying rates of interest ranging from 1.0% to 5.0%	40,862,000	43,288,000	84,150,000
Total Primary Government	$ 50,562,000	$ 127,828,000	$ 178,390,000

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units:		Revenue Bonds
Knoxville Utilities Board:		
Electric Revenue Bonds Series V to AA, maturing through 2032 at varying rates of interest ranging from 1.45% to 6.35%	$	158,870,000
Water Revenue Bonds Series R to X maturing through 2045 at varying rates of interest ranging from 2.0% to 5.5%		87,360,000
Gas Revenue Bonds Series L to Q, maturing through 2045 at varying rates of interest ranging from 2.0% to 6.2%		105,235,000
Waste Water Revenue Bonds Series 2005 A&B, 2007, 2008, 2010, 2010B, 2010C, 2012A maturing through 2045 at varying rates of interest ranging from 1.18% to 6.5%		390,745,000
	$	742,210,000
Metropolitan Knoxville Airport Authority:		
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. The remaining principal bears interest at a synthetic rate of 5.29%	$	13,235,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. $34,055,000 bears interest at a synthetic rate of 3.962%. The remaining principal bears interest at a variable rate (0.26% at June 30, 2011).		67,270,000
	$	80,505,000

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, 2012, 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
2013	$ 5,412,560	$ 1,053,182	$ 4,082,440	$ 5,127,561
2014	5,291,100	1,111,302	4,168,900	5,111,322
2015	5,382,720	1,035,840	4,337,280	4,959,694
2016	5,561,140	979,840	4,533,860	4,771,932
2017	3,797,760	878,879	5,157,240	4,560,189
2018-2022	17,423,620	2,920,569	28,306,380	19,267,219
2023-2027	7,693,020	1,040,109	33,546,980	14,067,163
2028-2032	-	-	43,695,000	6,052,500
	50,561,920	$ 9,019,721	127,828,080	$ 63,917,580
Unamortized premium	6,219,002		1,754,650	
Unamortized discounts and issuance costs	-		(783,860)	
Total	$ 56,780,922		$ 128,798,870	

Component Units	Revenue Bonds and Local Govt Public Improvement Bonds	
	Principal	Interest
2013	$ 22,290,000	$ 34,062,331
2014	22,535,000	33,901,766
2015	26,830,000	33,065,903
2016	28,000,000	32,108,841
2017	28,700,000	31,108,770
2018-2022	163,525,000	138,261,481
2023-2027	184,545,000	103,966,206
2028-2032	134,915,000	70,302,411
2033-3037	89,450,000	44,351,114
3038-2042	91,925,000	21,902,577
2043-2045	30,000,000	3,800,000
	822,715,000	$ 546,831,400
Unamortized deferred loss on refunding	(1,153,543)	
Total	$ 821,561,457	

NOTE 9 - LONG-TERM DEBT (Continued)

Interest Swap Agreements

Primary Government

On May 15, 2002, the City entered into a $45,000,000 interest rate swap agreement with Wachovia First Union Bank. The intention of the agreement was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F bonds to a synthetic fixed rate. Principal payments on this agreement run through June 1, 2020. On December 16, 2009, the City refinanced the Series III-F loan as Series VI L-1 while maintaining the original III-F amortization schedule. The refinancing was done to achieve lower rates on the bonds by reissuing them without an insurance provision. The principal outstanding on these notes, subject to the swap agreement, as of June 30, 2012, is $24,570,000.

Objective of the Interest Rate Swaps - The objective of the swap agreement was to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt. The result of the swap was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F (now VI L-1) bonds to synthetic fixed rates.

Terms - The interest rate swap agreements are based on the same amortization schedules as the outstanding principal of the associated debt. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the Series VI L-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association lndex (the "SIFMA"). The City pays Wells Fargo interest at a fixed rate of 3.955%. Wells Fargo pays the City of Knoxville interest at a variable rate based upon 70% of the one month USD-LIBOR-BBA (United States Dollar – London Inter-Bank Offer Rate – British Bankers' Association). Payments reflect net and are made only to the recipient party: the City, in the event of the floating rate exceeding the 3.955% fixed rate; and the counterparty, if the floating rate is less than the fixed rate.

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2012, were as follows:

Associated Debt Issue	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Estimated Fair Value	Swap Term Date	Counter-party Credit Rating
Business Type Activities General Obligation Bonds Series VI-L-1 through Public Building Authority of Sevier County	$45,000,000	12/16/2009	3.955%	70% of 1 Month LIBOR	($3,692,512)	6/1/2020	A+

Fair Value - As of June 30, 2012, the swap had a negative fair value of $3,692,512. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

NOTE 9 - LONG-TERM DEBT (Continued)

The current notional and fair value amounts of the outstanding swap as of June 30, 2012, were as follows.

	Changes in Fair Value		Fair Value at June 30, 2012		June 30, 2012 Notional
Associated Debt Issue	Classification	Amount	Classification	Amount	Amount
Business-Type Activities					
Hedging Derivative					
Loan Payable to the Public Building Authority of Sevier County - Series VI-L1	Deferred Outflow of Resources	$ 498,846	Debt	$ 3,692,512	$ 45,000,000

Credit Risk - As of June 30, 2012, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the derivative's fair value. During fiscal year 2009, Wells Fargo acquired Wachovia/First Union, thus assuming the swap agreement. This acquisition resulted in an improvement of the overall credit quality of the counterparty. As of June 30, 2012, the senior debt of Wells Fargo was rated A1 by Moody's Investor Services.

Basis Risk - The City is subject to basis risk as the variable interest payment the City receives from the counterparty is based upon LIBOR whereas the variable rate interest paid on the outstanding bonds is based upon BMA. This mismatch exposes the City to basis risk when the SIFMA increases to above 70% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the SIFMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. If a change occurs that results in the SIFMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. Normally the two indices track on a close basis. The City refinanced the Series III-F bonds on December 16, 2009, thereby removing the credit enhancement from the bonds and eliminating much of the basis risk.

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

NOTE 9 - LONG-TERM DEBT (Continued)

For the year ending June 30,	Principal	Interest	Net Interest Rate Swap Payment	Total
2013	$ 2,610,000	$ 971,700	$ (71,300)	$ 3,510,400
2014	2,730,000	868,500	(63,700)	3,534,800
2015	2,855,000	760,500	(55,800)	3,559,700
2016	2,990,000	647,600	(47,500)	3,590,100
2017	3,125,000	529,400	(38,800)	3,615,600
2018-2020	10,260,000	823,700	(60,500)	11,023,200
	$ 24,570,000	$ 4,601,400	$ (337,600)	$ 28,833,800

Swap Payments and Associated Debt - As of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments for their terms are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Component units

Metropolitan Knoxville Airport Authority

The Authority has evaluated its interest rate swaps and using the regression analysis method has determined they are effective. Accordingly, they have been categorized as hedging derivative instruments, and the accumulated decrease in the fair value of the SWAPS is reported as a deferred outflow of resources in the Statements of Net Position.

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

The terms and fair values of the outstanding swaps as of June 30, 2012, are as follows:

Associated Bond Issues	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Estimated Fair Value	Swap Term Date
Series II-D-1	$13,235,000	9/8/2000	5.29%	SIFMA Municipal Swap Index	($3,832,220)	6/1/2026
Series V-A-1	$34,055,000	6/28/2001	4.36%	62.5% of 5 Year LIBOR	($5,366,800)	6/1/2021
	$47,290,000				($9,199,020)	

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

NOTE 9 - LONG-TERM DEBT (Continued)

Fair Value - The fair value of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk - As of June 30, 2012, the Authority is not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. For the swap associated with Series II-D-1 bonds, the swap counterparty was unrated at the time of the swap. In order to mitigate the potential for credit risk, the Authority received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service at the time the interest rate swap agreement was entered. As of June 30, 2012, Ambac's credit rating has been severely downgraded and has been withdrawn by the rating agencies. For the swap associated with Series V-A-1 bonds, the swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2012, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively. Both counterparties have posted all collateral requirements with third-party custodians.

Basis risk - The swap associated with Series II-D-1 bonds does not expose the Authority to basis risk. The swap associated with the Series V-A-1 bond exposes the Authority to basis risk should the rate on the Series V-A-1 bonds increase to above 62.5% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the Bonds to be below 62.5% of LIBOR, then the synthetic rate on the bonds will decrease.

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

Swap payments and associated debt - As of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending	Variable Rate Bonds		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Total
2013	$ 655,000	$ 1,063,904	$ 1,057,109	$ 2,776,013
2014	695,000	1,019,425	951,402	2,665,827
2015	4,155,000	971,337	840,530	5,966,867
2016	4,365,000	912,166	724,373	6,001,539
2017	4,590,000	849,493	602,735	6,042,228
2018-2022	26,860,000	3,165,613	993,965	31,019,578
2023-2027	32,695,000	979,542	(146,097)	33,528,445
2028	6,490,000	15,210	0	6,505,210
Total	$ 80,505,000	$ 8,976,690	$ 5,024,017	$ 94,505,707

NOTE 9 - LONG-TERM DEBT (Continued)

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

Advance and Current Refundings

Primary Government

During the fiscal year, the City issued $84,150,000 in refunding bonds Series 2012. The proceeds were used to currently refund general obligation Series 2004A, 2004B, 2005A and a capital lease obligation incurred by the governmental funds and general obligation Series 2002A serviced by KCC. The net proceeds of $93,006,593 (including an $8,856,593 premium and after $845,814 in underwriting fees and other issuance costs) were deposited into a current refunding account for immediate payment of these refunded obligations. The City refunded these bonds to reduce its total debt service payments by $18.2 million and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt of $16.5 million.

Component units

Knoxville Utilities Board

During fiscal year 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series S 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 revenue bonds. During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. During fiscal year 2011, KUB's Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds. The outstanding principal balances on defeased bond issues were $106.2 million at June 30, 2012.

During fiscal year 2004, KUB's Gas Division issued Series K 2004 bonds in part to retire certain existing debt and fund gas system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series H 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Gas Division issued Series L 2005 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series J 2001 bonds, as such amounts mature. KUB's Gas Division also issued Series M 2006 bonds in part to retire certain existing debt and to fund capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series H 1998 revenue bonds. During fiscal year 2008, KUB issued Series N 2007 to fund gas system capital improvements. During fiscal year 2010, KUB issued Series O 2010 bonds to retire Series I 2001 bonds. During fiscal year 2011, KUB issued Series P 2010 bonds to fund gas system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K 2004 bonds. The outstanding principal balances on defeased bond issues were $76.1 million at June 30, 2012.

NOTE 9 - LONG-TERM DEBT (Continued)

During fiscal year 2004, KUB's Water Division issued Series Q 2004 bonds in part to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series N 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Water Division issued Series R 2005 for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 in part to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature. During fiscal year 2008, KUB issued Series T 2007 bonds to fund water system capital improvements. During fiscal year 2010, KUB issued Series U 2009 bonds to fund water system capital improvements. KUB's Water Division also issued Series V 2010 bonds to retire Series O 2001 bonds. During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds. The outstanding principal balances on defeased bond issues were $23 million at June 30, 2012.

During fiscal year 2004, the Wastewater Division issued Series 2004A bonds to fund Wastewater capital improvements. During fiscal year 2006, KUB's Wastewater Division issued Series 2005A for the purpose of funding wastewater system capital improvements and to pay off a previously issued $30 million revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B in part to retire certain existing debt and fund wastewater system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued line of credit, and to fund wastewater capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, the Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. During fiscal year 2011, the Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds. The outstanding principal balances on defeased bond issues were $40.9 million at June 30, 2012.

Metropolitan Knoxville Airport Authority

During 2009 the Authority issued Series V-A-1 bonds. Proceeds totaling $83,880,000 were used to refund the remaining balance of the Series III-A bonds, resulting in a loss of $1,214,365 on the refunding, which has been deferred and is being amortized over the remaining lives of the respective refunded bonds. The remaining proceeds were used to pay bond issue costs of $765,000, which are being amortized over the life of the bonds. In connection with the Series V-A-1 bonds, the Authority has entered into a Reimbursement Agreement with Branch Banking and Trust Company who has issued an irrevocable letter of credit in an amount not to exceed $85,758,140 set to expire February 2016. Costs of maintaining this letter of credit and other administrative fees are included in interest expense.

NOTE 9 - LONG-TERM DEBT (Continued)
Other Agreements

Primary Government

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

2013	$ 65,000

Capital Leases

Primary Government

In fiscal year 2009, the City entered into a lease agreement as lessee for financing the acquisition of grounds equipment for the municipal golf course. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The assets acquired through the capital lease have a net book value of $117,264.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2012 were as follows:

2013	$ 83,517
2014	20,879
Total minimum future lease payments	104,396
Less: amount representing interest	(2,788)
Present value of minimum lease payments	$ 101,608

At the beginning of the fiscal year, the City had a capital lease obligation outstanding related to energy management equipment. The lease obligation was refunded in the fiscal year from proceeds from the issuance of Refunding Bonds Series 2012. See Advance and Current Refundings section above.

Component Units

Metropolitan Knoxville Airport Authority

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

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

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

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

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

NOTE 9 - LONG-TERM DEBT (Continued)

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, 2012:

	Balance June 30, 2011	Additions and Transfers	Reductions and Transfers	Balance June 30, 2012	Due Within One Year
Primary Government					
Government Activities:					
General obligation bonds	$ 46,675,000	$ 40,861,920	$ 36,975,000	$ 50,561,920	$ 5,412,560
Capital lease	13,470,609	1,111,264	14,581,873	-	-
	60,145,609	41,973,184	51,556,873	50,561,920	5,412,560
Add deferred amounts for issuance premiums	1,073,070	5,745,241	599,309	6,219,002	505,765
	61,218,679	47,718,425	52,156,182	56,780,922	5,918,325
Compensated absences payable	8,221,040	7,219,624	6,892,588	8,548,076	6,823,316
Total governmental activities long-term liabilities	$ 69,439,719	$ 54,938,049	$ 59,048,770	$ 65,328,998	$ 12,741,641
Business-type Activities					
General obligation bonds	$ 133,495,000	$ 43,288,080	$ 48,955,000	$ 127,828,080	$ 4,082,440
Add deferred amounts for issuance premiums	-	1,766,920	12,270	1,754,650	135,917
Less deferred amounts for issuance discounts	(864,610)	(435,100)	(515,850)	(783,860)	(62,642)
	132,630,390	44,619,900	48,451,420	128,798,870	4,155,715
Note payable	77,500	-	12,500	65,000	65,000
Capital lease	179,246	-	77,638	101,608	80,870
Compensated absences payable	147,615	87,092	77,181	157,526	77,000
Total business-type activities long-term liabilities	$ 133,034,751	$ 44,706,992	$ 48,618,739	$ 129,123,004	$ 4,378,585

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $123,316 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

All bonds and loans are backed by the full faith and credit of the City. In addition to the primary pledge of property taxes, the City has pledged convention center revenues net of operating expenses (if any) as a secondary pledge to repay the $59.97 million TN Series A-4-A long-term debt issue used to construct the center. For the year ended June 30, 2012, principal and interest payments on all debt issues were approximately 17 percent of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately $257.5 million, based on market interest rates effective on June 30, 2012.

NOTE 9 - LONG-TERM DEBT (Continued)

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Component Units					
Knoxville Utilities Board:					
Revenue bonds	$ 742,690,000	$ 113,855,000	$ 114,335,000	$ 742,210,000	$ 21,635,000
TVA conservation program	8,199,059	3,282,245	2,145,895	9,335,409	1,500,000
Accrued compensated absences	8,219,683	11,060,994	11,043,020	8,237,657	2,600,000
Customer advances for construction	1,451,870	502,381	670,624	1,283,627	160,000
Supplemental environmental project	150,000	-	150,000	-	-
Other	1,864,017	6,676,954	2,690,252	5,850,719	301,000
Total Knoxville Utilities Board	762,574,629	135,377,574	131,034,791	766,917,412	26,196,000
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	90,435,000	-	9,930,000	80,505,000	655,000
Less deferred amounts for loss on refunding	(1,283,374)	-	(129,831)	(1,153,543)	-
Total Metropolitan Knoxville Airport Authority	89,151,626	-	9,800,169	79,351,457	655,000
Total component units	$ 851,726,255	$ 135,377,574	$ 140,834,960	$ 846,268,869	$ 26,851,000

Conduit Debt

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

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

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority’s financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Northwest’s parent company, Northwest Airlines Corporation, are the only security for the bondholders. The entire amount of the bonds was outstanding at June 30, 2012.

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, 2012 were $2,207,942.

Component Units

The Knoxville Utilities Board has non-cancelable operating lease commitments for office equipment that expire in various years through June 30, 2014. Future minimum lease payments under leases having initial or remaining noncancellable terms in excess of one year as follows:

	Operating Leases
2013	$ 23,524
2014	20,899
2015	26,648
2016	6,917
Total	$ 77,988

NOTE 11 - FUND BALANCES

Detail fund balances are as follows:

				Special Revenue Funds		
	General Fund	Debt Service Fund	Capital Projects Fund	Miscellaneous Community Development Fund	Other Funds	Total
Fund Balances:						
Nonspendable:						
Inventory	$ 335,252	$ -	$ -	$ 83,300	$ 31,586	$ 450,138
Prepaids	49,501	-	-	-	-	49,501
Permanent Fund Principal	-	-	-	-	624,065	624,065
Restricted for:						
Debt Service Reserves	-	45,810,605	-	-	-	45,810,605
Street Improvements	-	-	-	-	3,210,689	3,210,689
Community Development	-	-	-	1,532,135	77,415	1,609,550
Law Enforcement	-	-	-	-	4,201,272	4,201,272
Parks & Recreation	-	-	-	-	167,339	167,339
Solid Waste Operations	-	-	-	-	4,835,629	4,835,629
Krutch Park	-	-	-	-	239,396	239,396
Committed to:						
Economic Stabilization	34,435,594	-	-	-	-	34,435,594
Revenue Reserve	4,410,000	-	-	-	-	4,410,000
Other Capital Projects	-	-	70,294,951	-	-	70,294,951
Abandoned Vehicle Operations	-	-	-	-	1,886,838	1,886,838
City Inspections Operations	-	-	-	-	250,997	250,997
City Court Operations	-	-	-	-	1,092,141	1,092,141
Animal Control Operations	-	-	-	-	493,950	493,950
Beer Board	-	-	-	-	122,565	122,565
Finance & Accountability	290,919	-	-	-	-	290,919
Law Enforcement	-	-	-	-	5,362,947	5,362,947
Safety City	-	-	-	-	1,301,098	1,301,098
Storm Water Operations	-	-	-	-	670,078	670,078
Community Development	-	-	-	-	2,592,041	2,592,041
Assigned to:						
Administration	160,690	-	-	-	-	160,690
Community Development	87,710	-	-	-	-	87,710
Parks & Recreation	62,334	-	-	-	-	62,334
Unassigned:	19,892,492	-	-	-	-	19,892,492
Total Fund Balances	$ 59,724,492	$ 45,810,605	$ 70,294,951	$ 1,615,435	$ 27,160,046	$ 204,605,529

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 purchasing various types of insurance coverage including fiduciary liability, professional liability, crime coverage, long-term disability, boiler and machinery, and group life coverage. The City insures itself for potential losses as the result of auto liability, general liability, and workers compensation through participation in a risk management pool. The pool requires each participant in the pool to share the liability for claims if the pool becomes insolvent. At present, the City has no indication that it will incur a liability as a result of its participation in the pool. Settled claims have not exceeded the above coverage in any of the past three fiscal years.

Health Insurance Fund

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

	2012	2011
Claims liability, beginning of year	$ 1,000,000	$ 1,000,000
Provision for incurred claims	9,925,429	10,847,331
Payments made on claims	(9,925,429)	(10,847,331)
Claims liability, end of year	$ 1,000,000	$ 1,000,000

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund, to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of $10,600,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities as of June 30, 2012.

An analysis of claims activity for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Claims liability, beginning of year	$ 9,200,000	$ 8,500,000
Provision for incurred claims	4,606,810	4,174,655
Payments made on claims	(3,206,810)	(3,474,655)
Claims liability, end of year	$ 10,600,000	$ 9,200,000

NOTE 12 - RISK MANAGEMENT (Continued)

Additionally, the City's attorney believes that there is a possible liability to the City of approximately $2,891,100 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, 2012, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10. The current portion of the claims liability is estimated to be $5 million.

Component units

Knoxville Utilities Board

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

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

At June 30, 2012, the amount of these liabilities was $1,827,920. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Claims liability, beginning of year	$ 2,175,294	$ 2,185,831
Provision for incurred claims	14,130,565	22,721,716
Payments made on claims	(14,477,939)	(22,732,253)
Claims liability, end of year	$ 1,827,920	$ 2,175,294

Metropolitan Knoxville Airport Authority

The Authority is subject to risks that include personal injury, property damage, employee bodily injury, employee theft, employee medical, public officials and employee conduct and workers' compensation. The Authority has purchased insurance policies that transfer these risks, subject to policy limits. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 13 - JOINT VENTURES

Public Building Authority

In 1975, the Authority was formed as a not-for-profit corporation incorporated pursuant to provisions of the Public Building Authority Act of the State of Tennessee and an operating agreement between the City and Knox County. The Authority constructed and presently maintains and operates the City/County Building, which houses the governments of the City and County. The City and County pay rent to the Authority sufficient to meet operating costs with the City responsible for 36.49% of the payments. An eleven-member board comprised of six County appointees and five City appointees operates the Authority. As described in the operating agreement, the City and County acting jointly may terminate the lease when all debt service and other obligations of the Authority have been met. In the event of termination, the City and County shall direct the Authority to whom and in what manner title to the assets is to be transferred. The City retains an equity interest in the joint venture which is recorded in the Knoxville Convention Center, Metro Parking and City Buildings as cash and investment in joint venture.

Complete separate financial statements for the Public Building Authority may be obtained at Room M22, 400 Main Street, Knoxville, TN 37902.

Knoxville, Knox County, KUB Geographic Information Systems

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

Knoxville-Knox County Animal Center

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

NOTE 14 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Knoxville Zoo - The City entered into a new agreement on July 1, 2006, with Knoxville Zoological Gardens, Inc. whereby Knoxville Zoological Gardens, Inc. shall lease the Zoo to provide for its operation and management. Under terms of the agreement the City shall grant to Knoxville Zoological Park $1,000,000 by August 1, 2012 and increase $50,000 each year through 2015.

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

NOTE 14 - MANAGEMENT AGREEMENTS (Continued)

Parking Garages - The City entered into an agreement with the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) on August 11, 2005 to manage and operate the State Street, Main Avenue, and Market Square Parking Garages and the Jackson Avenue Parking Lot. The terms of the agreement shall continue until terminated by either party. The terms call for the City and PBA to agree upon an annual budget for the management of the above, said budget to cover direct and indirect costs of PBA relating to the management of the facilities. The amount of this budget in fiscal year 2012 is $1,966,070.

IJAMS Nature Park - The City has entered into various agreements with the IJAMS Nature Park over the years whereby IJAMS will provide management and operation of a nature park. The current three year agreement commenced August 1, 2012 and calls for an annual management fee of $129,250 to be paid to IJAMS.

Knoxville Convention Center - The City has an agreement beginning July 1, 2006, with SMG to manage the operations of the Convention Center for a period of five years, with an option for an additional five years. The agreement calls for a fixed base fee of $250,000 in fiscal year 2008, and increasing by the CPI each year thereafter. SMG is also to receive an incentive fee each year depending upon the increase in various revenue categories as defined by the contract, but which in no instance exceed the fixed base fee. SMG shall also receive an additional incentive fee based upon various qualitative factors, but which shall not exceed $267,450 in fiscal year 2011, said maximum to be annually adjusted by the CPI.

NOTE 15 - 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, 2012 in accordance with provisions of the Single Audit Act of 1984.

Construction Contracts - The following represents capital projects funds spent to date and current contractual obligations as of June 30, 2012:

	Spent to Date	Contractual Commitment Remaining at June 30, 2012
Bridge Maintenance Program	$ 1,152,927	$ 50,203
Drainage Improvements	1,225,661	854,643
Information Systems Upgrades	1,132,662	236,017
Miscellaneous Equipment Acquisition	354,382	107,684
Parks Improvements	1,353,485	1,564,276
Paving Program	6,001,553	4,008,968
Redevelopment Program	1,287,156	761,297
Roadway Improvements	4,039,952	5,788,610
South Knoxville Waterfront	686,892	809,312
Total	$ 17,234,670	$ 14,181,010

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Component units

Knoxville Utilities Board

Purchased Gas Adjustments - In November 1990, KUB implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of SFAS No. 71, *"Accounting for the Effects of Certain Types of Regulation,"* and KUB meets the remaining criteria of SFAS No. 71. The PGA is intended to assure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The PGA is also intended to assure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, KUB tracks the actual over/under recovered amount in the 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 KUB's customers. The amount of under-recovered costs was $(2,825,163) at June 30, 2012.

Purchased Power Adjustment - In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. These changes in electric costs are reflected as adjustments to the base electric rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of SFAS No. 71, *"Accounting for the Effects of Certain Types of Regulation,"* and KUB meets the remaining criteria of SFAS No. 71.

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

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Natural Gas Supply Contract Commitments - For the year ended June 30, 2012, the Gas Division of the Knoxville Utilities Board locked the price on 67% of its total gas purchases via gas supply contracts. As of June 30, 2012, the Gas Division had hedged the price on approximately 10% of its anticipated gas purchases for fiscal year 2013.

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:

	2013	2014	2015	2016	2017
Demand:					
Transportation	$ 17,392,280	$ 19,277,912	$ 19,277,912	$ 6,425,971	$ -
Storage	4,379,708	3,815,648	3,815,648	1,926,483	981,900
Demand total	$ 21,771,988	$ 23,093,560	$ 23,093,560	$ 8,352,454	$ 981,900
Commodity:					
Baseload	$ 5,961,888	$ 2,286,518	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for Conoco and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the CNX contract is based upon firm supply obligations and the applicable four month New York Mercantile Exchange (“NYMEX”) strip prices at July 31, 2012.

Other Commitments and Contingencies

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB’s wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (“SSOs”) on KUB’s wastewater system must be completed by December 31, 2016. KUB anticipates the Division will spend approximately $530 million in capital investments in order to comply with the terms of the Consent Decree related to the collection system. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

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

KUB anticipates it will invest a total of $650 million in capital improvements to meet the requirements of the Consent Decree.

During fiscal year 2006, KUB launched the Private Lateral Program (PLP), as required by the Consent Decree, under which KUB tests private collection system laterals on its wastewater system over a ten-year period. Defective laterals and improper connections can introduce rainwater overloading the wastewater system and add pollution to area waterways. If a private lateral fails the respective inspection test, then the customer is required to have the lateral repaired/replaced within a specified time period. The $2 million SEP provides funding for lateral repairs/replacements for eligible low-income customers. A $1.7 million liability was accrued in May 2006 for the SEP.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

KUB funded $1.5 million, thereby reducing the liability to $0.2 million. In fiscal year 2012, KUB completed funding of the SEP.

KUB's funding plan for the Consent Decree through 2016 includes approximately $680 million in bond issues through 2021 plus a series of rate increases phased in over the term of the order. As of June 30, 2012, the Wastewater Division had issued $360 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and a 12 percent rate increase, which was effective in April 2011. The Board also adopted a 12 percent rate increase to be effective October 2012. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital projects.

NOTE 16 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on three major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for $3,229,027 in aviation area revenue during 2012. In addition, a significant portion of terminal area revenue is directly and indirectly generated from this airline's passengers, which accounted for approximately 83% of total passengers during 2012. As of June 30, 2012, 73% of trade accounts receivable are due from these major airlines.

NOTE 17 - TRANSFERS

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

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

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

NOTE 17 - TRANSFERS (Continued)

A detailed reconciliation of operating transfers at June 30, 2012 is as follows:

	Transfers From:									
	Governmental Activities								Business Type Activities	
Transfers To:	General Fund	Debt Service	Capital Projects	State Street Aid	City Court	Misc. Spec. Rev. Grants	Miscellaneous Grants	Krutch Park	Public Assembly Facilities	Total
Primary Government:										
Governmental Activities:										
General Fund	$ -	$ -	$ 1,073,886	$ -	$ 2,878,260	$ -	$ 4,924	$ 8,075	$ -	$ 3,965,145
Capital Projects Fund	-	17,447,900	-	746,000	-	1,043,910	-	-	-	19,237,810
City Inspections	607,760	-	-	-	-	-	-	-	-	607,760
Miscellaneous Grants	72,640	-	-	-	-	-	-	-	-	72,640
Storm Water	2,537,550	-	-	-	-	-	-	-	-	2,537,550
Solid Waste	9,076,120	-	-	-	-	-	-	-	-	9,076,120
Business-type Activities:										
Metro Parking	-	-	18,003	-	-	-	-	-	-	18,003
Convention Center	3,673,476	177,020	1,412,927	-	-	-	-	-	-	5,263,423
Public Assembly Facilities	2,522,990	111,137	110,984	-	-	-	-	-	-	2,745,111
City Golf Courses	126,500	-	1,746	-	-	-	-	-	-	128,246
Internal Service Funds:										
Fleet Maintenance	1,334,500	356,900	-	-	-	-	-	-	6,830	1,698,230
Risk Management	434,940	-	-	-	-	-	-	-	-	434,940
Health Insurance	1,335,990	-	-	-	-	-	-	-	-	1,335,990
Equipment Replacement	76,222	-	16,266	-	2,321	17,031	-	-	-	111,840
City Buildings	-	-	380,692	-	-	-	-	-	-	380,692
	$ 21,798,688	$ 18,092,957	$ 3,014,504	$ 746,000	$ 2,880,581	$ 1,060,941	$ 4,924	$ 8,075	$ 6,830	$ 47,613,500

NOTE 18 - RETIREMENT AND DISABILITY PLANS

Defined Benefit Pension Plans

City of Knoxville Pension System

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

Division A - All employees of the City who were hired on or after January 16, 1963, and prior to July 1, 1997 became members of Division A. Participants of Division A are covered by Social Security. Division A is now a closed plan. Participation in Division A requires employee contributions of 3% of the first $4,800 of annual earnings and 5% of annual earnings in excess of $4,800. Division A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later.

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

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

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

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

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Board of Education Division - The City of Knoxville School System was abolished effective July 1, 1987 and absorbed into the operations of the Knox County School System. A court ruling has held and the Tennessee Court of Appeals has affirmed that the City is liable for the accrued pension liability, through June 30, 1987, for those former City School employees who remain in the City of Knoxville Pension System. Because of the abolition of the City School System, the Board of Education Division of the City of Knoxville Pension System has, in substance, been terminated. The City is responsible for any unfunded pension liability for the benefits that former City School employees would be entitled to if their earned benefits were frozen at July 1, 1987. A contribution was made for this department of $638,967 for 2012.

At July 1, 2012, the Plan had 2,134 retirees and beneficiaries currently receiving benefits and 37 employees currently participating in the Delayed Retirement Option Program (DROP) and 96 deferred vested participants. Of the approximately 1,474 active employees in the Plan, 1,125 were fully vested at July 1, 2012. Benefit provisions are established in the City's Charter and can be amended by voter referendum. The City of Knoxville Pension System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Knoxville Pension Board, 917B East Fifth Avenue, Knoxville, Tennessee 37917. The assets of the Plan are also included in the reporting entity as a fiduciary pension trust fund.

Annual Pension Costs

Employer contributions represent a percentage of the monthly earnings of Plan members based on an actuarial valuation within three years of the base year. The recommended contributions are determined using the entry age normal funding method. Unfunded actuarial accrued liabilities are being amortized as level dollar annual payments over an amortization period not to exceed thirty years. Projected covered payroll for the years beginning on July 1, 2012 and 2011 (without Board of Education amounts) amounted to approximately $65,396,351 and $64,309,770 respectively.

Employer contributions, excluding Board of Education contributions, and percentages of employer-covered payroll for the years ended June 30, 2012 and 2011 were as follows:

	2012		2011	
	Amount	Rate - %	Amount	Rate - %
Uniformed Police and Fire	$ 7,185,033	21.30%	$ 5,955,571	18.43%
General Government Contribution	3,717,146	11.80%	3,024,382	9.51%
Division G Matching Contribution	269,353	0.85%	266,358	0.84%
Board of Education	638,967	N/A	259,822	N/A
Total	$ 11,810,499		$ 9,506,133	

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Funded Status

The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of July 1, 2012, the most recent actuarial valuation date, the plan was 77.6% funded. The actuarial accrued liability for benefits was $661.4 million, and the actuarial value of assets was $513.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $148.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $65.4 million, and the ratio of the UAAL to the covered payroll was 226.4%.

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

For the year ended June 30, 2012, the annual pension cost for the System exceeded the required contributions for the uniformed police and fire and was equal to the required contribution for the general government contribution. Significant actuarial assumptions used in the valuation as of July 1, 2012 include: (a) rate of return on investment of present and future assets of 8%; (b) the assumed salary scale is based on a review of the experience study of the plan, the assumed salary increases are greater at younger ages and lower at older ages; and (c) projected post retirement increases of 3.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a ten-year period.

	Annual Pension	Percentage of APC	Net Pension
Fiscal Year Ending	Cost (APC)	Contributed	Obligation
June 30, 2012	$ 11,386,903	101%	$ (3,044,099)
June 30, 2011	9,291,361	99%	(2,889,856)
June 30, 2010	7,385,670	100%	(2,941,343)

The two significant actuarial assumptions used by the System are the investment return assumption of 7.375% and the increase in salary scale assumption which is based on an experience study shown below:

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

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Net Pension Obligation

The calculation of the net pension obligation is as follows for June 30, 2012:

[(1)] Determination of Annual Pension Cost / Net Pension Obligation for 2012

Annual required contribution (with interest to middle of year)	$	6,994,505
Interest on net pension obligation		(231,188)
Adjustment to annual required contribution		267,473
Annual pension cost		7,030,790
Contributions made		(7,185,033)
Increase in net pension obligation		(154,243)
Net pension obligation beginning of year		(2,889,856)
Net pension obligation end of year	$	(3,044,099)

[(1)] This determination is for uniformed bodies only. The net pension obligation is $0 for the other groups.

Component Units

Knoxville Utilities Board Pension Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, and is not subject to any of the provisions of the Act. The Plan is funded by contributions from KUB, if funding is required, and from Plan A and Plan B employee participants.

At December 31, 2011, the Plan had 652 retirees and beneficiaries currently receiving benefits and 56 terminated employees entitled to benefits but not yet receiving them. Of the approximately 873 current employees in the Plan, 730 were fully vested at December 31, 2011. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB has frozen the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the Plan.

The Plan consists of three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)
CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City System Plan A members who elected CEP coverage as of July 1, 1999.

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

Knoxville Utilities Board Pension Plan (Continued)

All new eligible employees become participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A
Plan A benefits are for former City System Plan A active employees, vested terminated employees, retirees, and beneficiaries.

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

Plan B
Plan B benefits are for former City System Plan B active employees, vested terminated employees, retirees, and beneficiaries.

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

Funding Policy and Annual Pension Costs

The Plan has adopted the use of the individual entry age normal method effective with the December 2007 valuation. As of December 31, 2011, the most recent actuarial valuation date, the plan was 94.1% funded. The actuarial accrued liability for benefits was $195.5 million, and the actuarial value of assets was $183.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of $11.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $48.8 million, and the ratio of the UAAL to the covered payroll was 23.7%.

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

For the plan year ended December 31, 2011 a contribution of $3,593,282 is required to be made in the Plan sponsor's fiscal year ending June 30, 2013. The annual required contribution was determined as part of the January 1, 2011 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

Knoxville Utilities Board Pension Plan (Continued)

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8%, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58% to 7.92%, and (d) cost of living adjustment of 2.8% 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.

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 30, 2011	$ 3,593,282	100%
December 31, 2010	3,244,057	100%
December 31, 2009	5,540,720	100%

Defined Contribution Plans

Knoxville Utilities Board

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

Metropolitan Knoxville Airport Authority

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

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Contribution Plans (Continued)

Metropolitan Knoxville Airport Authority (Continued)

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 $784,740 in 2012.

Knoxville Area Transit

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

KAT's contributions for each employee (and investment income allocated to the employees' account) are vested after five years of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Directors. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled $390,579 in 2012. Employee contributions totaled $496,116 in 2012.

Deferred Compensation Plans

Primary Government

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

Component Unit

Metropolitan Knoxville Airport Authority

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The Plan, available to all Authority employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were $123,490 in 2012.

NOTE 19 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

Primary government

Plan Description

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

Funding Policies

The contribution requirements of the Plan members and City are established and may be amended by the Health Insurance Fund. The required contribution is based on projected pay-as-you-go financing requirements whereby contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. The City contributes 40% of the premium payments and the retirees contribute 60%. For the fiscal year ended June 30, 2012, the City and the retirees contributed $476,230 and $865,486, respectively.

Annual OPEB Cost and Net OPEB Obligation

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

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

For the City for June 30, 2012 the City's annual OPEB cost of $1,341,716 was equal to the required contribution. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$ 1,341,716	100.00%	$ -
June 30, 2011	1,317,879	100.00%	-
June 30, 2010	1,413,425	100.00%	-

NOTE 19 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Primary government (Continued)

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan was 0% funded. Since the current contribution amounts exceeded the ARC, the City will not record any additional liability for OPEB and has chosen not to establish a trust for these benefits. The City will evaluate the funding status each year and will obtain actuarial evaluations of the potential liability on a bi-annual basis.

The actuarial accrued liability for benefits was $13.2 million. Since there are no plan assets, the unfunded actuarial accrued liability is $13.2. The covered payroll was $66.0 million and the ratio of the UAAL to covered payroll is 20.0%.

Actuarial Valuations, Methods and Assumptions

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

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

In the July 1, 2011 valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% rate of return (net of administrative expenses). Annual medical costs are assumed to increase 11% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a six year period. The estimated actuarial accrued liability (AAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

Component Units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 633 former employees and 647 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2012, 450 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

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

NOTE 19 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Component Units (Continued)

Knoxville Utilities Board (Continued)

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

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

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

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2012 were $8.1 million. The contribution to the Trust exceeded the annual required contribution (ARC), as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2010, which was $4.6 million. As of June 30, 2012, the employer's net OPEB obligation was $1.7 million.

The ARC for the fiscal year ending June 30, 2013, as determined by the Plan's actuarial valuation for the year ended December 31, 2011 is $3.3 million.

The actuarial valuation for the Plan for the year ending December 31, 2012 has been completed. The valuation determined that the Plan's actuarial accrued liability was $61.6 million. The actuarial value of the Plan's assets was $37.9 million. As a result, the Plan's unfunded actuarial accrued liability was $23.7 million. The Plan's actuarial funded ratio was 62 percent. The valuation also determined that the employer's ARC is $3.3 million for the fiscal year ending June 30, 2014.

Metropolitan Knoxville Airport Authority and Knoxville Area Transit

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

NOTE 20 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	$	11,457,145
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax		13,453,228
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided		1,118,297
Subsidies paid by the City to Knoxville Area Transit		10,177,939

CITY OF KNOXVILLE

Required Supplementary Information
June 30, 2012

Schedule of Funding Progress - City of Knoxville Pension System

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability * (b)	Unfunded Actuarial Accrued Liability (UAAL) * (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	$ 513,358,762	$ 661,425,448	$ 148,066,686	77.6%	$ 65,396,351	226.4%
July 1, 2011	512,823,411	595,595,409	82,771,998	86.1%	64,309,770	128.7%
July 1, 2010	512,943,851	578,180,826	65,236,975	88.7%	63,977,132	102.0%
July 1, 2009	523,121,786	561,660,015	38,538,229	93.1%	60,585,868	63.6%
July 1, 2008	524,596,859	544,826,299	20,229,440	96.3%	58,226,253	34.7%
July 1, 2007	509,837,414	528,228,802	18,391,388	96.5%	56,599,723	32.5%

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

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

Schedule of Funding Progress - City of Knoxville Other Postemployment Benefits 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)
July 1, 2011	$ 0	$ 13,192,062	$ 13,192,062	0.0%	$ 66,027,397	20.0%
July 1, 2010	0	12,968,732	12,968,732	0.0%	63,402,532	20.5%
July 1, 2009	0	15,445,521	15,445,521	0.0%	58,946,845	26.2%
July 1, 2008	0	15,524,797	15,524,797	0.0%	58,215,528	26.7%
July 1, 2007	0	17,704,000	17,704,000	0.0%	55,396,816	32.0%

Note: The City obtains an actuarial study on OPEB liability every two years; therefore, 2011 is the most current information available.

CITY OF KNOXVILLE

Required Supplementary Information
June 30, 2012

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)
December 31, 2011	$ 183,980,665	$ 195,536,152	$ 11,555,487	94.1%	$ 48,836,721	23.7%
December 31, 2010	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	-17.8%
December 31, 2009	203,704,898	190,679,453	(13,025,445)	106.8%	48,228,428	-27.0%
December 31, 2008	183,447,296	194,366,597	10,919,301	94.4%	49,602,223	22.0%
December 31, 2007	236,826,472	194,079,348	(42,747,124)	122.0%	46,314,258	-92.3%
December 31, 2006	229,076,421	192,542,020	(36,534,401)	119.0%	43,054,244	-84.9%
December 31, 2005	232,628,277	200,317,475	(32,310,802)	116.1%	43,064,519	-75.0%

Schedule of Funding Progress - Knoxville Utilities Board Other Postemployment Benefits Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	$ 37,907,357	$ 61,603,466	$ 23,696,109	61.5%	$ 28,269,123	83.80%
January 1, 2011	40,749,815	64,289,254	23,539,439	63.4%	28,878,791	81.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36.4%	30,069,028	123.7%
January 1, 2009	14,593,487	100,726,738	86,133,251	14.5%	31,846,091	270.5%
January 1, 2008	-	108,329,141	108,329,141	0.0%	31,234,509	346.8%

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Nonmajor Governmental Funds

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

Special Revenue Funds

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

Permanent Fund

Park Trust Fund	To account for funds bequeathed to the City for the purpose of constructing and maintaining a downtown city park.

CITY OF KNOXVILLE, TENNESSEE

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds						
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
Assets							
Cash & cash equivalents	$ 93	$ 4,878	$ -	$ 240	$ 823,241	$ 244,866	$ 475
Investments	2,692,002	-	1,921,289	569,875	372,590	-	494,375
Accounts receivable	823,278	376,510	2,479	4,100	23,120	879,997	100
Notes receivable	-	3,839,636	-	-	-	-	-
Due from other funds	-	-	-	-	-	4,298	-
Inventories	-	31,586	-	-	-	-	-
Total assets	$ 3,515,373	$ 4,252,610	$ 1,923,768	$ 574,215	$ 1,218,951	$ 1,129,161	$ 494,950
Liabilities and fund balances							
Liabilities:							
Accounts payable	$ 304,684	$ 202,540	$ 25,385	$ 2,267	$ 104,894	$ 266,689	$ -
Accrued liabilities	-	17,297	7,247	52,951	21,916	16,403	-
Customer deposits	-	22,551	-	-	-	-	-
Due to other funds	-	139,000	4,298	268,000	-	523,000	1,000
Due to other governmental agencies	-	-	-	-	-	196.00	-
Deferred revenue	-	3,839,636	-	-	-	349	-
Total liabilities	304,684	4,221,024	36,930	323,218	126,810	806,637	1,000
Fund balances:							
Nonspendable	-	31,586	-	-	-	-	-
Restricted	3,210,689	-	-	-	-	322,524	-
Committed	-	-	1,886,838	250,997	1,092,141	-	493,950
Total fund balances	3,210,689	31,586	1,886,838	250,997	1,092,141	322,524	493,950
Total liabilities and fund balances	$ 3,515,373	$ 4,252,610	$ 1,923,768	$ 574,215	$ 1,218,951	$ 1,129,161	$ 494,950

Special Revenue Funds (continued)					Permanent Fund	
Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
$ 202,955	$ 169,055	$ 112	$ -	$ 1,445,915	$ 260,411	$ 1,706,326
11,188,439	617,312	5,656,354	2,592,041	26,104,277	602,182	26,706,459
15,454	595	16,988	-	2,142,621	868	2,143,489
-	-	-	-	3,839,636	-	3,839,636
-	-	-	-	4,298	-	4,298
-	-	-	-	31,586	-	31,586
$ 11,406,848	$ 786,962	$ 5,673,454	$ 2,592,041	$ 33,568,333	$ 863,461	$ 34,431,794
$ 50,418	$ 9,553	$ 425,682	$ -	$ 1,392,112	$ -	$ 1,392,112
5,036	39,331	11,143	-	171,324	-	171,324
408,931	-	-	-	431,482	-	431,482
28,000	68,000	401,000	-	1,432,298	-	1,432,298
4,351	-	-	-	4,547	-	4,547
-	-	-	-	3,839,985	-	3,839,985
496,736	116,884	837,825	-	7,271,748	-	7,271,748
-	-	-	-	31,586	624,065	655,651
4,123,502	-	4,835,629	-	12,492,344	239,396	12,731,740
6,786,610	670,078	-	2,592,041	13,772,655	-	13,772,655
10,910,112	670,078	4,835,629	2,592,041	26,296,585	863,461	27,160,046
$ 11,406,848	$ 786,962	$ 5,673,454	$ 2,592,041	$ 33,568,333	$ 863,461	$ 34,431,794

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Revenues						
Taxes, assessments, interest & penalties	$ 4,637,241	$ -	$ -	$ -	$ 593,831	$ -
Licenses, permits & inspection charges	-	-	-	1,636,669	-	-
Intergovernmental	-	2,374,349	-	-	-	3,182,418
Charges for services	-	-	430,494	-	1,941,844	(196)
Fines & forfeitures	-	-	-	-	1,282,125	-
Other	3,289	151,755	338,590	843	15,586	(545)
Total revenues	4,640,530	2,526,104	769,084	1,637,512	3,833,386	3,181,677
Expenditures						
Current:						
Administration	-	-	-	-	-	666,902
Finance	-	-	-	-	-	1,500.00
Engineering	3,730,322	-	852,905	-	-	261,181
Public Services	-	2,526,104	-	2,242,205	-	464,001
Law	-	-	-	-	954,088	-
Police	-	-	-	-	-	1,866,481
Fire	-	-	-	-	-	-
Total expenditures	3,730,322	2,526,104	852,905	2,242,205	954,088	3,260,065
Excess (deficiency) of revenues over (under) expenditures	910,208	-	(83,821)	(604,693)	2,879,298	(78,388)
Other financing sources (uses)						
Transfers in	-	-	-	607,760	-	72,640
Transfers out	(746,000)	-	-	-	(2,880,581)	(4,924)
Total other financing sources (uses)	(746,000)	-	-	607,760	(2,880,581)	67,716
Net change in fund balances	164,208	-	(83,821)	3,067	(1,283)	(10,672)
Fund balances - beginning	3,046,481	31,586	1,970,659	247,930	1,093,424	333,196
Fund balances - ending	$ 3,210,689	$ 31,586	$ 1,886,838	$ 250,997	$ 1,092,141	$ 322,524

Special Revenue Funds (continued)						Permanent Fund	
Animal Control	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 5,231,072	$ -	$ 5,231,072
-	-	-	-	-	1,636,669	-	1,636,669
-	26,459	-	-	-	5,583,226	-	5,583,226
40,244	298,352	93,171	1,435,649	199,998	4,439,556	-	4,439,556
-	1,706,970	-	-	-	2,989,095	-	2,989,095
592	183,263	781	380,519	3,209	1,077,882	4,613	1,082,495
40,836	2,215,044	93,952	1,816,168	203,207	20,957,500	4,613	20,962,113
-	-	-	-	-	666,902	-	666,902
-	-	-	-	199,998	201,498	-	201,498
-	-	2,622,507	-	-	7,466,915	-	7,466,915
8,755	33,051	-	10,875,051	-	16,149,167	-	16,149,167
-	-	-	-	-	954,088	-	954,088
-	1,252,159	-	-	-	3,118,640	-	3,118,640
-	1,745	-	-	-	1,745	-	1,745
8,755	1,286,955	2,622,507	10,875,051	199,998	28,558,955	-	28,558,955
32,081	928,089	(2,528,555)	(9,058,883)	3,209	(7,601,455)	4,613	(7,596,842)
-	-	2,537,550	9,076,120	-	12,294,070	-	12,294,070
-	(1,060,941)	-	-	-	(4,692,446)	(8,075)	(4,700,521)
-	(1,060,941)	2,537,550	9,076,120	-	7,601,624	(8,075)	7,593,549
32,081	(132,852)	8,995	17,237	3,209	169	(3,462)	(3,293)
461,869	11,042,964	661,083	4,818,392	2,588,832	26,296,416	866,923	27,163,339
$ 493,950	$ 10,910,112	$ 670,078	$ 4,835,629	$ 2,592,041	$ 26,296,585	$ 863,461	$ 27,160,046

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	$ 4,625,000	$ 4,625,000	$ 4,637,241	$ 12,241
Other	6,000	6,000	3,289	(2,711)
Total revenues	4,631,000	4,631,000	4,640,530	9,530
Expenditures				
Current:				
Engineering	3,885,000	3,885,000	3,730,322	154,678
Total expenditures	3,885,000	3,885,000	3,730,322	154,678
Excess (deficiency) of revenues over (under) expenditures	746,000	746,000	910,208	164,208
Other financing sources (uses)				
Transfers out	(746,000)	(746,000)	(746,000)	-
Total other financing sources (uses)	(746,000)	(746,000)	(746,000)	-
Net change in fund balance	$ -	$ -	164,208	$ 164,208
Fund balance - beginning			3,046,481	
Fund balance - ending			$ 3,210,689	

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 1,707,360	$ 2,300,000	$ 2,374,349	$ 74,349
Other	450,000	450,000	151,755	(298,245)
Total revenues	2,157,360	2,750,000	2,526,104	(223,896)
Expenditures				
Current:				
Public Services	2,157,360	2,750,000	2,526,104	223,896
Total expenditures	2,157,360	2,750,000	2,526,104	223,896
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Net change in fund balances	$ -	$ -	-	$ -
Fund balances - beginning			31,586	
Fund balances - ending			$ 31,586	

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 481,490	$ 481,490	$ 430,494	$ (50,996)
Other	385,320	385,342	338,590	(46,752)
Total revenues	866,810	866,832	769,084	(97,748)
Expenditures				
Current:				
Engineering	866,810	866,832	852,905	13,927
Total expenditures	866,810	866,832	852,905	13,927
Excess (deficiency) of revenues over (under) expenditures	-	-	(83,821)	(83,821)
Net change in fund balance	$ -	$ -	(83,821)	$ (83,821)
Fund balance - beginning			1,970,659	
Fund balance - ending			$ 1,886,838	

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Licenses, permits & inspection charges	$ 1,394,170	$ 1,401,640	$ 1,636,669	$ 235,029
Other	600	235,600	843	(234,757)
Total revenues	1,394,770	1,637,240	1,637,512	272
Expenditures				
Current:				
Public Services	2,355,670	2,245,000	2,242,205	2,795
Total expenditures	2,355,670	2,245,000	2,242,205	2,795
Excess (deficiency) of revenues over (under) expenditures	(960,900)	(607,760)	(604,693)	3,067
Other financing sources (uses)				
Transfers in	960,900	607,760	607,760	-
Total other financing sources (uses)	960,900	607,760	607,760	-
Net change in fund balance	$ -	$ -	3,067	$ 3,067
Fund balance - beginning			247,930	
Fund balance - ending			$ 250,997	

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	$ 761,500	$ 761,500	$ 593,831	$ (167,669)
Charges for services	2,471,090	2,471,090	1,941,844	(529,246)
Fines & forfeitures	1,371,200	1,371,200	1,282,125	(89,075)
Other	15,100	20,358	15,586	(4,772)
Total revenues	4,618,890	4,624,148	3,833,386	(790,762)
Expenditures				
Current:				
Law	861,430	960,000	954,088	5,912
Total expenditures	861,430	960,000	954,088	5,912
Excess (deficiency) of revenues over (under) expenditures	3,757,460	3,664,148	2,879,298	(784,850)
Other financing sources (uses)				
Transfers out	(3,757,460)	(3,664,148)	(2,880,581)	783,567
Total other financing sources (uses)	(3,757,460)	(3,664,148)	(2,880,581)	783,567
Net change in fund balance	$ -	$ -	(1,283)	$ (1,283)
Fund balance - beginning			1,093,424	
Fund balance - ending			$ 1,092,141	

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis
Miscellaneous Special Revenue Funds
For the Year Ended June 30, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 330,000	$ 330,000	$ 26,459	$ (303,541)
Charges for services	391,500	366,500	298,352	(68,148)
Fines & forfeitures	1,804,600	1,804,600	1,706,970	(97,630)
Other	441,950	439,839	183,263	(256,576)
Total revenues	2,968,050	2,940,939	2,215,044	(725,895)
Expenditures				
Current:				
Public Services	81,000	81,115	33,051	48,064
Police	1,843,140	1,779,089	1,252,159	526,930
Fire	-	1,745	1,745	-
Total expenditures	1,924,140	1,861,949	1,286,955	574,994
Excess (deficiency) of revenues over (under) expenditures	1,043,910	1,078,990	928,089	(150,901)
Other financing sources (uses)				
Transfers out	(1,043,910)	(1,078,990)	(1,060,941)	18,049
Total other financing sources (uses)	(1,043,910)	(1,078,990)	(1,060,941)	18,049
Net change in fund balances	$ -	$ -	(132,852)	$ (132,852)
Fund balances - beginning			11,042,964	
Fund balances - ending			$ 10,910,112	

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 100,200	$ 100,200	$ 93,171	$ (7,029)
Other	55,000	106,170	781	(105,389)
Total revenues	155,200	206,370	93,952	(112,418)
Expenditures				
Current:				
Engineering	2,712,750	2,743,920	2,622,507	121,413
Total expenditures	2,712,750	2,743,920	2,622,507	121,413
Excess (deficiency) of revenues over (under) expenditures	(2,557,550)	(2,537,550)	(2,528,555)	8,995
Other financing sources (uses)				
Transfers in	2,557,550	2,537,550	2,537,550	-
Total other financing sources (uses)	2,557,550	2,537,550	2,537,550	-
Net change in fund balance	$ -	$ -	8,995	$ 8,995
Fund balance - beginning			661,083	
Fund balance - ending			$ 670,078	

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 791,800	$ 891,800	$ 1,435,649	$ 543,849
Other	230,000	932,637	380,519	(552,118)
Total revenues	1,021,800	1,824,437	1,816,168	(8,269)
Expenditures				
Current:				
Public Services	10,437,920	10,900,557	10,875,051	25,506
Total expenditures	10,437,920	10,900,557	10,875,051	25,506
Excess (deficiency) of revenues over (under) expenditures	(9,416,120)	(9,076,120)	(9,058,883)	17,237
Other financing sources (uses)				
Transfers in	9,416,120	9,076,120	9,076,120	-
Total other financing sources (uses)	9,416,120	9,076,120	9,076,120	-
Net change in fund balance	$ -	$ -	17,237	$ 17,237
Fund balance - beginning			4,818,392	
Fund balance - ending			$ 4,835,629	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Debt Service Funds
June 30, 2012

Assets		
Cash & cash equivalents	$	6,419,680
Investments		30,510,834
Accounts receivable		203,464
Taxes receivable		30,011,655
Notes receivable		1,448,400
Due from component units		6,954,000
Total assets	$	75,548,033
Liabilities and fund balances		
Liabilities:		
Deferred revenue	$	29,737,428
Total liabilities		29,737,428
Fund balance:		
Restricted		45,810,605
Total fund balance		45,810,605
Total liabilities and fund balance	$	75,548,033

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, 2012

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	$ 24,260,910	$ 24,260,910	$ 27,710,514	$ 3,449,604
Other	4,631,070	4,631,070	629,750	(4,001,320)
Total revenues	28,891,980	28,891,980	28,340,264	(551,716)
Expenditures				
Current:				
Debt service:				
Principal retirement	8,632,500	8,182,360	4,852,502	3,329,858
Interest payments on bonds & notes	2,152,960	2,374,090	2,116,189	257,901
Refunding bonds issuance costs	10,000	424,510	410,715	13,795
Total expenditures	10,795,460	10,980,960	7,379,406	3,601,554
Excess (deficiency) of revenues over (under) expenditures	18,096,520	17,911,020	20,960,858	3,049,838
Other financing sources (uses)				
Issuance of refunding debt	-	47,064,500	47,288,303	223,803
Payment of refunded bonds to escrow agent	-	(46,879,000)	(46,877,589)	1,411
Transfers out	(18,096,520)	(18,096,520)	(18,092,957)	3,563
Total other financing sources (uses)	(18,096,520)	(17,911,020)	(17,682,243)	228,777
Net change in fund balance	$ -	$ -	3,278,615	$ 3,278,615
Fund balance - beginning			42,531,990	
Fund balance - ending			$ 45,810,605	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Capital Projects Fund
June 30, 2012

Assets		
Cash & cash equivalents	$	505,594
Investments		71,544,374
Accounts receivable		2,809,174
Due from other funds		1,288,000
Due from component units		2,670,000
Total assets	$	78,817,142
Liabilities and fund balances		
Liabilities:		
Accounts payable	$	2,426,063
Accrued liabilities		2,033,208
Due to other funds		1,283,000
Due to other governmental agencies		8,824
Deferred revenue		2,771,096
Total liabilities		8,522,191
Fund balance:		
Committed		70,294,951
Total fund balance		70,294,951
Total liabilities and fund balance	$	78,817,142

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - From Inception
Capital Projects Fund
For the Year Ended June 30, 2012

	Actual				Variance
	Prior Years	Current Year	Total to Date	Project Authorization	With Final Budget
Revenues					
Intergovernmental	$ 4,433,865	$ 993,401	$ 5,427,266	$ 32,803,351	$ (27,376,085)
Other	8,305,413	2,177,933	10,483,346	14,715,931	(4,232,585)
Total revenues	12,739,278	3,171,334	15,910,612	47,519,282	(31,608,670)
Expenditures					
Current:					
Capital & grant projects	79,189,357	17,497,253	96,686,610	183,302,934	(86,616,324)
Total expenditures	79,189,357	17,497,253	96,686,610	183,302,934	(86,616,324)
Excess (deficiency) of revenues over (under) expenditures	(66,450,079)	(14,325,919)	(80,775,998)	(135,783,652)	55,007,654
Other financing sources (uses)					
Transfers in	63,855,845	19,237,810	83,093,655	138,798,156	(55,704,501)
Transfers out	-	(3,014,504)	(3,014,504)	(3,014,504)	-
Total other financing sources (uses)	63,855,845	16,223,306	80,079,151	135,783,652	(55,704,501)
Net change in fund balance	$ (2,594,234)	1,897,387	$ (696,847)	$ -	$ (696,847)
Fund balance - beginning		68,397,564			
Fund balance - ending		$ 70,294,951			

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Nonmajor Enterprise Funds

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

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2012

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Assets				
Current assets				
Cash & temporary investments	$ 243,767	$ 1,229,649	$ 470,014	$ 1,943,430
Investments	4,079,876	7,622,159	-	11,702,035
Accounts receivable	-	22,395	570	22,965
Leases receivable	-	646,928	-	646,928
Due from other funds	4,000,000	-	-	4,000,000
Inventories	23,525	-	20,717	44,242
Prepaid items	-	-	9,548	9,548
Total current assets	8,347,168	9,521,131	500,849	18,369,148
Noncurrent assets				
Land & site improvements	2,079,796	1,831,368	473,119	4,384,283
Building & building improvements	21,594,627	21,117,703	11,011	42,723,341
Equipment	4,450	2,146,487	646,498	2,797,435
Less: accumulated depreciation	(11,967,644)	(16,202,897)	(424,001)	(28,594,542)
Total capital assets (net of accumulated depreciation)	11,711,229	8,892,661	706,627	21,310,517
Equity interest in joint venture	883,718	-	-	883,718
Total noncurrent assets	12,594,947	8,892,661	706,627	22,194,235
Total assets	20,942,115	18,413,792	1,207,476	40,563,383
Liabilities				
Current liabilities				
Accounts payable	167,880	74,856	69,724	312,460
Accrued liabilities	-	33,934	-	33,934
Customer deposits	3,536	192,726	-	196,262
Due to other funds	2,000	82,000	170,451	254,451
Deferred revenue	41,603	-	-	41,603
Compensated absences	-	77,000	-	77,000
Long-term debt due within one year	-	-	145,870	145,870
Total current liabilities	215,019	460,516	386,045	1,061,580
Noncurrent liabilities				
Long-term debt due in more than one year	-	80,526	20,738	101,264
Total noncurrent liabilities	-	80,526	20,738	101,264
Total liabilities	215,019	541,042	406,783	1,162,844
Net assets				
Invested in capital assets, net of related debt	11,711,229	8,892,661	540,019	21,143,909
Unrestricted	9,015,867	8,980,089	260,674	18,256,630
Total net assets	$ 20,727,096	$ 17,872,750	$ 800,693	$ 39,400,539

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	$ 1,417,843	$ 2,089,836	$ 1,332,170	$ 4,839,849
Total operating revenues	1,417,843	2,089,836	1,332,170	4,839,849
Operating expenses				
Personal services	-	2,106,801	-	2,106,801
Materials & supplies	-	173,043	5,096	178,139
Maintenance	18,003	1,045,121	-	1,063,124
Depreciation & amortization	678,629	665,844	160,733	1,505,206
Other services and charges	927,812	544,458	1,268,572	2,740,842
Total operating expenses	1,624,444	4,535,267	1,434,401	7,594,112
Operating income (loss)	(206,601)	(2,445,431)	(102,231)	(2,754,263)
Nonoperating revenue (expense)				
Interest income	7,597	9,355	-	16,952
Intergovernmental revenue	-	457,128	-	457,128
Other revenues	-	-	83,517	83,517
Gain (loss) on disposal of capital assets	-	-	53,321	53,321
Interest expense	-	-	(5,878)	(5,878)
Total nonoperating revenue (expense)	7,597	466,483	130,960	605,040
Income (loss) before transfers and capital contributions	(199,004)	(1,978,948)	28,729	(2,149,223)
Transfers in	18,003	2,745,111	128,246	2,891,360
Transfers out	-	(6,830)	-	(6,830)
Capital contributions	-	-	136,346	136,346
Change in net assets	(181,001)	759,333	293,321	871,653
Total net assets - beginning	20,908,097	17,113,417	507,372	38,528,886
Total net assets - ending	$ 20,727,096	$ 17,872,750	$ 800,693	$ 39,400,539

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating activities				
Cash received from customers and users	$ 1,681,870	$ 2,236,457	$ 1,332,237	$ 5,250,564
Cash paid to suppliers	(888,090)	(1,525,130)	(1,236,570)	(3,649,790)
Cash paid to employees	-	(2,156,424)	-	(2,156,424)
Cash paid for interfund services used	(13,270)	(234,052)	-	(247,322)
Net cash provided by (used in) operating activities	780,510	(1,679,149)	95,667	(802,972)
Noncapital financing activities				
Transfers from other funds	18,003	2,623,403	22,395	2,663,801
Transfers to other funds	(2,847,873)	(6,830)	-	(2,854,703)
Transfers to component units	998,915	159,160	95,011	1,253,086
Tax and intergovernmental revenues	-	457,128	83,517	540,645
Net cash provided by (used in) noncapital financing activities	(1,830,955)	3,232,861	200,923	1,602,829
Capital and related financing activities				
Principal paid on general obligation bond maturities	-	-	(90,138)	(90,138)
Interest paid	-	-	(5,878)	(5,878)
Acquisition and construction of capital assets	-	(457,130)	51,574	(405,556)
Capital contributions	-	-	136,346	136,346
Net cash provided by (used in) capital and related financing activities	-	(457,130)	91,904	(365,226)
Investing activities				
Sales/(purchases) of investments, net	(1,020,533)	123,712	-	(896,821)
Investment earnings	7,597	9,355	-	16,952
Net change in equity investment in joint venture	(119,772)	-	-	(119,772)
Net cash provided by (used in) investing activities	(1,132,708)	133,067	-	(999,641)
Net increase (decrease) in cash and cash equivalents	(2,183,153)	1,229,649	388,494	(565,010)
Cash and cash equivalents				
Beginning of year	2,426,920	-	81,520	2,508,440
End of year	$ 243,767	$ 1,229,649	$ 470,014	$ 1,943,430

Continued:

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ (206,601)	$ (2,445,431)	$ (102,231)	$ (2,754,263)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	678,629	665,844	160,733	1,505,206
Change in assets and liabilities				
(Increase) decrease in receivables	264,027	46,712	2,514	313,253
(Increase) decrease in prepayments	-	-	12,246	12,246
(Increase) decrease in inventories	(23,525)	-	15,369	(8,156)
Increase (decrease) in accounts payable	67,980	3,440	9,483	80,903
Increase (decrease) in accrued expenses	-	(49,623)	-	(49,623)
Increase (decrease) in deferred revenue	-	-	(2,447)	(2,447)
Increase (decrease) in customer deposits	-	99,909	-	99,909
Total adjustments	987,111	766,282	197,898	1,951,291
Net cash provided by (used in) operating activities	$ 780,510	$ (1,679,149)	$ 95,667	$ (802,972)

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Internal Service Funds

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

Fleet Maintenance Fund	To supply city departments with quality, cost effective rolling stock that is in continuous state of good repair and capable of efficient performance in the service for which it is assigned.
Risk Management Fund	To account for the cost of insurance and claims against City employees or injury to citizens while on City property.
Health Insurance Fund	To account for the City's comprehensive health and medical coverage plan for its employees and their families.
Equipment Replacement Fund	To account for the planned and systematic replacement of City departments' operating equipment.
City Buildings Fund	To account for the cost of building rentals and maintenance costs.

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Assets						
Current assets						
Cash & temporary investments	$ 2,499,452	$ 1,822	$ 110,670	$ -	$ 1,178,558	$ 3,790,502
Investments	27,951,893	28,243,600	13,004,804	14,486,344	450,150	84,136,791
Accounts receivable	595	609,515	67,267	2,547	-	679,924
Due from other funds	-	-	215	-	-	215
Inventories	885,316	-	-	-	-	885,316
Total current assets	31,337,256	28,854,937	13,182,956	14,488,891	1,628,708	89,492,748
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	56,838,453	13,400	14,794	19,612,101	-	76,478,748
Less: accumulated depreciation	(35,329,527)	(13,400)	(1,315)	(15,173,466)	-	(50,517,708)
Total capital assets (net of accumulated depreciation)	21,766,317	-	13,479	4,438,635	-	26,218,431
Equity interest in joint venture	-	-	-	-	2,755,267	2,755,267
Total noncurrent assets	21,766,317	-	13,479	4,438,635	2,755,267	28,973,698
Total assets	53,103,573	28,854,937	13,196,435	18,927,526	4,383,975	118,466,446
Liabilities						
Current liabilities						
Accounts payable	483,686	170,539	1,265,988	48,219	-	1,968,432
Accrued liabilities	36,934	4,447	1,041,300	-	-	1,082,681
Due to other funds	86,000	-	-	1,215	-	87,215
Compensated absences	105,513	17,000	803	-	-	123,316
Long-term debt due within one year	-	5,000,000	-	-	-	5,000,000
Total current liabilities	712,133	5,191,986	2,308,091	49,434	-	8,261,644
Noncurrent liabilities						
Estimated litigation liability	-	5,600,000	-	-	-	5,600,000
Total noncurrent liabilities	-	5,600,000	-	-	-	5,600,000
Total liabilities	712,133	10,791,986	2,308,091	49,434	-	13,861,644
Net assets						
Invested in capital assets, net of related debt	21,766,317	-	13,479	4,438,635	-	26,218,431
Unrestricted	30,625,123	18,062,951	10,874,865	14,439,457	4,383,975	78,386,371
Total net assets	$ 52,391,440	$ 18,062,951	$ 10,888,344	$ 18,878,092	$ 4,383,975	$ 104,604,802

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2012

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating revenues						
Charges for services	$ 15,314,314	$ 6,750,988	$ 14,463,343	$ 2,159,205	$ 1,200,662	$ 39,888,512
Total operating revenues	15,314,314	6,750,988	14,463,343	2,159,205	1,200,662	39,888,512
Operating expenses						
Personal services	2,157,298	801,737	580,293	-	-	3,539,328
Materials & supplies	2,006,303	25,785	1,169	2,464	-	2,035,721
Maintenance	548,336	20,090	-	-	380,692	949,118
Depreciation & amortization	4,793,411	-	986	2,040,237	-	6,834,634
Other services and charges	3,894,094	5,570,253	16,816,639	-	1,234,426	27,515,412
Total operating expenses	13,399,442	6,417,865	17,399,087	2,042,701	1,615,118	40,874,213
Operating income (loss)	1,914,872	333,123	(2,935,744)	116,504	(414,456)	(985,701)
Nonoperating revenue (expense)						
Interest income	33,805	-	16,262	28,217	662	78,946
Intergovernmental revenue	-	631,554	-	-	-	631,554
Other revenues	1,708	176,694	5,914	1,008	-	185,324
Gain (loss) on disposal of capital assets	361,200	-	-	4,866	-	366,066
Total nonoperating revenue (expense)	396,713	808,248	22,176	34,091	662	1,261,890
Income (loss) before transfers and capital contributions	2,311,585	1,141,371	(2,913,568)	150,595	(413,794)	276,189
Transfers in	1,698,230	434,940	1,335,990	111,840	380,692	3,961,692
Capital contributions	51,067	-	-	-	-	51,067
Change in net assets	4,060,882	1,576,311	(1,577,578)	262,435	(33,102)	4,288,948
Total net assets - beginning	48,330,558	16,486,640	12,465,922	18,615,657	4,417,077	100,315,854
Total net assets - ending	$ 52,391,440	$ 18,062,951	$ 10,888,344	$ 18,878,092	$ 4,383,975	$ 104,604,802

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating activities						
Receipts from interfund services provided	$ 15,375,782	$ 6,149,737	$ 15,261,599	$ 2,197,290	$ 1,200,662	$ 40,185,070
Cash paid to suppliers	(6,036,128)	(742,613)	(3,619,944)	(2,464)	(1,619,083)	(12,020,232)
Cash paid to employees	(2,224,518)	(813,705)	(599,511)	-	-	(3,637,734)
Cash paid for interfund services used	(282,264)	(17,800)	(33,110)	-	-	(333,174)
Payments of claims and insurance	-	(3,431,272)	(12,317,153)	-	-	(15,748,425)
Net cash provided by (used in) operating activities	6,832,872	1,144,347	(1,308,119)	2,194,826	(418,421)	8,445,505
Noncapital financing activities						
Transfers from other funds	1,919,121	434,649	1,335,775	113,055	380,692	4,183,292
Transfers to other funds	-	-	-	-	-	-
Tax and intergovernmental revenues	(398)	808,248	5,914	1,008	-	814,772
Net cash provided by (used in) noncapital financing activities	1,918,723	1,242,897	1,341,689	114,063	380,692	4,998,064
Capital and related financing activities						
Acquisition and construction of capital assets	(6,508,522)	-	-	(1,188,191)	-	(7,696,713)
Capital contributions	51,067	-	-	-	-	51,067
Net cash provided by (used in) capital and related financing activities	(6,457,455)	-	-	(1,188,191)	-	(7,645,646)
Investing activities						
Sales/(purchases) of investments, net	(2,391,410)	(2,385,422)	4,568	(1,154,188)	85,570	(5,840,882)
Investment earnings	33,805	-	16,262	28,217	662	78,946
Net change in equity investment in joint venture	-	-	-	-	1,086,866	1,086,866
Net cash provided by (used in) investing activities	(2,357,605)	(2,385,422)	20,830	(1,125,971)	1,173,098	(4,675,070)
Net increase (decrease) in cash and cash equivalents	(63,465)	1,822	54,400	(5,273)	1,135,369	1,122,853
Cash and cash equivalents						
Beginning of year	2,562,917	-	56,270	5,273	43,189	2,667,649
End of year	$ 2,499,452	$ 1,822	$ 110,670	$ -	$ 1,178,558	$ 3,790,502

Continued:

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	$ 1,914,872	$ 333,123	$ (2,935,744)	$ 116,504	$ (414,456)	$ (985,701)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	4,793,411	-	986	2,040,237	-	6,834,634
Change in assets and liabilities						
(Increase) decrease in receivables	61,468	(601,251)	798,256	1,226	-	259,699
(Increase) decrease in inventories	(106,359)	-	-	-	-	(106,359)
Increase (decrease) in accounts payable	236,700	24,443	847,601	36,859	(3,965)	1,141,638
Increase (decrease) in accrued expenses	(67,220)	(11,968)	(19,218)	-	-	(98,406)
Increase (decrease) in estimated liability for litigation and claims	-	1,400,000	-	-	-	1,400,000
Total adjustments	4,918,000	811,224	1,627,625	2,078,322	(3,965)	9,431,206
Net cash provided by (used in) operating activities	$ 6,832,872	$ 1,144,347	$ (1,308,119)	$ 2,194,826	$ (418,421)	$ 8,445,505

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Fiduciary Funds

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

Agency Funds

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2012

	City Choice Plus	Employee Health Savings Fund	Totals
Assets			
Cash	$ -	$ 656,460	$ 656,460
State & municipal government securities	63,137	-	63,137
Total assets	$ 63,137	$ 656,460	$ 719,597
Liabilities			
Accounts payable	$ 63,137	$ -	$ 63,137
Health care claims liability	-	656,460	656,460
Total liabilities	$ 63,137	$ 656,460	$ 719,597

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2012

	July 1, 2011	Additions	Deductions	July 30, 2012
City Choice Fund				
Assets				
Cash	$ -	$ 531,480	$ 531,480	$ -
State & municipal government securities	37,196	25,941	-	63,137
Other receivables	12,269	531,480	543,749	-
Total assets	$ 49,465	$ 1,088,901	$ 1,075,229	$ 63,137
Liabilities				
Accounts payable	$ 2,409	$ 592,208	$ 531,480	$ 63,137
Due to other funds	47,056	-	47,056	-
Total liabilities	$ 49,465	$ 592,208	$ 578,536	$ 63,137
Employee Health Savings Fund				
Assets				
Cash	$ 565,819	$ 656,460	$ 565,819	$ 656,460
Total assets	$ 565,819	$ 656,460	$ 565,819	$ 656,460
Liabilities				
Health care claims liability	$ 565,819	$ 656,460	$ 565,819	$ 656,460
Total liabilities	$ 565,819	$ 656,460	$ 565,819	$ 656,460
Total All Agency Funds				
Assets				
Cash	$ 565,819	$ 1,187,940	$ 1,097,299	$ 656,460
State & municipal government securities	37,196	25,941	-	63,137
Other receivables	12,269	531,480	543,749	-
Total assets	$ 615,284	$ 1,745,361	$ 1,641,048	$ 719,597
Liabilities				
Accounts payable	$ 2,409	$ 592,208	$ 531,480	$ 63,137
Due to other funds	47,056	-	47,056	-
Health care claims liability	565,819	656,460	565,819	656,460
Total liabilities	$ 615,284	$ 1,248,668	$ 1,144,355	$ 719,597

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COMPONENT UNIT

CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
Knoxville Area Transit - Component Unit
June 30, 2012

Assets		
Current assets:		
Cash & temporary investments	$	1,034,385
Investments		1,074,409
Accounts receivable		9,399,438
Inventories		1,219,861
Total current assets		12,728,093
Noncurrent assets:		
Land & site improvements		1,854,780
Building & building improvements		32,460,504
Equipment		29,671,310
Less: accumulated depreciation		(20,072,052)
Total noncurrent assets		43,914,542
Total assets		56,642,635
Liabilities:		
Current liabilities:		
Accounts payable		1,211,714
Accrued liabilities		95,681
Due to primary government		9,624,000
Deferred revenue		2,650
Total current liabilities		10,934,045
Total liabilities		10,934,045
Net assets:		
Invested in capital assets, net of related debt		43,914,542
Unrestricted		1,794,048
Total net assets	$	45,708,590

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, 2012

Operating revenues	
Charges for services	$ 4,314,000
Total operating revenues	4,314,000
Operating expenses	
Personal services	14,818,634
Materials & supplies	5,434,754
Maintenance	3,996,006
Depreciation & amortization	3,345,010
Other services and charges	7,480,760
Total operating expenses	35,075,164
Operating income (loss)	(30,761,164)
Nonoperating revenue (expense)	
Interest income	1,443
Intergovernmental revenue	32,561,181
Other revenues	52,774
Gain (loss) on disposal of capital assets	48,128
Total nonoperating revenue (expense)	32,663,526
Income (loss) before transfers	1,902,362
Change in net assets	1,902,362
Total net assets - beginning	43,806,228
Total net assets - ending	$ 45,708,590

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, 2012

Operating activities	
Cash received from customers and users	$ 4,316,650
Cash paid to suppliers	(16,263,853)
Cash paid to employees	(14,768,365)
Net cash used in operating activities	(26,715,568)
Noncapital financing activities	
Transfers from other funds	3,026,337
Tax and intergovernmental revenues	30,129,564
Net cash provided by noncapital financing activities	33,155,901
Capital and related financing activities	
Acquisition and construction of capital assets	(5,833,254)
Net cash used in capital and related financing activities	(5,833,254)
Investing activities	
Sales/(purchases) of investments, net	425,863
Investment earnings	1,443
Net cash provided by investing activities	427,306
Net increase in cash and cash equivalents	1,034,385
Cash and cash equivalents	
Beginning of year	-
End of year	$ 1,034,385

Continued:

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows
Knoxville Area Transit - Component Unit
For the Year Ended June 30, 2012

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	$ (30,761,164)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	3,345,010
Change in assets and liabilities	
(Increase) decrease in inventories	23,364
Increase (decrease) in accounts payable	624,303
Increase (decrease) in accrued expenses	50,269
Increase (decrease) in deferred revenue	2,650
Total adjustments	4,045,596
Net cash used in operating activities	$ (26,715,568)

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

STATISTICAL SECTION

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

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Financial Trends

These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

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Revenue Capacity

These schedules contain trend information to help the reader assess the city's most significant revenue source, the property tax.

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Debt Capacity

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Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

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Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs.

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Operating Indicators by Function 150
Capital Asset Statistics by Function 151

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF KNOXVILLE, TENNESSEE
NET ASSETS BY COMPONENT
LAST TEN YEARS
(accrual basis of accounting)
(unaudited - amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Invested in capital assets, net of related debt	$ 155,214	$ 157,139	$ 137,765	$ 139,547	$ 162,108	$ 186,466	$ 205,877	$ 213,568	$ 220,028	$ 220,585
Restricted	16,999	26,801	31,119	32,847	35,779	37,487	38,911	39,449	43,399	46,675
Unrestricted	140,737	67,800	101,204	114,881	157,067	179,868	192,241	215,235	233,442	237,088
Total Governmental Activities Net Assets	$ 312,950	$ 251,740	$ 270,088	$ 287,275	$ 354,954	$ 403,821	$ 437,029	$ 468,252	$ 496,869	$ 504,348
Business-type Activities										
Invested in capital assets, net of related debt	$ 52,821	$ 21,070	$ 18,712	$ 32,217	$ 31,546	$ 30,268	$ 28,212	$ 26,344	$ 26,075	$ 24,881
Unrestricted	(26,531)	6,226	8,838	9,350	12,266	16,682	17,782	24,590	33,712	38,728
Total Business-type Activities Net Assets	$ 26,290	$ 27,296	$ 27,550	$ 41,567	$ 43,812	$ 46,950	$ 45,994	$ 50,934	$ 59,787	$ 63,609
Primary Government										
Invested in capital assets, net of related debt	$ 208,035	$ 178,209	$ 156,477	$ 171,764	$ 193,654	$ 216,734	$ 234,089	$ 239,912	$ 246,103	$ 245,466
Restricted	16,999	26,801	31,119	32,847	35,779	37,487	38,911	39,449	43,399	46,675
Unrestricted	114,206	74,026	110,042	124,231	169,333	196,550	210,023	239,825	267,154	275,816
Total Primary Government Net Assets	$ 339,240	$ 279,036	$ 297,638	$ 328,842	$ 398,766	$ 450,771	$ 483,023	$ 519,186	$ 556,656	$ 567,957

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental Activities:										
General government	$ 10,331	$ 13,200	$ 12,218	$ 15,015	$ 11,671	$ 9,630	$ 8,833	$ 13,348	$ 13,495	$ 34,882
Public safety	67,423	66,325	65,384	69,949	60,882	78,172	80,936	81,637	83,059	85,416
Physical environment	28,920	27,910	49,678	70,289	40,686	42,048	44,421	45,244	46,977	48,046
Transportation	6,273	5,791	6,844	5,728	7,783	9,614	12,131	9,647	10,467	11,201
Economic Development	7,872	6,924	12,428	8,070	8,314	8,732	10,686	16,441	11,878	8,460
Parks & Recreation	4,217	6,542	10,484	10,760	10,068	11,634	11,893	12,858	12,308	11,827
Health & Sanitation	9,729	9,209	9,696	9,740	9,498	9,833	10,094	10,430	10,361	11,111
Interest on long-term debt	4,706	3,199	4,754	4,005	3,585	3,138	2,754	2,398	2,152	1,989
Other	13,721	13,412	1,830	1,683	-	-	-	-	-	-
Total governmental activities expenses	153,192	152,512	173,316	195,239	152,487	172,801	181,748	192,003	190,697	212,932
Business-type Activities:										
Metro parking	928	740	857	819	1,264	1,464	1,565	1,364	1,610	1,625
Public assembly facilities	3,778	3,696	3,974	3,718	3,902	4,174	4,356	4,847	6,539	4,535
Knoxville Convention Center	20,328	18,573	19,562	20,848	20,734	21,246	20,452	19,393	19,395	19,013
Municipal Golf Courses	-	-	-	-	306	886	1,390	1,368	1,811	1,440
Total business-type activities	25,034	23,009	24,393	25,385	26,206	27,770	27,763	26,972	29,355	26,613
Total primary government	$ 178,226	$ 175,521	$ 197,709	$ 220,624	$ 178,693	$ 200,571	$ 209,511	$ 218,975	$ 220,052	$ 239,545
Program Revenues										
Governmental Activities:										
Charges for Services:										
General government	$ 2,424	$ 6,506	$ 480	$ 519	$ 697	$ 629	$ 540	$ 651	$ 757	$ 817
Public safety	912	1,191	6,995	7,473	9,016	9,233	9,191	9,436	8,945	6,971
Physical environment	594	772	815	856	924	1,135	717	1,026	985	1,539
Transportation	2,219	114	674	665	830	857	688	760	955	640
Economic Development	1,636	1,946	-	-	78	-	-	955	665	428
Parks & recreation	289	217	408	634	666	801	694	689	537	531
Health & sanitation	916	682	26	30	48	43	47	54	49	40
Other	3,216	5,734	1,170	-	-	-	-	-	-	-
Operating grants and contributions	8,770	9,033	14,899	13,662	9,656	9,804	10,387	15,758	14,811	10,088
Capital grants and contributions	1,574	890	4,064	9,693	4,558	5,753	5,161	4,724	3,777	3,318
Total governmental activities program revenues	22,550	27,085	29,531	33,532	26,473	28,255	27,425	34,053	31,481	24,372
Business-type Activities:										
Charges for Services:										
Metro parking	967	999	1,397	698	1,308	1,716	2,188	1,690	1,565	1,418
Public assembly facilities	1,923	1,810	1,725	1,994	2,210	2,863	1,812	1,400	1,855	2,090
Knoxville Convention Center	4,111	3,748	5,048	4,814	5,975	6,409	5,396	5,797	5,171	4,962
Municipal Golf Courses	-	-	-	-	211	776	1,105	1,121	1,195	1,332
Operating grants and contributions	-	-	-	-	-	-	1,430	1,435	1,500	1,750
Capital grants and contributions	11,998	-	-	-	80	-	-	-	-	-
Total business-type activities program revenues	18,999	6,557	8,170	7,506	9,784	11,764	11,931	11,443	11,286	11,552
Total primary government program revenues	$ 41,549	$ 33,642	$ 37,701	$ 41,038	$ 36,257	$ 40,019	$ 39,356	$ 45,496	$ 42,767	$ 35,924
Net expense:										
Governmental Activities	$ 130,642	$ 125,427	$ 143,785	$ 161,707	$ 126,014	$ 144,546	$ 154,323	$ 157,950	$ 159,216	$ 188,560
Business-type Activities	6,035	16,452	16,223	17,879	16,422	16,006	15,832	15,529	18,069	15,061
Total primary government net expense	$ 136,677	$ 141,879	$ 160,008	$ 179,586	$ 142,436	$ 160,552	$ 170,155	$ 173,479	$ 177,285	$ 203,621

Continued on Next Page

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Property taxes, interest and penalties	$ 93,991	$ 94,957	$ 99,274	$ 104,290	$ 107,901	$ 109,619	$ 113,846	$ 117,760	$ 118,043	$ 121,124
Intergovernmental revenues	45,957	47,215	61,816	56,902	64,449	65,482	58,776	61,625	61,221	60,798
Other taxes	14,907	10,052	6,962	16,392	17,259	17,883	17,908	17,955	18,525	19,968
Other revenue	8,431	3,104	5,113	10,845	11,454	10,670	6,562	2,733	3,669	2,296
Transfers	(8,356)	(11,040)	(11,032)	(9,535)	(10,261)	(11,010)	(9,561)	(10,900)	(16,352)	(8,148)
Total governmental activities	154,930	144,288	162,133	178,894	190,802	192,644	187,531	189,173	185,106	196,038
Business-type Activities:										
Other taxes	-	4,975	3,978	7,085	6,517	6,820	6,418	5,047	5,218	5,420
Intergovernmental revenues	-	1,382	1,367	155	1,296	671	375	4,283	4,539	4,689
Grants & contributions	-	-	-	-	-	-	-	-	-	-
Other revenue	322	61	100	15,120	594	643	676	240	599	627
Transfers	8,356	11,040	11,032	9,535	10,261	11,010	9,561	10,900	16,352	8,148
Total business-type activities	8,678	17,458	16,477	31,895	18,668	19,144	17,030	20,470	26,708	18,884
Total primary government	$ 163,608	$ 161,746	$ 178,610	$ 210,789	$ 209,470	$ 211,788	$ 204,561	$ 209,643	$ 211,814	$ 214,922
Changes in Net Assets										
Governmental activities	$ 24,288	$ 18,861	$ 18,348	$ 17,187	$ 64,788	$ 48,098	$ 33,208	$ 31,223	$ 25,890	$ 7,478
Business-type activities	2,643	1,006	254	14,016	2,246	3,138	1,198	4,941	8,639	3,823
Prior period adjustment	43,440	(80,072)	-	-	-	-	-	-	-	-
Total primary government	$ 70,371	$ (60,205)	$ 18,602	$ 31,203	$ 67,034	$ 51,236	$ 34,406	$ 36,164	$ 34,529	$ 11,301

Continued from Previous Page

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012
General Fund										
Reserved	$ 1,802	$ 1,953	$ 1,298	$ 248	$ 1,366	$ 1,333	$ 1,303	$ 960	$ -	$ -
Unreserved	16,696	18,239	23,748	34,501	45,200	48,223	51,036	59,704	-	-
Nonspendable	-	-	-	-	-	-	-	-	425	385
Restricted	-	-	-	-	-	-	-	-	1,989	-
Committed	-	-	-	-	-	-	-	-	34,631	39,136
Assigned	-	-	-	-	-	-	-	-	231	311
Unassigned	-	-	-	-	-	-	-	-	27,987	19,892
Total general fund	$ 18,498	$ 20,192	$ 25,046	$ 34,749	$ 46,566	$ 49,556	$ 52,339	$ 60,664	$ 65,263	$ 59,724
All other governmental funds										
Reserved/Designated	$ 44,038	$ 62,791	$ 35,609	$ 13,132	$ 15,017	$ 7,082	$ 5,312	$ 3,428	$ -	$ -
Unreserved, reported in:										
Special Revenue funds	5,645	7,664	(2,284)	8,583	11,527	22,903	24,138	26,055	-	-
Debt Service funds	-	-	28,722	30,571	32,941	34,623	36,259	36,907	-	-
Capital Projects funds	783	8,831	17,499	28,008	44,688	53,084	55,248	72,654	-	-
Nonspendable	-	-	-	-	-	-	-	-	656	739
Restricted	-	-	-	-	-	-	-	-	65,277	60,074
Committed	-	-	-	-	-	-	-	-	73,913	84,068
Total all other governmental funds	$ 50,466	$ 79,286	$ 79,546	$ 80,294	$ 104,173	$ 117,692	$ 120,957	$ 139,044	$ 139,846	$ 144,881

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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes, assessments, interest & penalties	$ 133,667	$ 135,130	$ 153,817	$ 160,146	$ 168,434	$ 169,632	$ 169,521	$ 168,880	$ 173,425	$ 180,543
Licenses, permits & inspection charges	1,838	2,110	2,312	2,342	2,565	2,281	1,973	1,726	1,708	1,975
Intergovernmental revenue	31,210	30,995	31,632	36,907	34,185	34,986	31,540	40,729	37,081	30,040
Charges for services	4,240	4,906	5,547	5,405	6,030	6,323	6,021	6,997	6,859	6,502
Fines & forfeitures	2,315	3,302	1,536	3,127	4,231	4,953	5,397	5,924	5,536	3,637
Other	9,187	5,276	8,714	12,727	9,303	10,711	8,800	7,568	6,207	5,370
Total revenues	182,457	181,719	203,558	220,654	224,748	228,886	223,252	231,824	230,816	228,067
Expenditures										
Current										
General government	12,742	12,039	11,715	12,974	12,461	16,914	14,310	13,958	15,510	27,150
Public safety	64,328	63,888	64,643	68,447	70,466	75,821	77,449	79,071	81,613	85,452
Physical environment	30,470	29,321	21,377	22,742	25,441	21,696	24,435	21,487	22,937	23,380
Solid waste	9,675	9,193	9,369	-	-	-	-	-	-	-
Parks & recreation	6,867	6,832	6,567	738	908	910	907	906	907	1,010
Economic development	10,426	8,658	26,423	41,325	41,810	48,007	51,701	60,222	56,429	55,004
Other	4,779	5,483	162	446	-	-	-	-	-	411
Capital Outlay	19,547	23,317	27,802	27,666	12,504	22,684	24,440	20,864	19,155	17,497
Debt Service										
Principal	12,158	19,304	10,973	10,646	9,773	8,540	7,408	5,396	5,577	4,853
Interest	4,796	2,973	4,592	4,004	3,585	3,138	2,754	2,439	2,188	2,116
Total expenditures	175,788	181,008	183,623	188,988	176,948	197,710	203,404	204,343	204,316	216,873
Excess of revenues over expenditures	6,669	711	19,935	31,666	47,800	31,176	19,848	27,481	26,500	11,194
Other Financing Sources (Uses)										
Proceeds from issuance of debt	1,929	42,967	256	-	-	-	-	13,471	-	411
Transfers in	39,995	29,637	40,566	29,474	47,722	45,175	40,845	42,809	39,727	35,497
Transfers out	(51,374)	(42,801)	(55,642)	(50,689)	(59,826)	(60,611)	(54,645)	(57,350)	(60,612)	(47,606)
Total other financing sources (uses)	(9,450)	29,803	(14,820)	(21,215)	(12,104)	(15,436)	(13,800)	(1,070)	(20,885)	(11,698)
Net changes in fund balances	$ (2,781)	$ 30,514	$ 5,115	$ 10,451	$ 35,696	$ 15,740	$ 6,048	$ 26,411	$ 5,615	$ (504)
Debt service as a percentage of noncapital expenditures	10.9%	14.1%	10.0%	9.1%	8.1%	6.7%	5.7%	4.3%	4.2%	3.5%

CITY OF KNOXVILLE, TENNESSEE
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN YEARS
(unaudited - amounts expressed in thousands)

	Real Property (1)						Personal Property (1)		Public Utilities (2)		Total's			
	Estimated Actual Value:													
Fiscal Year	Commercial	Industrial	Residential & Farm	Exempt Properties	Total's	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Direct Tax Rate	Assessed Value as a Percentage of Actual Value
2003	$ 3,294,907	$ 189,562	$ 4,185,521	N/A	$ 7,669,990	$ 2,438,015	$ 1,015,340	$ 304,602	$ 317,501	$ 174,626	$ 9,002,831	$ 2,917,243	2.70	32%
2004	3,373,811	186,034	4,225,783	N/A	7,785,628	2,474,149	979,508	293,852	273,208	150,265	9,038,344	2,918,266	2.70	32%
2005	3,425,002	187,470	4,317,168	N/A	7,929,640	2,525,477	1,008,959	302,688	287,068	157,887	9,225,667	2,986,052	3.05	32%
2006	3,801,543	202,532	5,041,704	$ 176,170	9,221,949	2,862,056	1,052,507	315,752	293,389	161,364	10,567,845	3,339,172	2.81	32%
2007	3,877,677	205,211	5,149,924	189,974	9,422,786	2,920,636	1,098,949	329,685	264,552	145,503	10,786,287	3,395,824	2.81	31%
2008	4,080,438	192,241	5,351,751	219,839	9,844,269	3,047,010	1,024,933	307,481	269,757	148,366	11,138,959	3,502,857	2.81	31%
2009	4,256,046	189,664	5,511,802	261,830	10,219,342	3,156,234	1,016,750	305,026	270,210	148,615	11,506,302	3,609,875	2.81	31%
2010	4,887,267	204,716	6,601,700	358,028	12,051,711	3,687,218	1,115,939	334,782	304,404	167,422	13,472,054	4,189,422	2.46	31%
2011	4,923,683	188,715	6,676,669	359,976	12,149,043	3,714,127	1,055,236	316,571	268,712	147,792	13,472,991	4,178,490	2.46	31%
2012	5,067,449	185,505	6,879,230	365,691	12,497,875	3,770,616	1,071,108	321,529	286,778	157,728	13,855,761	4,249,873	2.46	31%

Note:
(1) Assessed by the Knox County Property Assessor's Office
(2) Assessed by the Division of State Assessed Properties, State Comptroller's Office
(3) Assessment Ratios:
a) Real property:
Commercial at 40%
Industrial at 40%
Residential and Farm at 25%
b) Personal property at 30%
c) Public utilities at 55%
N/A - Not Available

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

	City of Knoxville Tax Rate Distribution					Overlapping Knox County Tax Rate Distribution				Total Direct &
Fiscal Year	General Operations	Debt Service	City County Building Lease	Street Paving	Total	General Operations	Debt Service	School Construction	Total	Overlapping Rates
2003	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	5.66
2004	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	5.66
2005	2.20	0.81	-	0.04	3.05	1.34	0.28	1.34	2.96	6.01
2006	2.06	0.75	-	-	2.81	1.24	0.22	1.23	2.69	5.50
2007	2.06	0.75	-	-	2.81	1.24	0.22	1.23	2.69	5.50
2008	2.06	0.75	-	-	2.81	1.13	0.33	1.23	2.69	5.50
2009	2.06	0.75	-	-	2.81	1.10	0.36	1.23	2.69	5.50
2010	1.80	0.66	-	-	2.46	0.97	0.31	1.08	2.36	4.82
2011	1.80	0.66	-	-	2.46	0.97	0.31	1.08	2.36	4.82
2012	1.80	0.66	-	-	2.46	0.97	0.31	1.08	2.36	4.82

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

		2012			2003		
Taxpayer	Type of Business	Taxable Assessed Value[1]	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value[1]	Rank	Percentage of Total Taxable Assessed Value
West Town Mall	Retail	$ 93,953	1	2.21%			
Bellsouth*	Communications	82,189	2	1.93%	$ 54,828	2	1.88%
Fort Sanders Regional Medical Ce	Medical services	81,814	3	1.93%			
Wal-Mart Corporation	Retail	74,588	4	1.76%	24,525	6	0.84%
Scripps Howard Broadcasting	Media	69,336	5	1.63%			
Parkside Dr LLC	Property Management	63,688	6	1.50%			
First American National	Financial Services	55,397	7	1.30%			
Tennessee Holdings LLC	Property Management	52,868	8	1.24%			
AT&T Telecommunications	Communications	46,350	9	1.09%	21,778	10	0.75%
Crowne Campus Pointe	Hotel	18,084	10	0.43%			
Knoxville Center	Retail				66,232	1	2.27%
First American National Bank	Financial Services				49,501	3	1.70%
Parkway Property	Property Management				32,583	4	1.12%
Center at Deanne Hill	Property Management				25,558	5	0.88%
Goody's Family Clothing	Retail				23,150	7	0.79%
Lawler Family Properties	Property Management				22,710	8	0.78%
Talisman Knoxville, LLC	Property Management				21,920	9	0.75%
		$ 638,267		15.02%	$ 342,785		11.76%

[1]Data Source: City property tax office

CITY OF KNOXVILLE, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(unaudited - amounts expressed in thousands)

Fiscal Year Ended June 30,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2003	$ 79,041	$ 74,363	94.08%	$ 4,386	$ 78,749	99.63%
2004	79,603	75,122	94.37%	4,204	79,326	99.65%
2005	91,075	85,989	94.42%	4,712	90,701	99.59%
2006	93,804	90,406	96.38%	3,004	93,410	99.58%
2007	95,423	91,412	95.80%	3,487	94,899	99.45%
2008	98,233	93,938	95.63%	3,667	97,605	99.36%
2009	101,436	96,102	94.74%	4,177	100,279	98.86%
2010	102,836	96,600	93.94%	4,476	101,076	98.29%
2011	103,350	96,738	93.60%	3,811	100,549	97.29%
2012	104,330	99,236	95.12%	-	99,236	95.12%

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

	Governmental Activities				Business Type Activities					
Fiscal Year	General Obligation Bonds	Notes Payable	Lease Purchase Agreement	Debt Participation Agreement	General Obligation Bonds	Capital Leases	Notes Payable	Total Primary Government[1]	% of Personal Income[2]	Per Capita[2]
2003	$ 79,595	$ 1,929	$ -	$ 1,464	$ 162,855	-	1,929	$ 247,772	8.46%	$ 1,395.15
2004	103,106	-	-	1,406	158,184	-	9,962	272,658	8.97%	1,530.77
2005	92,595	-	-	1,346	154,890	-	-	248,831	7.94%	1,394.79
2006	82,080	-	-	1,285	151,475	-	-	234,840	7.13%	1,315.63
2007	72,370	-	-	1,222	147,910	-	-	221,502	6.48%	1,240.21
2008	63,900	-	-	1,156	144,240	-	103	209,399	6.01%	1,171.79
2009	56,560	-	-	1,088	140,810	355	103	198,916	5.87%	1,112.51
2010	51,235	-	13,470	1,017	137,230	271	90	203,313	5.94%	1,136.63
2011	46,675	-	13,470	-	133,495	188	78	193,906	5.66%	1,084.04
2012	50,562	-	-	-	127,828	104	65	178,559	5.09%	987.82

Note:
(1) Total Outstanding Debt is not reduced by available debt service reserves.
(2) Personal Income and Population estimated as reliable data is not available.

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

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Taxable Value of Property	Per Capita
2003	$ 242,450	$ 16,999	$ 225,451	7.73%	$ 1,269.47
2004	261,290	26,801	234,489	8.04%	1,316.48
2005	247,485	28,722	218,763	7.33%	1,226.25
2006	233,555	30,572	202,983	6.08%	1,137.16
2007	220,280	32,941	187,339	5.52%	1,048.93
2008	208,140	34,623	173,517	4.95%	971.00
2009	197,370	36,259	161,111	4.46%	901.07
2010	188,465	36,397	152,068	3.63%	850.14
2011	180,170	42,532	137,638	3.29%	769.47
2012	178,390	40,732	137,658	3.24%	761.55

CITY OF KNOXVILLE, TENNESSEE
LEGAL DEBT MARGIN INFORMATION

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

CITY OF KNOXVILLE, TENNESSEE
PLEDGED-REVENUE COVERAGE
PRIMARY GOVERNMENT

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

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

Fiscal Year	Gross Revenue	Expenses (net of depreciation and interest)	Net Revenue Available for Debt Service	Debt Service	Revenue Bond Coverage
2003	$ 500,073	$ 429,096	$ 70,977	$ 26,568	2.67
2004	529,340	460,396	68,944	61,308	1.12
2005	532,535	471,762	60,773	112,034	0.54
2006	611,132	538,260	72,872	27,981	2.60
2007	650,153	566,716	83,437	33,455	2.49
2008	689,212	592,251	96,961	38,596	2.51
2009	751,042	640,292	110,750	44,117	2.51
2010	672,927	573,375	99,552	45,681	2.18
2011	724,318	620,009	104,309	47,009	2.22
2012	693,531	589,320	104,211	54,859	1.90

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

Fiscal Year	Gross Revenue (net of grant receipts)	Expenses (net of depreciation and interest)	Net Revenue Available for Debt Service	Debt Service	Revenue Bond Coverage
2003	$ 18,693	$ 11,630	$ 7,063	$ 4,676	1.51
2004	19,614	11,843	7,771	4,649	1.67
2005	22,746	12,643	10,103	4,806	2.10
2006	25,743	13,615	12,128	7,345	1.65
2007	27,768	15,274	12,494	7,770	1.61
2008	30,148	16,100	14,048	8,810	1.59
2009	28,369	16,934	11,435	7,905	1.45
2010	26,889	16,500	10,389	6,394	1.62
2011	28,357	17,672	10,685	6,924	1.54
2012	25,119	18,588	6,531	13,347	0.49

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2012
(unaudited - amounts expressed in thousands)

Governmental Unit	Net Direct Outstanding Debt [1]	Percentage Applicable to Knoxville[2]	Amount Applicable to Knoxville
Direct Debt:			
City of Knoxville	$ 50,562	100.00%	$ 50,562
Overlapping Debt:			
Knox County	392,935	41.42%	162,754
Knox County Schools	281,088	41.42%	116,427
Total Overlapping Debt	674,023		279,181
Total Direct and Overlapping Debt	$ 724,585		$ 329,743

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

(2) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's assessed taxable value that is within the City's boundaries and dividing it by the county's total assessed taxable value.

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

					Education Level - Population 25 & Over [1]					
Fiscal Year	Population[1]	Personal Income (In $1,000)[2]	Per Capita Personal Income[2]	Median Age[1]	High School Graduate	Some College · AS Degree	Bachelor's Degree	Master's & Above	School Enrollment [3]	Knoxville, Metropolitan Area Unemployment Rate[4]
2003	177,595	$ 18,384,062	$ 28,703	38.2	-	-	-	-	56,935	4.8%
2004	178,118	19,544,768	30,209	-	-	-	-	-	55,720	4.3%
2005	178,400	20,266,000	30,899	-	-	-	-	-	53,130	4.7%
2006	178,500	21,643,000	32,430	35.2	28.8%	31.1%	18.9%	12.6%	56,851	4.7%
2007	178,600	23,316,000	34,180	35.1	33.0%	25.5%	17.0%	11.0%	56,535	3.8%
2008	178,700	24,017,000	34,696	35.5	33.1%	23.9%	18.2%	11.8%	54,896	5.7%
2009	178,800	23,801,000	34,038	35.3	30.2%	26.3%	18.3%	11.5%	55,171	9.4%
2010	178,874	[5]	[5]	35.4	29.9%	26.0%	18.6%	[5]	56,516	7.8%
2011	178,874	23,832	[5]	38.9	28.8%	25.5%	19.5%	[5]	56,817	7.9%
2012	180,761	24,365	35,506	34.0	28.3%	25.6%	15.0%	9.5%	57,812	7.0%

Data sources

(1) U.S. Census Bureau or estimates based on projected growth.

(2) Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce - Knoxville, TN Metropolitan Statistical Area

(3) Educator Supply and Demand Report prepared by the State of Tennessee - Knox County

(4) U.S. Bureau of Labor Statistics - Annual Average for Knoxville, Tn Metropolitan Statistical Area

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

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

	2012			2003		
Employer's Name	Employees	Rank	Percentage of Total Area Employment[1]	Employees	Rank	Percentage of Total Area Employment[2]
Covenant Health	9,494	1	10.80%			
Knox County Public Schools	6,891	2	7.84%			
University of Tennessee, Knoxville	6,400	3	7.28%			
Wal-Mart Stores	4,668	4	5.31%			
University of Tennessee Medical Center	3,942	5	4.48%			
K-VA-T Food Stores	3,924	6	4.46%			
Tennova Healthcare	3,857	7	4.39%			
State of Tennessee, Regional Offices	3,528	8	4.01%			
County of Knox	2,998	9	3.41%			
City of Knoxville	2,811	10	3.20%			
Sea Ray Boats, Inc.				1,750	1	2.06%
DeRoyal Industries				1,222	2	1.44%
CTI Molecular Imaging, Inc.				850	3	1.00%
Atlantic Research Corp. (ARC Automotive)				675	4	0.79%
Knoxville News-Sentinel Company				605	5	0.71%
Matsushita Electronic Components				590	6	0.69%
Breed Technologies				675	7	0.79%
PBR Knoxville, LLC				425	8	0.50%
Shaw Environmental and Infrastructure, Inc				500	9	0.59%
CVS Distribution				420	10	0.49%

Note:
(1) Source: Tennessee Department of Labor and Workforce Development
Employment Statistics include the Knoxville area MSA as reliable statistics for the City are not available
(2) Estimated - Reliable data no longer available

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

	Full-time Equivalent Employees as of June 30,									
Department	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Administration	23.0	21.5	19.5	24.5	24.5	25.0	26.5	26.5	26.0	30.5
Finance and Accountability										
Finance	54.0	48.0	55.5	56.5	54.5	52.5	52.5	51.0	51.0	51.5
Information Systems	30.0	28.0	29.0	29.0	30.0	30.0	30.0	30.0	30.0	30.0
Subtotal	84.0	76.0	84.5	85.5	84.5	82.5	82.5	81.0	81.0	81.5
Operations & Engineering										
Engineering	89.5	86.0	88.0	88.0	90.0	89.5	89.5	88.5	88.5	90.5
Fleet Services	67.0	58.0	58.0	57.0	57.0	56.0	56.0	55.0	55.0	54.0
Inspections	31.0	30.0	30.0	31.0	31.0	31.0	31.0	29.0	29.0	29.0
Subtotal	187.5	174.0	176.0	176.0	178.0	176.5	176.5	172.5	172.5	173.5
Community and Neighborhood Services										
Public Services	338.0	315.0	308.0	309.0	307.0	307.0	305.0	305.0	305.0	305.0
Development Services	5.0	5.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0
Community Development	20.0	21.5	20.5	18.5	19.5	21.5	21.5	21.5	19.5	19.5
Recreation	62.5	58.5	60.5	60.5	59.0	58.0	57.5	55.0	55.0	53.0
Subtotal	425.5	400.0	392.0	391.0	389.5	390.5	388.0	385.5	383.5	381.5
Law	25.5	25.5	13.0	13.0	13.0	13.0	14.0	13.0	13.0	12.5
Police										
Sworn	456.0	421.0	414.0	414.0	414.0	416.0	416.0	416.0	416.0	416.0
Civilian	133.0	121.0	120.5	120.5	120.5	121.0	121.0	120.0	120.0	120.0
Emergency Management	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Subtotal	593.0	546.0	537.5	537.5	537.5	540.0	540.0	539.0	539.0	539.0
Fire										
Sworn	358.0	328.0	328.0	328.0	328.0	328.0	328.0	327.0	327.0	327.0
Civilian	12.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal	370.0	339.0	339.0	339.0	338.0	338.0	338.0	337.0	337.0	337.0
Board Administered/Other Departments										
Legislative	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
City Court	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Civil Service	15.0	14.0	14.0	14.0	14.5	13.0	13.0	12.0	12.0	12.0
Public Assembly Facilities	37.0	36.0	36.0	36.0	35.5	35.5	35.5	36.0	35.5	36.0
Subtotal	73.0	71.0	71.0	71.0	71.0	69.5	69.5	69.0	68.5	69.0
GRAND TOTAL	1,781.5	1,653.0	1,632.5	1,637.5	1,636.0	1,635.0	1,635.0	1,623.5	1,620.5	1,624.5

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

Department	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Public Safety										
Police										
Arrests	13,435	14,101	14,706	16,656	15,176	20,492	24,008	16,702	16,648	15,898
Citations	87,387	96,509	84,428	64,705	64,683	95,121	131,619	156,053	135,680	107,501
Fire										
Fire Inspections	3,604	4,600	4,298	4,057	4,957	3,742	4,051	3,481	3,692	3,518
Alarms Attended	17,876	17,836	17,639	18,603	19,432	20,174	21,131	20,214	20,463	20,688
First Responder Calls	11,236	9,234	9,654	9,869	9,146	10,272	11,349	10,032	10,442	10,954
Engineering										
Miles of Streets Resurfaced	44	37	50	42	9	84	44	38	42	48
Parks & Recreation										
Recreation Center Participants	198,684	158,941	309,913	314,836	338,510	372,110	537,486	596,748	620,469	551,101
Service										
Pothole Repairs (by tons of asphalt)	680	607	483	515	414	349	383	496	561	398

Sources: Various city departments

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

Department	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Public Safety										
Safety Building - Police	1	1	1	1	1	1	1	1	1	1
Fire Halls	18	18	18	18	18	18	18	18	18	18
Operations & Engineering										
Street Lights	28,545	28,545	28,983	29,436	29,440	29,506	29,801	29,649	29,569	29,711
Miles of Streets maintained	1,253	1,257	1,264	1,264	1,264	1,274	1,274	1,277	1,277	1,277
Parks & Recreation										
Recreation Centers	14	13	14	14	14	13	13	13	12	12
Parks	78	79	79	79	79	81	81	80	81	81
Park Acreage	1,741	1,856	1,856	1,856	1,857	1,858	1,858	1,963	1,963	1,963
Swimming Pools	4	4	5	5	5	5	5	5	5	5
Tennis Courts	61	61	61	61	61	68	68	68	68	68
Miles of Greenway	30	33	38	40	42	42	43	44	66	66
Stormwater										
Storm Sewers (miles)	367	371	371	372	372	372	375	375	375	376

Sources: Various city departments
Note: No capital asset indicators are available for the general government function.

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COMPLIANCE SECTION

CITY OF KNOXVILLE, TENNESSEE

SINGLE AUDIT REPORT AND
FINDINGS AND RECOMMENDATIONS
For the Fiscal Year Ended June 30, 2012

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CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2012

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/11	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/12
U.S. Department of Housing and Urban Development	**FEDERAL ASSISTANCE**						
Direct assistance							
	Community Development Block Grant	14.218	B-09-MC-47-0005	$ 476,979	$ 638,834	$ 403,356	$ 241,501
	Community Development Block Grant	14.218	B-10-MC-47-0005	-	1,574,018	1,574,018	-
	Neighborhood Stabilization Program	14.218	B-08-MN-47-0002	890,130	920,344	41,502	11,288
		14.218		1,367,109	3,133,196	2,018,876	252,789
	Home Grant 2006	14.239	M06-MC-47-0201	-	777	777	-
	Home Grant 2007	14.239	M07-MC-47-0201	-	230,775	230,775	-
	Home Grant 2008	14.239	M08-MC-47-0201	3,963	726,941	730,905	7,927
	Home Grant 2009	14.239	M09-MC-47-0201	-	597,332	597,332	-
	Home Grant 2010	14.239	M10-MC-47-0201	159,384	675,939	437,693	(78,862)
	Home Grant 2011	14.239	M11-MC-47-0201	-	54,030	54,030	-
		14.239		163,347	2,285,794	2,051,512	(70,935)
	ARRA Community Development Block Grant	14.253	B-09-MY-47-0005	117,803	238,155	218,592	98,240
	Fair Housing 2009	14.400	FF204K094012	(12,194)	-	9,067	(3,127)
	Fair Housing 2010	14.400	FF204K104012	(22,590)	-	-	(22,590)
	Fair Housing 2011	14.400	FF204K114012	-	24,052	-	(24,052)
		14.400		(34,784)	24,052	9,067	(49,769)
	Sustainable Communities Regional Planning Grant	14.703	TNRIP0033-10	118,716	879,600	1,209,838	448,954
Passed through from							
Tennessee Housing Development Agency	Neighborhood Stabilization Program (THDA)	14.228	B-08-MN-47-0002	1,155,574	1,418,728	288,637	25,483
Tennessee Department of Human Services	Emergency Shelter	14.231	S-10-MC-47-005	31,801	33,854	27,249	25,196
	Emergency Shelter	14.231	S-11-MC-47-005	-	56,956	56,956	-
		14.231		31,801	90,810	84,205	25,196
	Homeless Prevention & Rapid Re-Housing Program	14.257	S-09-MY-47-0005	82,210	219,795	142,146	4,561
Total U.S. Department of Housing and Urban Development				3,001,776	8,290,130	6,022,873	734,519
U.S. Department of Justice							
Direct assistance							
	Healing the Heartland	16.590	2006-WE-AX-0073	48,540	154,491	105,951	-
	2007 Project Safe Neighborhoods	16.609	2007-GP-CX-0044	-	48,482	48,482	-
	2008 Project Safe Neighborhoods	16.609	2008-GP-CX-0069	422	9,034	8,612	-
	2009 Project Safe Neighborhoods	16.609	2009-GP-BX-0070	-	27,270	68,879	41,609
	2010 Project Safe Neighborhoods	16.609	2010-GP-BX-0026	35,199	35,199	12,187	12,187
		16.609		35,621	119,985	138,160	53,796
Office of Violence Against Children	2007 Anti-Gang	16.744	2007-PG-BX-0069	54,346	65,071	10,725	-
	Justice and Mental Health Collaboration	16.745	2010-MO-BX-0022	694	23,219	73,163	50,638
Passed through from							
Department of Finance and Administration:							
Office of Juvenile Justice and Delinquency Prevention	2007 Internet Crimes Against Children	16.543	2007-MC-CX-K008	134,731	149,633	14,902	-
	2010 ICAC Continuation Program	16.543	2010-MC-CX-K016	26,609	136,077	215,232	105,764
		16.543		161,340	285,710	230,134	105,764
Criminal Justice Program	Victim of Crime Act 1984 Grant - Knoxville Victim Services	16.575	2011-VA-GX-0015	-	45,117	62,479	17,362
	2007 Byrne/Justice Assistance Grant Program	16.579	Z-06-027520-00	21,069	21,069	-	-
	2010 Byrne/Justice Assistance Grant Program	16.579	2010-DJ-BX-0769	111,145	161,870	61,256	10,531
	2007 Byrne/Justice Assistance Grant Program through Knox County	16.579	2009-H0724-TN-DJ	8,552	22,053	43,342	29,841
	2009 Byrne/Justice Assistance Grant Program through Knox County	16.579	2011-H5094-TN-DJ	-	-	11,950	11,950
		16.579		140,766	204,992	116,548	52,322
	ARRA 2009 Internet Crimes Against Children	16.800	2009-SN-B9-K052	70,982	173,156	240,717	138,543
	ARRA 2009 Byrne/Justice Assistance Grant	16.803	2009-SU-B9-0002	14,684	14,684	-	-
	ARRA 2012 TN ICAC Forensic Training	16.803	GG-12-37636-00	-	-	74,381	74,381
		16.803		14,684	14,684	74,381	74,381
Knox County	ARRA 2009 Byrne/Justice Assistance Grant	16.804	2009-SB-B9-2035	25,114	19,681	32,224	37,657
Total U.S. Department of Justice				552,087	1,106,106	1,084,482	530,463

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
For the year ended June 30, 2012

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/11	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/12
U.S. Department of Labor							
Passed through from							
Senior Service America, Inc.	Senior Aides (Previous Fiscal Year)	17.235	AD-16177-07-60-A-24	21,745	21,745	-	-
	Senior Aides (Current Fiscal Year)	17.235	AD-16177-07-60-A-24	-	291,165	373,727	82,562
Total U.S. Department of Labor				21,745	312,910	373,727	82,562
U.S. Department of Transportation							
Direct assistance							
	Knoxville Station Transit Center	20.500	TN-04-0022	-	121,382	508,980	387,598
	2010 STP Funding for the Transit Center	20.507	TN-95-X038	95,860	131,055	100,052	64,857
	2006 CMAQ Funding	20.507	TN-95-X004	6,868	16,492	9,624	-
	CMAQ - Purchase Buses	20.507	TN-95-X007	-	12,946	12,946	-
	CMAQ - Purchase Related Equipment for Buses	20.507	TN-90-X255-E	9,214	9,214	-	-
	2008 Formula Grant	20.507	TN-90-X275	11,364	11,364	-	-
	2008 TN Statewide 5309 Grant for buses	20.507	TN-04-0026	-	218,944	218,944	-
	2009 Formula Grant	20.507	TN-90-X300	7,543	7,543	-	-
	2009 Surface Transportation Grant	20.507	TN-95-X020	-	196,129	196,129	-
	2010 Formula Grant	20.507	TN-90-X316	(25,374)	47,946	74,195	875
	2010 CMAQ Funding	20.507	TN-95-X035-00	-	1,153,601	1,637,676	484,075
	2011 Formula Grant	20.507	TN-90-X335	3,224,600	3,807,729	609,884	26,755
	2010 Surface Transportation Grant	20.507	TN-95-X037	-	-	1,303,895	1,303,895
	2009 5309 - Discretionary Funding for Buses/Lifts	20.507	TN-04-0047	-	541,517	541,517	-
	2011 CMAQ Funding	20.507	TN-95-X040-00	-	-	5,298	5,298
	2012 Formula Grant	20.507	TN-90-0350-00	-	-	3,589,355	3,589,355
	ARRA Funding for the LEED Certified Knoxville Transit Center	20.507	TN-96-X003-00	557,907	644,513	87,597	991
	ARRA STP Flex Funding - Round II	20.507	TN-66-X004-00	365,328	365,328	-	-
		20.507		4,253,310	7,164,321	8,387,112	5,476,101
U.S. Department of Transportation							
Passed through from							
Tennessee Department of Transportation	Ten Mile Creek Greenway	20.205	STP-EN-9109(47)	$ 2,311	$ -	$ (2,311)	$ -
Tennessee Department of Transportation	Widening of Pleasant Ridge Rd. to 3 lanes with sidewalks	20.205	STP-M-9109(53)	36,152	10,643	-	25,509
Tennessee Department of Transportation	Safe Routes to School Program (Beaumont School)	20.205	SRTS-9109(128) / State 080047	246	-	1,569	1,815
Tennessee Department of Transportation	Jackson Avenue Ramps	20.205	BRZE-9109(103); Pin 106077.00	41,732	67,611	35,949	10,070
Tennessee Department of Transportation	Cumberland Avenue Streetscapes & Pedestrian Improvements	20.205	STP-M-9109(115); Pin 110692.00	255,836	322,697	359,024	292,163
Tennessee Department of Transportation	Upper Second Creek Greenway	20.205	State 060018; Pin 107380.00	24,072	48,060	26,700	2,712
Tennessee Department of Transportation	South Waterfront Pedestrian Bridge to U.T.	20.205	Contract 090266; TCSP-9TN(2)	51,744	93,466	81,792	40,070
Tennessee Department of Transportation	Access Improvements to I-275 Business Park	20.205	Contract 090268; Pin 110262.00	-	119,683	119,688	5
Tennessee Department of Transportation	ARRA Papermill Bluff Greenway	20.205	ARRA-STP-M-9109(132)	249,842	415,324	169,630	4,148
Tennessee Department of Transportation	Kingston Pike/Northshore Feasibility Study	20.205	STP-M-332(7) State 2001638	-	-	5,222	5,222
Tennessee Department of Transportation	Holbrook Bridge over Fountain Road	20.205	BRZE-9109(122)	12,706	27,983	35,891	20,614
Tennessee Department of Transportation	Pedestrian Linkages to Volunteer Landing	20.205	TCSP(2) PIN#043650	2,408	2,408	-	-
Tennessee Department of Transportation	Knox-Blount Greenway Phase I	20.205	State 110043; Pin 115617.00	-	-	806	806
Tennessee Department of Transportation	N. Central Street Streetscape Improvements	20.205	47LPLM-F3-082; State 110195	-	22,278	26,290	4,012
Tennessee Department of Transportation	Park City Sidewalk Network Completion	20.205	CM-9109(148); State 110045	-	9,439	51,193	41,754
Tennessee Department of Transportation	Washington Pike and Millertown Pike Widening	20.205	STP-M-9109(64); State 070099	-	-	64,278	64,278
		20.205		677,049	1,139,592	975,721	513,178
Governor's Highway Safety	Federal Motor Carrier Safety Grant	20.218	MH104720000000	44,555	74,050	29,495	-
	2011 Federal Motor Carrier Safety Grant - High Priority	20.218	FM-MHP-0038-11-01-00	-	53,240	65,000	11,760
		20.218		44,555	127,290	94,495	11,760
Governor's Highway Safety	09/10 Governor's Highway Safety Grant	20.600	Z-10-220019-00	1,035	335	(700)	-
	10/11 Governor's Highway Safety Grant	20.600	Z-11	24,380	29,283	4,903	-
	11/12 Governor's Highway Safety Grant	20.600	Z-12-GHS162	-	40,047	59,879	19,832
		20.600		25,415	69,665	64,082	19,832
Total U.S. Department of Transportation				5,000,329	8,622,250	10,030,390	6,408,469
U.S. Department of Environmental Protection							
Direct assistance	EPA Grant for Brownfields Assessment for the South Waterfront	66.818	BF-95443509-0	$ 68,538	$ 94,240	$ 179,111	$ 153,409
	EPA Grant for Brownfields Assessment for the Downtown North	66.818	BF-95443509-1	-	-	6,961	6,961
Total U.S. Department of Environmental Protection		66.818		68,538	94,240	186,072	160,370

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
For the year ended June 30, 2012

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/11	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/12
U.S. Department of Energy							
Direct assistance							
	Solar America Initiative	81.111	DE-FC36-08G018095	179,205	202,934	23,729	-
	ARRA Energy & Sustainability Block Grant	81.128	DE-EE0000954	55,096	593,739	634,265	95,622
Total U.S. Department of Energy				234,301	796,673	657,994	95,622
U.S. Department of Education							
Passed through from							
Tennessee Department of State							
Knox County Health Department	ARRA Project Diabetes	84.397	GG-12-36928	-	1,500	1,500	-
Total U.S. Department of Education				-	1,500	1,500	-
U.S. Department of Homeland Security							
Passed through from							
Tennessee Emergency Management Agency	DOE 2010 Offsite Emergency Planning and Response	83.552	DE-FG05-960R22522	16,000	16,000	-	-
	DOE 2011 Offsite Emergency Planning and Response	83.552	GG-11-36204-00	-	16,000	16,000	-
		83.552		16,000	32,000	16,000	-
Tennessee Emergency Management Agency	Disaster Grants - Public Assistance	97.036	FEMA-1974-DR-TN	-	20,228	435,111	414,883
	Disaster Grants - Public Assistance	97.036	FEMA-4005-DR-TN	-	5,819	106,221	100,402
		97.036		-	26,047	541,332	515,285
Tennessee Emergency Management Agency	2010 Emergency Management Performance Grant	97.042	34101-22510	-	150,000	150,000	-
Tennessee Emergency Management Agency	2008 Metropolitan Medical Response System	97.067	2008-GE-T8-0048	120,016	120,016	-	-
Tennessee Emergency Management Agency	2009 Metropolitan Medical Response System	97.067	2009-SS-T9-0086	61,104	321,221	259,768	(349)
Tennessee Emergency Management Agency	2010 Metropolitan Medical Response System	97.067	2010-SS-T0-0027	-	-	53,102	53,102
Tennessee Emergency Management Agency	FY2008 Homeland Security Grant Program	97.067	2008-GE-T8-0048	1,820	1,820	-	-
Tennessee Emergency Management Agency	FY2009 Homeland Security Grant Program	97.067	2009-SS-T9-0086	3,430	19,862	16,432	-
Tennessee Emergency Management Agency	FY2010 Homeland Security Grant Program	97.067	2010-SS-T0-0027	-	5,187	5,294	107
		97.067		186,370	468,106	334,596	52,860
Total U.S. Department of Homeland Security				202,370	676,153	1,041,928	568,145
Total Federal Assistance				$ 9,081,146	$ 19,899,962	$ 19,398,966	$ 8,580,150
	STATE ASSISTANCE						
Tennessee Department of Environment and Conservation	Household Hazardous Waste-Fifth Year Funding		GG-08-23533-00	$ -	$ 85,000	$ 85,000	$ -
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm		FEMA-1974-DR-TN	-	2,529	72,519	69,990
	Public Assistance/Disaster Grant for June 22, 2011 Storm		FEMA-4005-DR-TN	-	727	17,703	16,976
Tennessee Department of Transportation	2011-2012 State Operating Grant		47-UROP-S3-008	-	-	2,050,754	2,050,754
Criminal Justice Program	2010-2011 East TN ICAC Program		GG-11-33309-00	109,500	109,500	-	-
	2011-2013 East TN ICAC Task Force Program		2012-VA-GX-0025	-	151,264	233,667	82,403
Tennessee Department of Transportation	Kingston Pike/Northshore Feasibility Study		STP-M-332(7) State 2001638	-	-	1,306	1,306
Tennessee Department of Transportation	FTA-TN-04-0022		GG-08-27785-00	-	15,173	63,623	48,450
Tennessee Department of Transportation	FTA-TN-90-X241		GG-06-12804-00	431	431	-	-
Tennessee Department of Transportation	FTA-TN-95-X004		GG-09-28204-01	1,716	4,122	2,406	-
Tennessee Department of Transportation	FTA-TN-95-X007		47-CMAQ-S3-004	-	1,325	1,325	-
Tennessee Department of Transportation	FTA-TN-90-X255-ES		GG-09-26134-00	1,152	1,152	-	-
Tennessee Department of Transportation	FTA-TN-90-X275		GG-09-26971-00	1,585	1,585	-	-
Tennessee Department of Transportation	FTA-TN-04-0026		GG-09-29306-00	-	27,368	27,368	-
Tennessee Department of Transportation	FTA-TN-90-X300		GG-09-31000-00	945	945	-	-
Tennessee Department of Transportation	FTA-TN-90-X316		GG-10-34114-00	(3,032)	6,134	9,275	109
Tennessee Department of Transportation	FTA-TN-90-X335		47-S307-S3-014	403,075	-	76,235	479,310
Tennessee Department of Transportation	FTA-TN-04-0047		475309-S3-017	-	67,689	67,689	-
	FTA-TN-90-0350-00		contract is pending	-	-	448,669	448,669
Total State Assistance				$ 515,372	$ 474,944	$ 3,157,539	$ 3,197,967
Total Federal and State Assistance				$ 9,596,518	$ 20,374,906	$ 22,556,505	$ 11,778,117

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2012

Note 1 - Basis of Presentation

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

Note 2 - Loans Outstanding

The City of Knoxville had the following loan funding balances and loan balances outstanding at June 30, 2012. These 2012 loan funding balances are also included in the federal expenditures presented in the schedule.

Cluster / Program Title	CFDA Number	FY 11 Loan Funding	Outstanding Balance
Community Development Block Grants	14.218	$ 289,186	$ 3,820,036
Empowerment Zone	14.244	255,143	3,820,036
HOME Investment Partnerships Program	14.239	1,607,375	11,031,860
Total loans		$ 2,151,704	$ 18,671,932

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the Knoxville Area Transit which is presented as a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated, January 30, 2013. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units of the City as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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and are responsible for their own client fee arrangements delivery of services and maintenance of client relationships.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs and referenced as 2007-1, 2008-2, and 2010-1 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-2, and 2012-1.

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

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

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee
January 30, 2013

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Knoxville, Tennessee's ("the City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units, and which received $3,761,953 in federal awards which is not included in the schedule for the year ended June 30, 2012. Our audit, described below, did not include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority because these component units engaged other auditors to perform an audit in accordance with Circular A-133.

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

In our opinion, the City of Knoxville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-2, and 2012-1.

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and are responsible for their own client fee arrangements delivery of services and maintenance of client relationships.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-2 and 2012-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Pugh & Company, P.C.
Certified Public Accountants
Knoxville, Tennessee
January 30, 2013

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
● Material weakness(es) identified?	____	yes	X	no
● Significant deficiency(ies) identified?	X	yes	____	none reported
Noncompliance material to financial statements noted?	____	yes	X	no

Federal Awards

Internal control over major federal programs:				
● Material weakness(es) identified?	____	yes	X	no
● Significant deficiency(ies) identified?	X	yes	____	none reported
Type of auditors' report issued on compliance for major federal programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	X	yes	____	no

Major federal programs for the City of Knoxville for the fiscal year ended June 30, 2012 are:

Program Name	CFDA#
Community Development Block Grant	14.218/14.253
Sustainable Communities Regional Planning Grant Program	14.703
Federal Transit – Capital Investment and Formula Grants	20.500/20.507
Brownfields Assessment and Cleanup Cooperative Agreement	66.818
Energy Efficiency and Conservation Block Grant	81.128
Disaster Grants – Public Assistance	97.036
Homeland Security Grant Program	97.067

Dollar threshold used to distinguish between Type A and Type B Programs:	$581,969			
Auditee qualified as low-risk auditee?	____	yes	X	no

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

Unresolved Prior Year Audit Findings:

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

Criteria: Timely reconciliation of grant receivable accounts should be performed to ensure reasonably accurate financial statements. In addition, timely entering of constructed capital assets into the subsidiary system should be recorded in order to ensure reasonably accurate financial statements.

Condition: Reconciliations to grant receivable accounts were made throughout the year ended June 30, 2007, but as the audit process began, there were several grant receivable accounts that required significant adjustments to capture the amount due from the granting agencies. It should be noted that the material balances were investigated for the differences during the audit process and were either corrected or adjusted at year end.

It was our recommendation in the year ended June 30, 2006 that the City develop a system to track Construction in Progress (CIP) to determine which projects are complete or near completion by verifying with each of the constructing departments on a quarterly basis as to the status of each of their projects for timelier and more accurate information for inclusion in the financial statements. Secondly, we recommended transferring the completed projects at least quarterly from CIP to the fund receiving the completed asset. The process has improved, but items were reconciled during the audit process and several items required adjustment.

Context: The City's grant receivables total approximately $6.5 million and capital assets total approximately $415 million for the year ended June 30, 2007.

Effect: Many of the accounts had to be adjusted for the year ended June 30, 2007 in order to agree to the supporting documentation and this caused delays in providing the information timely and accurately.

Cause: The reconciliation process was not timely followed up on once year end journal entries were made as part of the year end close out process for the year ended June 30, 2007. The system the staff is training on for capital assets has not performed as first thought which caused duplication of entries and problems in the projects module.

Recommendation: The City should continue to perform reconciliations and enhance the year end post closing procedures to verify that the accounts and subsidiary ledgers are in complete agreement for the year end closing of the general ledger system. The grant schedule could be updated throughout the year as grants are added and as the grant period closes out for a more timely and accurate tracking of the grant process.

We continue to recommend transferring the completed projects at least semi-annually from CIP to the fund receiving the completed asset and improving communication between the constructing departments and the finance department as to the date of contract completion.

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

Unresolved Prior Year Audit Findings (continued):

Current Status: The timely reconciliation of grants receivables was resolved in 2009. The adjustments for capital assets have decreased in number, but because the City only reconciles capital projects and capital assets annually, delays and issues with departments providing accurate information remain. We continue to recommend that the City obtain reconciliation information at least biannually to improve accuracy of records and timely reporting.

Management's Response: The auditor's recommendation is a good one and one we would like to be able to perform. Unfortunately with current staffing and systems in place, our ability to perform this time consuming task is limited. It is our intention to continue concentrating on verifying the actual existence of the assets with physical inventories which in our opinion has a higher priority than additional asset reconciliations. We will also continue trying to streamline the process to save time in performing the year end reconciliations with the hopes of being able to comply with the recommendation at some point.

Finding 2008-2: Timely Depositing of Funds

Criteria: Deposits of funds should be made within three days of receiving the funds.

Condition: Certain deposits made by two departments were not deposited within three days in 2008.

Context: The two department's deposits for the days tested made up 5.8% of the total deposits for those two days in 2008.

Effect: Not depositing funds within three days violates TCA § 6-56-111.

Cause: Some departments keep deposits until a certain amount of collections are present before depositing. In addition, certain departments only make deposits once a week.

Recommendation: As stated in the code, "every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts." We recommend that each department should attempt to correct procedures that are causing them to be in violation of the three-day deposit rule in order to comply with state law.

Current Status: This finding has not been resolved. During the June 30, 2012 audit, we noted that three departments violated the three day deposit rule three times out of the forty-six items selected for testing. The City has implemented additional procedures in various departments to attempt to limit the possibility of violations occurring, but certain departments continue to violate the rule.

Management's Response: As the auditors noted, this is an ongoing issue. We continue to make the departments aware of the need for timely deposit of city funds. Departmental staffing and priorities often interfere with making the deposits within the three day timeframe established by state statute but to the department's credit, all large deposits sampled were deposited in a timely manner.

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

Unresolved Prior Year Audit Findings (continued):

Finding 2010-1: Accounts Payable Subsidiary Reconciliation

Criteria: The City should maintain an accurate accounts payable subsidiary ledger that is properly reconciled to the City's detail financial records.

Condition: The City implemented an upgrade to their Oracle accounting software that corrupted the detail accounts payable subsidiary ledger. The subsidiary ledger does not agree to the general ledger control account and there does not appear to be any appropriate patch for the issue.

Context: The accounts payable subsidiary ledger maintains all fund-level records for accounts payable.

Effect: The accounts payable detail subsidiary ledger could not be reconciled to the general ledger without extensive research.

Cause: The software upgrade caused the condition, but the software company and the City's Information Systems department cannot determine the cause of the corruption of the module. Therefore, they have not developed a solution to the issue. The finance department was not performing a monthly reconciliation from the accounts payable subsidiary ledger to the general ledger so the condition was not discovered until the audit process began.

Recommendation: The City reconciles the accounts payable summary subsidiary ledger on a monthly basis to the general ledger, but the detail subsidiary ledger which provides each invoice associated with the balance would be a more meaningful tool to reconcile to in order to determine invoice aging and issues with vendors. We recommend that the City should continue to pursue a solution to the software issue or develop a process for reconciling the detail subsidiary ledger on a monthly basis until a solution is determined.

Current Status: The detailed subsidiary ledger report still contained errors due to system issues. Management believed that the report problems had been resolved because the reconciliation to the subsidiary report involved the general ledger balances on the report. Instead, the reconciliation should agree with the detailed invoice totals by fund. Management should continue to monitor the detail subsidiary ledger report on a monthly basis to ensure that the detail subsidiary balances by fund agrees to the general ledger balances by fund.

Management's Response: This problem appears to come up at fiscal year-end as part of the accrual process involving open purchase orders. Information Systems is working on a solution with our software provider which we anticipate will be in place by next fiscal year-end.

Current Year Audit Findings:

There were no current year audit findings related to the audit of the financial statements.

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

Unresolved Prior Year Audit Finding:

Finding 2011-2: Capital Assets Records and Reporting

Program: Metropolitan Medical Response (CFDA# 97.067)

Criteria: Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency for both financial and capital asset records for reporting and required biannual inventory.

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Condition: During our audit, we noted that the Knoxville Emergency Management Agency ("KEMA") records for reporting to the awarding agency had been maintained on a purchase order basis instead of expended basis and reconciled to the City's financial records in Orbit. In addition, the capital assets records for assets purchased with grant funds maintained by KEMA were not properly maintained in order to perform the required biannual physical inventory for capital assets. Also related to capital asset records, the required Equipment Report which is scheduled to be filed within 60 days of the grant contract end date had not been filed.

Questioned Cost: There are no questioned costs identified.

Context: The expenditures for Metropolitan Medical Response for fiscal year 2011 were $203,906.

Effect: Required reports were not filed timely and accurately at times. Biannual inventory for equipment was not performed.

Cause: KEMA provided information only when requested by granting agency instead of as required by the grant documents.

Recommendation: We recommend that KEMA develop a process for maintaining equipment records by grant funds used to obtain the asset. We also recommend that reports from Orbit need to be used to report to the granting agency for proper cutoff and amount. All reports listed in the grant document should be scheduled to provide reports on a timely basis.

Current Status: The biannual physical inventory has been resolved in relation to the capital assets records. However, the records for reporting to the awarding agency are still maintained on a purchase order basis instead of expended basis and reconciled to the City's financial records in Orbit.

Management's Response: KEMA will continue to improve upon procedures that have been put into place to meet the grant contract requirements. A calendar/timeline will be created of required reporting and deadlines and a checklist/process will be put into place so that reporting for a particular time frame will be consistent for reporting to BSIR, Reimbursement Requests and Quarterly Reports and reconciled to the accounting system.

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

Current Year Audit Finding:

Finding 2012-1: Cash Management

Program: HOME Investment Partnerships Program (CFDA# 14.239)

Criteria: Since the HOME Program is funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

Condition: During our audit, we noted that the HOME Program appears to have drawn down funds in excess of costs. At fiscal year end, the cause of the excess funds had not been determined nor has a corrective course of action been determined to correct the excess cash position.

Questioned Cost: There are no questioned costs identified.

Context: The amount advanced for the HOME Program grant was $78,862.

Effect: The HOME Program was in an advance position for over six months.

Cause: Management has been unable to determine the exact cause of this overage, but believes that a possible misapplication of program income or system conversion issues contributed to the problem.

Recommendation: We recommend that management determine the timeframe that the advance occurred and determine the appropriate amount of interest that would be due to the Government. The amount in advance should then be applied to the next draw to minimize the time between the discovery of the advance and any future draws.

Management's Response: At this time, it is not known when this overage may have occurred and could have happened at some time during the life of the HOME program which began in 1990. Management will investigate further, to the best of our ability, to determine the cause of the overage. Once verified, the funds will be properly accounted for to the HOME IDIS account and the next draw request adjusted accordingly.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Corrected Prior Audit Findings
For the Year Ended June 30, 2012

Finding 2011-1: Loan Processing System for the Community Development Department

Program: Community Development Block Grant ("CDBG") (CFDA# 14.218)

Criteria: Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency.

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Condition: During our audit, we noted that the Community Development Department had implemented a new loan processing system, but the loans in process at year end were not reported to the City Finance department for proper recording in the financial statement records.

Questioned Cost: There are no questioned costs identified.

Context: Total loans recorded for CDBG for fiscal year 2011 totaled $3,725,069.

Effect: The loan receivable and deferred revenue accounts are understated by the amount of in process loans.

Cause: Loan balances were not properly reflected in the financial statements.

Recommendation: We recommend the Community Development Department track and provide loans in process balances at the end of the fiscal year to properly reflect a more accurate loans receivable balance for reporting purposes.

Management's Response: At fiscal year end, we will run a report of projects that are in process and book the amount of the applicable receivable. Information systems has been requested to prepare a report.

Current Status: This finding has been corrected during the 2012 fiscal year.

Finding 2011-3: Expenditure Reimbursement Requested from Wrong Grant

Programs: Federal Transit Formula Grants (CFDA# 20.507)
Solar America Initiative (CFDA# 81.111)

Criteria: Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency.

Condition: Grant expenditures for related projects were erroneously submitted for the Federal Transit Formula Grant instead of the Solar America Initiative Grant as of January 28, 2011.

Questioned Cost: There are no questioned costs identified.

Context: The amount of the expenditures was $37,257.

Effect: Grant expenditures were overstated for Federal Transit Formula Grant and understated for Solar America Initiative at January 28, 2011.

Cause: The City is building a new Transit Center for Knoxville Area Transit. The main grant providing the funds to build the Transit Center is the Federal Transit Formula Grant. The Transit Center was also benefitting from Solar America Grant for energy efficiency initiative. The grant management coordinator was not notified that the grant expenditures for that period were to be charged to the Solar America project because the contractor did not break down the charges by grant.

Recommendation: Each grant coordinator should ensure that each contractor is appropriately notified which CFDA numbers are providing the funds for each project and/or parts of projects. The contractor should then be instructed to identify the expenditures by CFDA number to ensure that the grant management coordinator can positively identify the appropriate granting agency to request funds for the expenditures. The error was corrected in the Schedule of Federal Financial Assistance and future requests were adjusted for the error.

Management's Response: When the billing mistake was discovered, corrected reports were prepared and filed with the appropriate agencies by the departments responsible for the grants.

Current Status: This finding has been corrected during the 2012 fiscal year.

CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR

James York
Director of Finance

Corrective Action Plan

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

Name of contact person: Jim York, Finance Director

Corrective action: Timely Account Reconciliations – Previously Resolved
Recording of Capital Assets

Anticipated Completion Date: The auditor's recommendation to reconcile capital assets on a more frequent basis is a good recommendation and one that we would like to comply with, but due to the extensive amount of time involved in the reconciliation process, it is not one that we are easily able to comply with. The design of the accounting system limits our ability to enter new year assets into the system prior to closing the books for the previous fiscal period. Since we keep the books open until the audit is complete, we are unable to enter new acquisitions or disposals for many months. At that time, we have to catch up with transactions that have previously occurred and then devote time to taking a physical inventory of our capital assets to ensure that the records are reliable. Given the limited manpower that we are able to devote to this area, we do not anticipate being able to implement the auditor's recommendation in the foreseeable future.

Finding 2008-2: Timely Depositing of Funds

Name of contact person: Jim York, Finance Director

Corrective action: We continue to work with our departments to obtain compliance with the Tennessee law and good internal control practices that requires all deposits to be completed within three banking days of receipt. For the most part, the departments comply but occasionally, the three day rule is violated, usually because of manpower availability in getting small deposits to the bank.

Anticipated Completion Date: Continuously

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Corrective Action Plan (Continued)

Finding 2010-1: Accounts Payable Subsidiary Reconciliation

Name of contact person: Jim York, Finance Director

Corrective action: The accounting software reports the payables accurately at the end of the fiscal year but as accruals are made through the system, they are not picked up on the system's reports as of the end of the fiscal year. Information systems is working on a solution with the software vendor.

Anticipated Completion Date: April 30, 2013

Finding 2011-2: Capital Assets Records and Reporting

Name of contact person: Alan Lawson, Emergency Management Director

Corrective action: It was discovered that Emergency Management was requesting reimbursements based upon purchase order paperwork instead of using actual cash disbursements based on the city accounting system. Finance staff has worked with the Emergency Management grant personnel to enable them to view the actual cash disbursements and report more accurately in the future.

Anticipated Completion Date: 12/31/2013

Finding 2012-1: Cash Management

Name of contact person: Becky Wade, Community Development Director

Corrective action: The Community Development department, with the assistance of the Finance department, will search all federal voucher requests to ascertain if at some time during the life of the HOME program funds were drawn in excess of expenses. If this is found to be the case, interest on the funds will be calculated and returned to the treasury.

Anticipated Completion Date: We anticipate being able to complete this by the end of March 2013.