CITY OF KNOXVILLE

BILL HASLAM, MAYOR

MAKING KNOXVILLE AMERICA'S PREMIER CITY

IN WHICH TO LIVE, WORK AND RAISE A FAMILY

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2008

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF KNOXVILLE, TENNESSEE

FOR THE FISCAL YEAR ENDED

JUNE 30, 2008

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

JAMES YORK,
DIRECTOR OF FINANCE

CITY OF KNOXVILLE, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2008

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INTRODUCTORY SECTION

CITY OF KNOXVILLE

BILL HASLAM, MAYOR

James York
Director of Finance

January 7, 2009

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, 2008. 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 complies with the requirements of GASB Statement Number 34. The report also meets the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133. Due to the changes required by the GASB 34 implementation, some of the schedules only reflect operating results since fiscal year ended June 30, 2002, the year the City implemented GASB Statement 34. Over time, these schedules will reflect the full ten year comparisons desired.

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, like previous reports, 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. The *Financial Section* is composed of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. Finally, the *Statistical Section* provides selected unaudited financial and demographic information on a multi-year basis.

Accounting principles generally accepted in the United States of America (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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.

Profile of the Government

The City of Knoxville operates under the Mayor-Council form of government. Policy-making and legislative authority are vested in the nine member City Council, six of whom represent specific districts and three 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 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.

This report covers all funds of the City of Knoxville. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; the construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. In addition, the City of Knoxville has financial accountability over the Knoxville Utilities Board (KUB), the

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WWW.CITYOFKNOXVILLE.ORG

Metropolitan Knoxville Airport Authority (MKAA), Knoxville Area Transit (KAT) and the City Employees' Pension Trust Fund. The financial statements of KUB, MKAA and KAT are included in the body of this report, noted as Component Units on the Government Wide Statements. The financial statements of the City Employees' Pension Trust Fund are included in the Fiduciary funds section along with two minor health related benefit agency funds.

Local Economy

The overall economic health of the metropolitan Knoxville area remains very positive. The City serves as the economic hub of the entire upper East Tennessee area, and its trade sector is one of the strongest in the state. The City of Knoxville 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 only 2.25%. Approximately seventy-six percent of the taxable sales within the County occur inside the corporate limits of Knoxville. The following table displays local sales tax collections (in thousands) of the City over the past six years.

Year	Collections	% Growth
FY 01/02	$28,819	-3.79%
FY 02/03	$29,031	0.74%
FY 03/04	$30,529	5.16%
FY 04/05	$31,785	4.11%
FY 05/06	$34,514	8.59%
FY 06/07	$36,659	6.21%
FY 07/08	$37,274	1.68%

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

As shown above, the City experienced 1.68% growth in local sales tax. This mirrors Knox County as a whole. While the growth was positive, the end of the fiscal year did not end as well as the first part due to a general economic decline in the nation as a whole. Knoxville has, however, a more diversified economy which tends to lessen the tremendous income fluctuations seen in many other parts of the country.

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 contributes to a low unemployment rate, which averaged 4.2% (Knoxville MSA) in FY2008. This compares very favorably to the national unemployment rate of 4.95% and the seasonally adjusted state rate of 5.4% as well as the other major metropolitan areas of the state (Chattanooga – 4.7%, Memphis – 5.7%, and Nashville – 4.5%). Knoxville MSA had a labor force of 343,225 in 2008. Job growth has been positive in the recent past but the future is undeterminable due to difficulties with the national economy.

Knoxville is at the intersection of two major interstate highways (I-40 and I-75) and near the terminus of a third interstate (I-81). Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 500 miles of approximately one-half of the population of the United States. The County for many years has been known as one of the South's leading wholesale markets. Located within the County are 922 wholesale establishments, 1,689 retail establishments and 5,098 service establishments. County retail sales were reported at approximately $8.9 billion in 2007. The average cost of living in the area is below the U.S. Average at 86% which contributes to the attractiveness of the area.

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

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

Tourism also plays a vital role in the economic development of the area. From 2006 to 2007, Knox County had a 7.8% increase in total expenditure with a breakdown of 8% increase in tourism payroll, a 3.3% growth in tourism employment, a 7.2% increase in state tax receipts and a 7.8% growth in local tax receipts. Knox County had the highest percent increase in the state of Tennessee in these five categories when compared to the top counties (Davidson, Shelby, Sevier and Hamilton). Knoxville supports an active tourism and convention trade. The 500,545 square foot convention center on the World's Fair Park site, which opened in June 2002, features spacious meeting rooms and a 400-seat lecture hall. Other facilities include a civic coliseum/auditorium, an exhibition hall/convention center, a 25,000-seat arena, and a conference center at the University of Tennessee. Among Knoxville's many annual events are the Dogwood Arts Festival, Tennessee Valley Fair, Boomsday, Christmas in the City and many cultural activities.

Knox County is the principal Gateway to the Great Smoky Mountains National Park, located 40 miles to the southeast. There are over 500,000 acres that make up the nations most visited National Park, extending over the States of Tennessee and North Carolina. Between 8 and 10 million people visit the park annually, making it the most visited park in the country.

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

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

Knoxville consistently is ranked among the best places to live in the country. According to Places Rated Almanac Millennium Edition, Knoxville was ranked the best place to live for cities under one million in population. Knoxville continually receives high honors for quality of life. As published in the 2007 Best Cities for Relocating Families, Knoxville is the best medium sized metropolitan area in the nation. Rankings are based on cost of living, housing cost, crime rate, education, climate, arts/culture, and diversity. Salary.com placed Knoxville third among all markets in the U.S. when it comes to good wages and low cost of living. According to the 2007 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 was the eighth least expensive urban area in the country with a COL Index of 86.0. With the average of all participating cities equaling 100.0, this further solidifies Knoxville among the leading 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), Clayton Homes, CTI Molecular Imaging Corporation, DeRoyal Industries, Goody's Family Clothing, Pilot Corporation, and Sea Ray Boats.

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

In addition, Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's main campus with over 27,000 students, including its teaching hospital and veterinary school. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are 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: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The objective of the City of Knoxville's budgetary controls system is to ensure compliance with the City Code and Charter, as well as with state and federal guidelines regarding use of funds. No authority is granted to any department to expend above their annual appropriation without council approval. Appropriations for all funds, excluding 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.

Debt Administration

Total general obligation indebtedness of the City decreased by $12.2 million in FY2008 through budgeted debt repayments. No new debt was issued during the fiscal year.

The total amount of general obligation debt outstanding as of June 30, 2008 is $208.1 million. Of this amount, $144.2 million represents proprietary fund debt on the Convention Center and the Locust Street Garage. In addition to the above debt, the City has responsibility for $1.156 million in debt relating to its portion of Animal Welfare Center, this debt being issued by Knox County.

Several indicators are useful in evaluating the City's debt position. These include the ratio of net general obligation bonded debt to assessed valuation and the amount of general obligation debt per capita. The debt ratio for the City of Knoxville (excluding component unit debt) at the end of fiscal year 2008 is as follows:

General Obligation Debt	Amount (in thousands)		Assessed Valuation 100%		Ratio of Amount to Estimated Actual Value		Debt per Capita	
	FY 07/08	FY 06/07	FY 07/08	FY 06/07	FY 07/08	FY 06/07	FY 07/08	FY 06/07
Net direct bonded debt	$ 208,140	$ 220,280	5.94 %	6.49 %	1.87 %	2.04 %	$ 1,155	$ 1,222
Overlapping debt of Knox County	154,284	138,065	4.40 %	4.07 %	1.39 %	1.28 %	856	766
Total	$ 362,424	$ 358,345	10.34 %	10.56 %	3.26 %	3.32 %	$ 2,011	$ 1,988

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

Debt Type	Fitch/ICBA		S & P		Moodys	
	FY 07/08	FY 06/07	FY 07/08	FY 06/07	FY 07/08	FY 06/07
City of Knoxville -						
General Obligation Bonds	AA+	AA+	AA+	AA	Aa2	Aa2
Component Units -						
Knoxville Utility Board Revenue Bonds						
Electric	N/A	N/A	AA	AA	Aa3	Aa3
Gas	N/A	N/A	AA	AA	Aa3	Aa3
Water	N/A	N/A	AA+	AA+	Aa3	Aa3
Waste Water	N/A	N/A	AA	AA	Aa3	Aa3
Metro Knoxville Airport	N/A	N/A	A3	N/A	A-	N/A

Cash Management

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

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

The average yield on investments, excluding the pension trust fund investments, was 4.26%. Average weighted maturities were 54.7 days and ranged between 25 and 100 days during the preceding fiscal year. Duration was very short.

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

Risk Management

The City of Knoxville's risk management program is responsible for the administration of the City's self-insured liability and worker's compensation programs. The risk management division is also responsible for the administration of the City's commercial insurance and OSHA programs. An increase in net assets of $3.8 million was reported for the Risk Management fund as of June 30, 2008, due mainly to favorable claims experience. Total net assets in this fund equal $10.8 million as of June 30, 2008.

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 2008 audit.

MAJOR INITIATIVES

I. Energy Efficiency - In FY08 the city created its new Energy & Sustainability Task Force charged with developing and implementing strategies to lower the city government's energy consumption, costs and emissions. As a result of the Task Force efforts - the City of Knoxville was selected as one of only a dozen 2008 Solar America Cities by the U.S. Department of Energy. Also along those lines the City's Community Development Division worked with several non-profit groups in Knoxville to begin construction on what has become the first group (seven houses) of affordable, Gold Certified LEED houses in the United States. The city is also using green building practices in the construction of a new Transit Center, a 108,000-square-foot LEED-certified facility that will greatly improve mass transportation in the city.

II. Redevelopment - Downtown Knoxville is the heart of our city and the administration is committed to taking the strong growth that the downtown area has experienced and expanding it outward from the core of the city into Downtown North, along Cumberland Avenue and across the Tennessee River on the South Waterfront. The new Regal Theater opened in downtown Knoxville and redevelopment efforts on the historic block of 500 Gay Street began in earnest. New businesses and residents continued to move into the core of the city. The City and developers announced plans for a $58 million residential project as part of the South Waterfront Redevelopment Plan in addition to plans for the city to develop a riverside park, boat ramp and pier and river walk near that location. The City continued work on the Cumberland Avenue Corridor and Downtown North revitalization projects. Those efforts are aimed at developing the infrastructure to encourage a strong mix of residential, retail and business interests in those areas.

III. Livability - The City of Knoxville continued to develop projects to make the city a better place to live, work and raise a family. In FY08, the city opened new sections, and started construction of what is now a 41-mile greenway system. The system includes one 16-mile section that connects East Knoxville to West Knoxville and runs along downtown, the Tennessee River, the University of Tennessee and World's Fair Park. The City opened new studio and public meeting space in the Emporium Building downtown and began planning for a new dog park that will serve downtown residents. Also completed were the new Knoxville Skatepark, a joint effort with Knox County, and a major improvement of Lonsdale Park among other improvements to its park and recreation system.

IV. Employee Compensation - The City is committed to bringing the total compensation of its employees in line with its peer organizations. In FY08 the city began a three-year, $9.3 million effort to bring employee salaries up to levels of other, similar government organizations after a comprehensive survey showed that the city's compensation levels were lower than they should be.

V. Economic Development - Economic development has been the primary focus during the past year. Significant work has been devoted to the preparation of a South Knoxville Waterfront Master plan which will serve as a guide and incentive to future development in this area. Work has continued on the redevelopment of the downtown area with the opening of a multi-screen cinema, additional diversified retail targeting the downtown visitor, and the I-275 Business Park. Increased capital funding was devoted to an on-going maintenance of the City's infrastructure as well as the expansion of parks and facilities.

VI. Other - Other major projects include funding to address chronic problem properties, reducing the homeless population, facades in commercial areas of the City and funding to promote historical restoration of properties in the City. Capital projects scheduled for the year include additional funding for infrastructure improvements and expanded maintenance, traffic calming, parks and recreation initiatives and improvements to drainage in areas prone to flooding. Funding is also provided to increase job creation efforts in the City of Knoxville and the Knoxville MSA. The recent opening of SYSCO Corporation's distribution center, a $34.2 million capital expansion, at the I-275 Business Park employs more than 300 people.

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, 2007. This was the twenty-second 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, 2008. This marks the twenty-first 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 Bob Becker (Chair), Joe Hultquist, Barbara Pelot, Marilyn Roddy and Chris Woodhull. The national recognition afforded the City of Knoxville could not have been achieved without the increasing participation and enthusiasm of the citizens of this community. Their exceptional response 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, 2007

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 & Accountability

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

Health & Sanitation

Service

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 Services

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 Facilities

Public Assembly Facilities

Convention Center

Parks & Recreation

Municipal Golf Courses

OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR
Bill Haslam

DEPUTY TO THE MAYOR
Larry Martin

CITY COUNCIL

Joe Bailey
Bob Becker
Rob Frost
Mark Brown, Vice Mayor
Steve Hall
Joe Hultquist
Barbara B. Pelot
Marilyn Roddy
Chris Woodhull

CITY JUDGE
John Rosson

CITY RECORDER
Cindy Mitchell

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Airport – Bill Marrison, President
Civil Service Merit Board – Vicki Hatfield, Executive Secretary
Community Development – Madeline Rogero
Operations – Samuel P. Anderson, Sr. Director
Community Relations – Thomas E. Strickland, Jr. – Director
Engineering Department – Steve King – Director
Finance Department – James York, Director of Finance
Fire Department – Robert Key, Chief
Fleet Service Division – Mark Kollander, Director
Information Systems Division – Janet Wright, Director
Knoxville Area Transit (KAT) – Cindy McGinnis, General Manager
Knoxville Utilities Board – Mintha Roach, President
Law Department – Debra Poplin, Sr. Director
Parks and Recreation Department – Joe Walsh, Director
Police Department – Sterling P. Owen IV, Chief
Policy Development – William Lyons, Sr. Director
Public Assembly Facilities Department – Robert Polk, Director
Public Service Department – David Brace, Director
South Waterfront Development – Dave Hill, Sr. Director
Special Events Division – Mickey Mallonee, Director

FINANCIAL SECTION

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PUGH & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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C. LARRY ELMORE, CPA
W. JAMES PUGH, JR., CPA
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JAMES H. JONES, CPA
LISA W. HILL, CPA
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TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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, 2008, 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. 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 7, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-19 and the schedule of funding progress of the pension plans on pages 78 to 79 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund financial statements and schedules on pages 80 to 115, the statistical section, as well as the accompanying schedule of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, schedules and the schedule of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the data included in the introductory or statistical sections of this report and, accordingly, we express no opinion on such data.

Pugh & Company, P.C.
Certified Public Accountants
January 7, 2009

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, 2008.

Financial Highlights

- The assets of the City of Knoxville primary government exceeded its liabilities at the close of the most recent fiscal year by $450,771,346 (*net assets*). Of this amount, $196,549,961 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets increased by $51,236,078, an increase of 12.82% over fiscal 2007 as a result of favorable financial operations with strong revenues and effective budgetary controls, especially in the Public Safety and Physical Environment areas.
- As of the close of the fiscal year, the city's governmental funds reported combined ending fund balances of $167,247,913, an increase of $16,509,236 in comparison with the prior year. Approximately 95% ($158,833,165) is available for spending at the city's discretion.
- The Fund Balance for the City's General Fund increased by $2,990,174, an increase of 6.4%. This was the result of stronger than expected tax revenues accompanied by departmental expenditures remaining within their budgetary constraints. Only $1,332,557 is reserved for specific purposes, and the remaining 97% ($48,223,437) is available for spending at the City's discretion (unreserved fund balance).
- Overall, the City's total general obligation debt for the primary government decreased by $12,140,000 (5.8%) to $208,140,000 during the current fiscal year as a result of 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**
1. Governmental Activities	1. Knoxville Utilities Board
2. Business-Type Activities	2. Metropolitan Knoxville Airport Authority
	3. Knoxville Area Transit

STATEMENT OF NET ASSETS

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

The statement of net assets presents the consolidated financial condition of the City at a moment of time. This statement presents assets, liabilities and total net assets categorized as either primary government or component units. Primary government activities are further delineated as either governmental or business-type.

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 Nonmajor Governmental Funds, Special Revenue Funds and Permanent Funds) Governmental funds are noted as follows:

Major Governmental Funds

1. General
2. Debt Service
3. Capital Projects

Non-Major Governmental Funds/Special Revenue Funds

1. State Street Aid
2. Community Development Block Grants
3. Abandoned Vehicles
4. City Inspections
5. City Court
6. Miscellaneous Grants
7. Animal Control
8. Miscellaneous Special Revenue Funds
9. Miscellaneous Community Development Funds
10. Storm Water
11. Solid Waste
12. Knoxville Civic Revitalization

Permanent Fund

13. Krutch Park

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, a 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 its print shop operation which was eliminated during the fiscal year, 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
1. Knoxville Convention Center	1. Office Services Fund
2. Other Business-type activities:	2. Fleet Maintenance Fund
Nonmajor Enterprise Funds -	3. Risk Management Fund
a. Metro Parking Fund	4. Health Insurance Fund
b. Public Assembly Facilities Fund	5. Equipment Replacement Fund
c. Municipal Golf Courses	6. City Buildings Fund

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 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 funds designated by employees to offset the cost of their personal health care and 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 nonmajor governmental funds, nonmajor 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, 2008

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	
	2008	2007	2008	2007	2008	2007
Current and other assets:						
Cash and investments	$ 206,910	$ 178,903	$ 15,588	$ 12,300	$ 222,498	$ 191,203
Other assets	60,144	50,560	3,007	2,165	63,151	52,725
Capital assets	252,911	237,194	173,451	178,338	426,362	415,532
Total assets	$ 519,965	$ 466,657	$ 192,046	$ 192,803	$ 712,011	$ 659,460
Other liabilities	$ 47,923	$ 34,648	$ 5,156	$ 5,784	$ 53,079	$ 40,432
Noncurrent liabilities	68,221	77,054	139,940	143,207	208,161	220,261
Total liabilities	$ 116,144	$ 111,702	$ 145,096	$ 148,991	$ 261,240	$ 260,693
Net assets:						
Invested in capital assets, net of debt	$ 186,466	$ 162,108	$ 30,268	$ 31,546	$ 216,734	$ 193,654
Restricted	37,487	35,780	-	-	37,487	35,780
Unrestricted	179,868	157,067	16,682	12,266	196,550	169,333
Total net assets	$ 403,821	$ 354,955	$ 46,950	$ 43,812	$ 450,771	$ 398,767

Governmental Activities

Assets have increased by 11.4% and liabilities have increased by 4% when compared to 2007 levels. The net result of these changes is an increase of 13.8% 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.

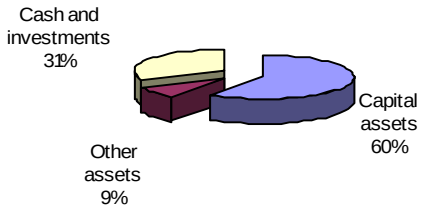
Business-Type Activities

Assets have decreased by 0.4% and liabilities have decreased 2.6% from 2007 levels, resulting in an increase of 7.2% in total net assets. The cause for the increase in total net assets is the progressively increased performance by the Knoxville Convention Center and other favorable revenue increases coupled with reduced expenses in most areas.

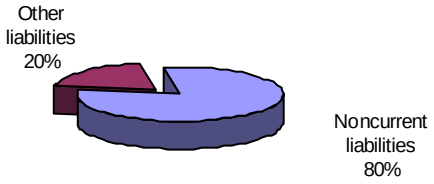
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 60% of $712 million in total assets. Taxes and governmental receivables constitute 9%. Current liquidity, as shown by cash and investments, composes the remaining 31% in total assets.

Primary Government Total Assets



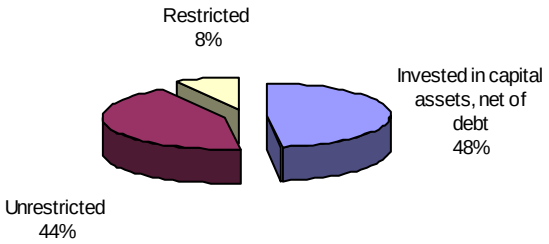
Primary Government Total Liabilities



Eighty percent of the total government liabilities are in long-term debt outstanding. Of long-term debt, approximately $144.2 million, or 69% 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 44% of total primary government net assets.

Primary Government Total Net Assets



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

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:	2008	2007	2008	2007	2008	2007
Program revenues:						
Charges for services	$ 12,699	$ 12,259	$ 11,764	$ 9,704	$ 24,463	$ 21,963
Operating grants & contributions	9,804	9,656	-	-	9,804	9,656
Capital grants & contributions	5,753	4,558	-	80	5,753	4,638
General revenues:						
Taxes	192,984	189,609	7,492	7,812	200,476	197,421
Interest	8,908	8,293	440	405	9,348	8,698
Other	1,762	3,162	202	189	1,964	3,351
Total revenues	$ 231,910	$ 227,537	$ 19,898	$ 18,190	$ 251,808	$ 245,727
Expenses:						
General government	$ 9,630	$ 11,671	$ -	$ -	$ 9,630	$ 11,671
Public safety	78,172	60,882	-	-	78,172	60,882
Physical Environment	42,048	40,686	-	-	42,048	40,686
Transportation	9,614	7,783	-	-	9,614	7,783
Parks and recreation	11,634	10,068	-	-	11,634	10,068
Economic development	8,733	8,314	-	-	8,733	8,314
Health & Sanitation	9,833	9,498	-	-	9,833	9,498
Interest on long-term debt	3,138	3,585	-	-	3,138	3,585
Other	-	-	27,770	26,206	27,770	26,206
Total expenses	$ 172,802	$ 152,487	$ 27,770	$ 26,206	$ 200,572	$ 178,693
Increase (decrease) in net assets before transfers	$ 59,108	$ 75,050	$ (7,872)	$ (8,016)	$ 51,236	$ 67,034
Transfers	(11,010)	(10,261)	11,010	10,261	-	-
Changes in net assets	48,098	64,789	3,138	2,245	51,236	67,034
Beginning net assets	355,723 (1)	290,166	43,812	41,567	399,535	331,733
Ending net assets	$ 403,821	$ 354,955	$ 46,950	$ 43,812	$ 450,771	$ 398,767

(1) See Note 12 regarding Prior Period Adjustment

Governmental Activities

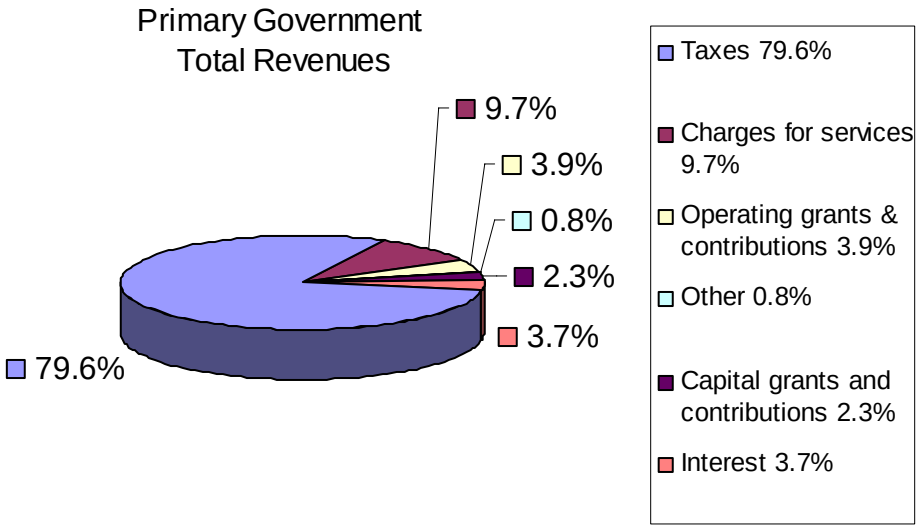
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2008, only the General Fund, City Court and State Street Aid generated revenue in excess of current expenditures. Excess revenue above and beyond actual expenditures in the City Court is transferred to the General Fund to finance general operations. Federal grant revenue proceeds of $5.462 million were earmarked for the City's Community Development efforts. Public safety operations accounted for approximately 45% of the City's total governmental operations of $172.8 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

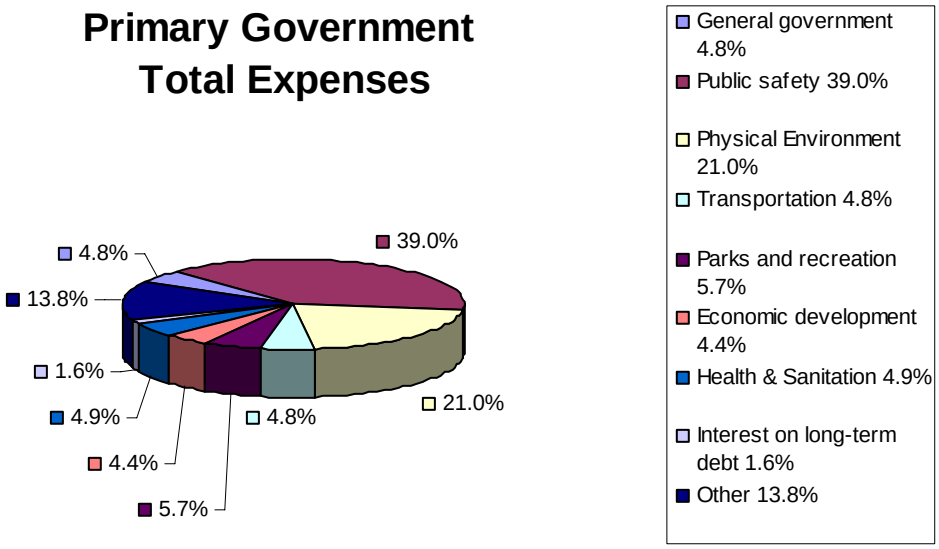
The City's business-type activities include public parking, public assembly facilities and the municipal golf courses. The City also operates the Knoxville Convention Center and the Knoxville Municipal Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands of visitors yearly for various sporting events. Neyland Stadium, the nation's second largest on campus football stadium, attracts over one hundred thousand loyal fans per home game. Proximity to outdoor recreational facilities such as the lake region and The Great Smoky Mountains National Park makes the Knoxville area an ideal tourist destination. With this in mind, local 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. 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 $251.8 million. The largest portion of these revenues ($200.5 MM - 79.6%) was from taxes.



Total primary government expenses totaled $200.6 million, 39% 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	
	2008	2007	2008	2007	2008	2007	2008	2007
Program Revenues	$ 685,950	$ 645,255	$ 41,126	$ 34,590	$ 23,188	$ 15,320	$ 750,264	$ 695,165
Program Expenses	(657,245)	(626,627)	(33,708)	(31,994)	(30,475)	(23,389)	(721,428)	(682,010)
Total General Revenues	7,588	8,641	1,618	1,735	8,353	6,586	17,559	16,962
Change in Net Assets	$ 36,293	$ 27,269	$ 9,036	$ 4,331	$ 1,066	$ (1,483)	$ 46,395	$ 30,117
Net Assets at Year End	$ 728,825	(1) $ 685,083	$ 109,914	$ 100,878	$ 13,819	$ 12,753	$ 852,558	$ 798,714

(1) See Note 12 regarding Prior Period Adjustment

Financial Analysis of the Government's Funds

Balance Sheet at June 30, 2008

The total Government Funds balance as of June 30, 2008 is $167.2 million of which the general fund's balance is approximately $49.6 million, debt service fund is $36.6 million, capital projects comprise $53 million and the remaining $28 million is distributed between the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances grew by $15.7 million over prior year. The general fund grew by $3 million as a result of favorable financial operations. The debt service fund increased by $1.5 million, capital projects increased by $8.4 million as a result of advance funding for approved capital projects and the remaining $2.8 million was spread over various special revenue and the permanent fund. 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, 2008

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, 2008, 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	2008	2007	Percent of Total 2008	Increase (Decrease) from Prior Year	Percent of Increase (Decrease)
Taxes, assessments, interest & penalties	$ 169,632	$ 168,434	74.11%	$ 1,198	0.71%
Licenses, permits and inspection charges	2,281	2,565	1.00%	(284)	(11.07%)
Intergovernmental revenue	34,986	34,185	15.29%	801	2.34%
Charges for services	6,323	6,030	2.76%	293	4.86%
Fines and forfeitures	4,953	4,231	2.16%	722	17.06%
Other	10,711	9,303	4.68%	1,408	15.13%
Totals	$ 228,886	$ 224,748	100.00%	$ 4,138	1.84%

A comparison of revenues between FY07 and FY08 shows the total general government revenues increased by approximately $4.1 million or 1.84%.

Revenue derived from "Taxes" primarily was caused by extraordinarily high collections of current taxes ($1,125,000), Sales Taxes ($615,000), Beverage Taxes ($450,000), all of which were partially offset by a reduction in Prior Year Tax Collections ($1,050,000).

Previous increases in new construction and renovation has abated due to the general downturn in the economy causing Licensing and Permitting revenues to fall.

The change in Intergovernmental revenues was primarily caused by the normal fluctuation in Federal and State capital program and grant funding.

Increased revenues from Red Light Cameras ($466,000) accounted for the majority of the change in Fines and forfeitures.

The largest dollar change occurs in General Fund's "Other" category due to revenues obtained almost exclusively from increased investment earnings.

General fund charges for service increased modestly with the increase being spread relatively evenly between the funds with no one particular revenue contributing an extraordinary amount.

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, 2008, and the percentage of increases and decreases in relation to prior year amounts.

Condensed Financial Information
Total Governmental Funds - Expenditures
For Fiscal Years Ending 06/30/08 and 06/30/07
(In $1,000's)

Expenditures	FY 07/08	FY 06/07	Percent of Total FY 07/08	Increase (Decrease) from Prior Year	Percentage Change from Prior Year
Administration	$ 2,561	$ 2,066	1.30%	$ 495	23.96%
Finance and Accountability	9,899	6,190	5.01%	3,709	59.92%
Operations and Engineering	12,551	12,543	6.35%	8	0.06%
Community and Neighborhood Services	44,954	43,952	22.73%	1,002	2.28%
Law	2,400	2,389	1.21%	11	0.46%
Police	45,910	42,454	23.21%	3,456	8.14%
Fire	29,912	28,013	15.13%	1,899	6.78%
Legislative	907	896	0.46%	11	1.23%
Civil Service	1,146	920	0.58%	226	24.57%
Metropolitan Planning Commission	713	713	0.36%	-	0.00%
Knoxville Zoological Park	910	908	0.46%	2	0.22%
Community agency grants	1,514	1,900	0.77%	(386)	(20.32%)
Waterfront operations	357	359	0.18%	(2)	(0.56%)
Community Action Committee	469	445	0.24%	24	5.39%
Mass Transit	9,145	7,338	4.63%	1,807	24.63%
Capital and grant projects	22,684	12,504	11.47%	10,180	81.41%
Debt service:					
Principal retirement	8,540	9,773	4.32%	(1,233)	(12.62%)
Interest on bonds and notes	3,138	3,586	1.59%	(448)	(12.49%)
Total Expenditures	$ 197,710	$ 176,949	100.00%	$ 20,761	11.73%

Overall general government expenditures for FY07 increased by approximately $20.8 million or 11.7%. Significant changes between the years occurred in Administration as the result of a special state appropriation ($207,250) for community enhancement and the beginning of funding for revitalization planning of the congested Cumberland Avenue corridor near the University of Tennessee campus. $3,315,000 of the increase in Finance and Accountability was the result of one time additional voluntary contribution to the Employee Pension Plans in order to reduce the unfunded liabilities. Community and Neighborhood Services increased as a result of additional grants being awarded to the City. Police and Fire expenditures increased as a result of the departments reaching full strength and a major downtown fire which required significant overtime. The Capital Projects Fund increase of $10.2 MM caused by completion of various large construction projects.

Proprietary Funds Statements

Statement of Net Assets at June 30, 2008

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, 2008

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 $16.3 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2008

The three 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 operate at a profit. The revenues from the combined properties are sufficient to cover total costs including debt service, with gains from the certain garages offsetting the loss on the others. Public Assembly Facilities operated at a loss this year due to a general decline in public amusement attendance. In December, the City took back from a lessee the operation of the Knox Municipal Golf Course. Previously the City had not received any revenues from its operation therefore there was no prior financial presentation of its operations. When combined with the Whittle Springs Golf Course that we took over last year, expectations are that the combined operations will start showing favorable results in future periods.

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	
	2008	2007	2008	2007	2008	2007
I. Business-type Activities						
A. Knoxville Convention Center	$ 13,408	$ 12,839	$ 21,246	$ 20,734	$ 8,981	$ 8,330
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,811	1,488	1,464	1,264	567	-
2. Public Assembly Facilities	3,769	3,572	4,174	3,902	1,362	1,839
3. Municipal Golf Courses	776	291	886	305	100	92
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	38	185	88	181	(6)	-
2. Fleet Maintenance	14,437	12,285	10,672	10,130	4,130	172
3. Risk Management	8,535	8,315	5,522	7,482	826	679
4. Employee Health Insurance	13,203	12,347	14,423	12,166	1,023	924
5. Equipment Replacement	4,714	2,909	2,120	1,850	149	67
6. City Buildings	1,902	2,977	1,469	1,502	(1,696)	-
Totals	$62,593	$57,208	$62,064	$59,516	$15,436	$12,103

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	
	2008	2007	2008	2007	2008	2007
I. Business-type Activities						
A. Knoxville Convention Center	$ -	$ -	$ 1,143	$ 435	$ 12,378	$ 11,235
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	914	224	18,979	18,065
2. Public Assembly Facilities	-	-	957	1,509	15,392	14,435
3. Municipal Golf Courses	133	-	123	78	201	78
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	-	-	(56)	4	-	56
2. Fleet Maintenance	235	-	8,130	2,327	33,423	25,293
3. Risk Management	-	-	3,839	1,512	10,827	6,988
4. Employee Health Insurance	-	-	(197)	1,105	7,632	7,829
5. Equipment Replacement	-	-	2,743	1,126	16,677	13,934
6. City Buildings	-	-	(1,263)	1,475	3,764	5,027
Totals	$ 368	$ -	$ 16,333	$ 9,795	$ 119,273	$ 102,940

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, utility and school board employees. The following table notes the contribution rates:

Condensed Financial Information
Pension Trust Fund Contribution Rates

	FY 07/08 Contribution Rates	FY 06/07 Contribution Rates
General Government Employees:		
Defined Contribution (G1)	9.05%	7.55%
Defined Benefit (G2)	7.55%	6.05%
Police and Fire Employees	16.55%	13.79%

The City's Pension Fund is almost fully funded at year-end (96%). 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 a $9.8 million increase in appropriations between the original and final budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2008

Department	Carry Forward of Prior Year Encumbrances	Other	Total Changes
Administration	$ 513	$ (1,685)	$ (1,172)
Finance and Accountability	91,929	3,290,939	3,382,868
Operations and Engineering	16,555	(119,001)	(102,446)
Community and Neighborhood Services	377,521	(425,509)	(47,988)
Law	25,000	(123,000)	(98,000)
Police	326,361	(635,839)	(309,478)
Fire	111,911	347,995	459,906
Legislative	115,245	(46,000)	69,245
Civil Service	-	225,000	225,000
City Elections	-	(40,000)	(40,000)
Community Agency Grants	-	(20,000)	(20,000)
Waterfront	-	(85,000)	(85,000)
Reserve	-	(640,000)	(640,000)
Mass Transit	-	1,106,000	1,106,000
Transfers	-	5,938,599	5,938,599
Total General Fund Expenditures	$ 1,065,035	$ 8,772,499	$ 9,837,534

The largest change occurred in Finance and Accountability ($3.4 Million), Mass Transit ($1.1 Million) and Transfers ($5.9 Million). Almost the entire change in Finance and Accountability was due to additional contributions to the City Employees' Pension Trust Fund. The additional transfer was made to provide additional funding to the fund due to adverse market conditions affecting the funding status and a minor change in the actuarial method used. Mass Transit funding was increased by $1.1 Million to cover projected deficits in the Knoxville Area Transit Fund, a Component Unit of the City, caused by the increased cost of fuel and increased labor. Significant transfer amendments comprised of an increase of $3.4 Million to the General Capital Projects funds for new projects and a supplemental transfer of $3.4 Million to the Fleet Replacement Reserve to cover increases in vehicle costs over amounts previously reserved.

Capital Asset and Debt Administration

As of June 30, 2008 the primary government of the City had invested $426.4 million in capital assets as reflected by the following table. The total amount represents an overall increase primarily 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	
	2008	2007	2008	2007	2008	2007
Land and site improvements	$ 39,234	$ 38,996	$ 6,866	$ 6,743	$ 46,100	$ 45,739
Buildings and improvements	50,073	41,213	221,460	221,481	271,533	262,694
Equipment, furniture & fixtures	61,946	57,689	4,455	3,608	66,401	61,297
Infrastructure	261,483	239,696	-	-	261,483	239,696
Construction in progress	7,941	16,927	203	103	8,144	17,030
Less accumulated depreciation	(167,766)	(157,327)	(59,533)	(53,597)	(227,299)	(210,924)
Totals	$ 252,911	$ 237,194	$ 173,451	$ 178,338	$ 426,362	$ 415,532

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	
	2008	2007	2008	2007	2008	2007
Beginning balance	$ 394,521	$ 369,615	$ 231,935	$ 230,378	$ 626,456	$ 599,993
Additions	73,658	49,003	2,114	1,927	75,772	50,930
Deletions	(47,502)	(24,097)	(1,065)	(370)	(48,567)	(24,467)
Balance before depreciation	420,677	394,521	232,984	231,935	653,661	626,456
Accumulated depreciation	(167,766)	(157,327)	(59,533)	(53,597)	(227,299)	(210,924)
Balance after depreciation	$ 252,911	$ 237,194	$ 173,451	$ 178,338	$ 426,362	$ 415,532

As of the year-end, the City's Total Primary Government had $208.1 million in general obligation debt outstanding. In addition to this amount the City is obligated to pay $1.16 million to Knox County, representing the City's portion in the joint construction of the City/County animal shelter and another $102,500 for a note to purchase golf carts.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current - Due in 1 year						
General Obligation Bonds	$ 7,340	$ 8,470	$ 3,430	$ 3,670	$ 10,770	$ 12,140
Debt Participation Agreement	68	66	-	-	68	66
Note Payable	-	-	13	-	13	-
Total Current	7,408	8,536	3,443	3,670	10,851	12,206
Non Current - Due in more than 1 year						
General Obligation Bonds	56,560	63,900	140,810	144,240	197,370	208,140
Debt Participation Agreement	1,088	1,156	-	-	1,088	1,156
Note Payable	-	-	90	-	90	-
Total Non Current	57,648	65,056	140,900	144,240	198,548	209,296
Subtotal	65,056	73,592	144,343	147,910	209,399	221,502
Unamortized Premiums, Discounts and Gain on Refunding	1,389	1,494	(1,057)	(1,118)	332	376
Total Long Term Debt	$ 66,445	$ 75,086	$ 143,286	$ 146,792	$ 209,731	$ 221,878

The City currently maintains a Fitch/ICBA rating of AA+, which was the same as last year's rating. Standard and Poor's rating of the City's general obligation bonds increased from a AA to AA+ while the City retained its Moody's rating of Aa2. For additional information on the long-term debt of the City, please refer to Note 9 of the Notes to Financial Statements.

Economic Factors

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes $138.2 million or 82% 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 FY08 the taxable value of real property increased by 4.3% and the overall tax roll increased by 3.3%. Within this grouping the highest anticipated growth is in commercial property. Residential property growth is expected to be slightly lower than the overall average, while the value of industrial property is expected to decline. For FY 07/08 the assessed value of real property was $3.5 billion. 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. Personal property growth has been higher than real property in the recent past and we expect that to continue in the future. We expect no real growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately $37.3 million or 22.2% of total General Fund revenues. Despite the weakening economy, Knoxville experienced continued growth in sales tax receipts in FY 07/08. While sales tax collections were strong in the first half of the fiscal year, they started to taper off towards the latter part of the year though not as great as the general economy.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for $24 million or 14.3% of total revenue. This category of revenue had declined as a percentage of the total in recent years, but grew slightly in FY08. In the past the ending of certain grants, as well as state cuts in shared revenue had contributed to a decline in this funding category. The State economy has, however, fared better than expected and has led to a rescinding of previous cuts during the past two years. Last year, the tax known as the Hall Income Tax (an intangible tax on investments), generated $7.3 million for the city, an increase of $4 million from the prior year. This year's revenue decreased slightly to $7.08 Million. We have not been able to determine the exact nature of the cause of growth or various changes in this revenue and do not 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 have grown in the past two years and are expected to continue to do so. This is due to the imposition of some new charges as well as efficiency improvements in Court processes. The category of miscellaneous revenue includes interest earnings. The change in short-term interest rates, combined with higher balances available for investment, has resulted in continued increases in this revenue source.

Health care benefits are accounted for in a separate internal service fund. The City's Employee Health Insurance Fund is funded by both employer and employee contributions. The City has experienced double digit premium increases in recent years. 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. Early indications are positive. The plan has produced better coverage for the employees through a combination of benefit revisions and our ability to better control our costs.

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. The City is also conducting energy audits and taking other steps to reduce the cost of utilities and fuel.

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

On the plus side, the performance of the new Convention Center has improved in the past two 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.

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

FINANCIAL CONTACT

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

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CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
June 30, 2008

	Primary Government			Component Units			
	Governmental Activities	Business Type Activities	Total Primary Government	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Reporting Unit
Assets							
Cash & cash equivalents	$ 9,919,949	$ 1,886,342	$ 11,806,291	$ 86,130,107	$ 2,306,020	$ -	$ 100,242,418
Investments	196,990,142	13,700,807	210,690,949	56,937,245	30,588,300	1,445,923	299,662,417
Receivables (net of allowance for uncollectibles):							
Accounts	14,526,501	1,772,219	16,298,720	67,198,017	4,820,941	6,467,587	94,785,265
Taxes on real & personal property	12,490,978	-	12,490,978	-	-	-	12,490,978
Notes and leases	19,477,363	773,467	20,250,830	150,368	-	-	20,401,198
TVA conservation program	-	-	-	4,229,880	-	-	4,229,880
Net assets held by convention center managers	-	150,000	150,000	-	-	-	150,000
Other	-	-	-	95,958	-	-	95,958
Internal balances	808,349	(808,349)	-	-	-	-	-
Due from component units	7,159,816	-	7,159,816	-	-	-	7,159,816
Inventories	2,086,259	10,383	2,096,642	5,235,023	-	938,807	8,270,472
Prepaid items	33,313	-	33,313	17,534,320	265,180	-	17,832,813
Equity interest in joint venture	3,561,296	1,109,756	4,671,052	-	-	-	4,671,052
Deferred charges	-	-	-	6,487,601	1,534,500	-	8,022,101
Restricted assets:							
Temporarily restricted:							
Bond funds	-	-	-	14,310,473	340,875	-	14,651,348
Unused bond proceeds	-	-	-	17,038,363	-	-	17,038,363
Receivables	-	-	-	-	500,000	-	500,000
Other	-	-	-	274,958	27,884	-	302,842
Other assets	-	-	-	4,151,856	2,759,207	-	6,911,063
Capital assets:							
Land & site improvements	39,234,318	6,866,363	46,100,681	-	145,461,897	1,854,780	193,417,358
Building & building improvements	50,073,123	221,459,964	271,533,087	-	127,237,882	5,025,175	403,796,144
Utility plant in service	-	-	-	1,503,239,835	-	-	1,503,239,835
Equipment, furniture & fixtures	61,945,671	4,454,989	66,400,660	-	9,929,695	23,064,899	99,395,254
Infrastructure	261,483,468	-	261,483,468	-	-	-	261,483,468
Construction in progress	7,940,503	202,612	8,143,115	73,563,976	26,526,147	1,691,373	109,924,611
Less accumulated depreciation	(167,766,324)	(59,532,915)	(227,299,239)	(497,681,252)	(140,123,542)	(18,918,619)	(884,022,652)
Total assets	519,964,725	192,045,638	712,010,363	1,358,896,728	212,174,986	21,569,925	2,304,652,002
Liabilities							
Accounts payable	10,888,741	738,486	11,627,227	54,950,069	2,022,887	528,550	69,128,733
Matured principal & interest on bonds	-	-	-	7,817,933	-	-	7,817,933
Accrued liabilities	3,511,735	673,286	4,185,021	9,335,562	927,435	62,469	14,510,487
Due to primary government	-	-	-	-	-	7,159,816	7,159,816
Due to other governmental agencies	1,515,489	-	1,515,489	-	-	-	1,515,489
Unearned revenue	17,564,995	161,611	17,726,606	-	-	-	17,726,606
Customer deposits, plus accrued interest	353,302	123,122	476,424	9,783,022	-	-	10,259,446
Liabilities payable with restricted assets:							
Long-term debt due within one year	13,638,830	3,459,347	17,098,177	15,759,030	3,075,000	-	35,932,207
Accrued interest	449,035	-	449,035	-	431,428	-	880,463
Noncurrent liabilities:							
Long-term debt due in more than one year	59,721,379	139,939,659	199,661,038	519,619,896	95,803,982	-	815,084,916
Other noncurrent liabilities	8,500,000	-	8,500,000	12,806,071	-	-	21,306,071
Total liabilities	116,143,506	145,095,511	261,239,017	630,071,583	102,260,732	7,750,835	1,001,322,167
Net assets							
Invested in capital assets, net of related debt	186,465,590	30,268,082	216,733,672	553,260,869	73,317,006	12,717,608	856,029,155
Restricted for:							
Debt service	36,632,963	-	36,632,963	6,492,541	-	-	43,125,504
Park Maintenance:							
Nonexpendable	624,065	-	624,065	-	-	-	624,065
Expendable	230,685	-	230,685	-	-	-	230,685
Other	-	-	-	274,958	868,759	-	1,143,717
Unrestricted	179,867,916	16,682,045	196,549,961	168,796,777	35,728,489	1,101,482	402,176,709
Total net assets	$ 403,821,219	$ 46,950,127	$ 450,771,346	$ 728,825,145	$ 109,914,254	$ 13,819,090	$ 1,303,329,835

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, 2008

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	$ 9,903,497	$ 628,935	$ 960,039	$ -
Public Safety	78,171,965	9,233,576	2,137,451	1,247,337
Physical Environment	42,047,855	1,135,214	82,310	1,582,755
Transportation	9,613,800	856,653	-	-
Economic Development	8,732,647	-	6,623,946	2,829,083
Parks & Recreation	11,634,092	801,216	-	-
Health & Sanitation	9,833,023	43,134	-	93,461
Interest on Long-Term Debt	3,138,172	-	-	-
Total governmental activities	173,075,051	12,698,728	9,803,746	5,752,636
Business-type activities:				
Metro Parking	1,464,245	1,716,372	-	-
Public Assembly Facilities	4,174,060	2,863,045	-	-
Knoxville Convention Center	21,245,778	6,408,504	-	-
Municipal Golf Courses	886,127	776,293	-	-
Total business-type activities	27,770,210	11,764,214	-	-
Total primary government	$ 200,845,261	$ 24,462,942	$ 9,803,746	$ 5,752,636
Component units:				
Knoxville Utilities Board	$ 657,244,569	$ 681,748,650	$ -	$ 4,200,793
Metropolitan Knoxville Airport Authority	33,708,463	27,663,217	-	13,462,701
Knoxville Area Transit	30,474,525	4,107,577	6,385,925	12,694,711
Total component units	$ 721,427,557	$ 713,519,444	$ 6,385,925	$ 30,358,205

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

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning (as restated)

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			Component Units			
Governmental Activities	Business-type Activities	Total	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Reporting Unit
$ (8,314,523)	$ -	$ (8,314,523)	$ -	$ -	$ -	$ (8,314,523)
(65,553,601)	-	(65,553,601)	-	-	-	(65,553,601)
(39,247,576)	-	(39,247,576)	-	-	-	(39,247,576)
(8,757,147)	-	(8,757,147)	-	-	-	(8,757,147)
720,382	-	720,382	-	-	-	720,382
(10,832,876)	-	(10,832,876)	-	-	-	(10,832,876)
(9,696,428)	-	(9,696,428)	-	-	-	(9,696,428)
(3,138,172)	-	(3,138,172)	-	-	-	(3,138,172)
(144,819,941)	-	(144,819,941)	-	-	-	(144,819,941)
-	252,127	252,127	-	-	-	252,127
-	(1,311,015)	(1,311,015)	-	-	-	(1,311,015)
-	(14,837,274)	(14,837,274)	-	-	-	(14,837,274)
-	(109,834)	(109,834)	-	-	-	(109,834)
-	(16,005,996)	(16,005,996)	-	-	-	(16,005,996)
(144,819,941)	(16,005,996)	(160,825,937)	-	-	-	(160,825,937)
-	-	-	28,704,874	-	-	28,704,874
-	-	-	-	7,417,455	-	7,417,455
-	-	-	-	-	(7,286,312)	(7,286,312)
-	-	-	28,704,874	7,417,455	(7,286,312)	28,836,017
109,618,806	-	109,618,806	-	-	-	109,618,806
65,482,144	670,983	66,153,127	-	-	8,314,850	74,467,977
-	6,820,444	6,820,444	-	-	-	6,820,444
477,421	-	477,421	-	-	-	477,421
10,470,638	-	10,470,638	-	-	-	10,470,638
5,313,628	-	5,313,628	-	-	-	5,313,628
1,621,527	-	1,621,527	-	-	-	1,621,527
1,570,571	202,480	1,773,051	124,557	19,539	266,354	2,183,501
8,908,058	439,928	9,347,986	7,463,788	1,550,249	26,902	18,388,925
465,387	-	465,387	-	48,606	(255,352)	258,641
(11,010,017)	11,010,017	-	-	-	-	-
192,918,163	19,143,852	212,062,015	7,588,345	1,618,394	8,352,754	229,621,508
48,098,222	3,137,856	51,236,078	36,293,219	9,035,849	1,066,442	97,631,588
355,722,997	43,812,271	399,535,268	692,531,926	100,878,405	12,752,648	1,205,698,247
$ 403,821,219	$ 46,950,127	$ 450,771,346	$ 728,825,145	$ 109,914,254	$ 13,819,090	$ 1,303,329,835

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

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Governmental Funds
June 30, 2008

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash & cash equivalents	$ 4,220,411	$ 118,861	$ 354,956	$ 1,345,333	$ 6,039,561
Investments	19,789,215	34,312,294	56,590,366	27,355,576	138,047,451
Accounts receivable	9,278,051	-	1,010,528	4,142,456	14,431,035
Taxes on real & personal property receivable	11,408,441	1,082,537	-	-	12,490,978
Notes receivable	-	2,009,800	-	17,467,563	19,477,363
Due from other funds	4,881,177	-	-	-	4,881,177
Due from component units	7,159,816	-	-	-	7,159,816
Inventories	273,481	-	-	984,837	1,258,318
Prepaid items	32,897	-	-	-	32,897
Total assets	$ 57,043,489	$ 37,523,492	$ 57,955,850	$ 51,295,765	$ 203,818,596
Liabilities and fund balances					
Liabilities:					
Accounts payable	$ 1,465,626	$ -	$ 4,872,083	$ 1,738,270	$ 8,075,979
Accrued liabilities	2,102,330	-	-	318,881	2,421,211
Customer deposits	-	26,400	-	326,902	353,302
Due to other funds	-	-	-	3,367,779	3,367,779
Due to other governmental agencies	1,511,740	-	-	3,749	1,515,489
Deferred revenue	2,407,799	864,129	-	17,564,995	20,836,923
Total liabilities	7,487,495	890,529	4,872,083	23,320,576	36,570,683
Fund balances:					
Reserved for:					
Encumbrances	1,332,557	-	-	3,232,804	4,565,361
Inventories	-	-	-	984,837	984,837
Notes receivable	-	2,009,800	-	-	2,009,800
Permanent funds	-	-	-	624,065	624,065
Designated for:					
Permanent funds	-	-	-	230,685	230,685
Unreserved, reported in:					
General fund	48,223,437	-	-	-	48,223,437
Special revenue	-	-	-	22,902,798	22,902,798
Debt service	-	34,623,163	-	-	34,623,163
Capital projects	-	-	53,083,767	-	53,083,767
Total fund balances	49,555,994	36,632,963	53,083,767	27,975,189	167,247,913
Total liabilities and fund balances	$ 57,043,489	$ 37,523,492	$ 57,955,850	$ 51,295,765	$ 203,818,596

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, 2008

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

Ending fund balance - governmental funds		$ 167,247,913
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheets of the governmental funds.		234,663,266
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.		3,271,928
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.		72,321,964
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.		(449,035)
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	$ (63,900,000)	
Debt Participation Agreement	(1,155,963)	
Discounts and Premiums (net)	(1,389,206)	
Compensated Absences	(6,789,648)	(73,234,817)
Net assets of governmental activities		$ 403,821,219

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, 2008

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes, assessments, interest & penalties	$ 138,161,275	$ 25,789,302	$ -	$ 5,681,653	$ 169,632,230
Licenses, permits & inspection charges	313,912	-	-	1,967,522	2,281,434
Fines & forfeitures	1,683,656	-	-	3,269,707	4,953,363
Charges for services	1,305,082	-	-	5,017,642	6,322,724
Other	2,472,328	2,201,443	2,987,280	3,049,955	10,711,006
Intergovernmental revenue	24,018,104	-	2,829,083	8,138,399	34,985,586
Total revenues	167,954,357	27,990,745	5,816,363	27,124,878	228,886,343
Expenditures					
Current:					
Administration	2,094,267	-	-	230,575	2,324,842
Finance & accountability	9,898,987	-	-	-	9,898,987
Operations & engineering	5,801,449	-	-	6,749,785	12,551,234
Community & neighborhood services	25,671,915	-	-	18,742,500	44,414,415
Law	1,432,153	-	-	968,089	2,400,242
Police	43,153,073	-	-	2,756,773	45,909,846
Fire	29,911,424	-	-	-	29,911,424
Legislative	826,861	-	-	80,000	906,861
Civil service	1,145,959	-	-	-	1,145,959
City elections	236,484	-	-	-	236,484
Knoxville Partnership	540,000	-	-	-	540,000
Metropolitan Planning Commission	713,430	-	-	-	713,430
Knoxville Zoological Park	909,920	-	-	-	909,920
Agency grants	1,513,400	-	-	-	1,513,400
Waterfront	357,119	-	-	-	357,119
Community Action Committee	468,950	-	-	-	468,950
Mass transit	9,144,850	-	-	-	9,144,850
Capital & grant projects	-	-	22,683,802	-	22,683,802
Debt service:					
Principal retirement	-	8,540,279	-	-	8,540,279
Interest payments on bonds & notes	-	3,138,172	-	-	3,138,172
Total expenditures	133,820,241	11,678,451	22,683,802	29,527,722	197,710,216
Excess (deficiency) of revenues over (under) expenditures	34,134,116	16,312,294	(16,867,439)	(2,402,844)	31,176,127
Other financing sources (uses)					
Transfers in	4,320,702	-	25,559,101	15,295,337	45,175,140
Transfers out	(35,464,644)	(14,763,480)	(295,680)	(10,086,877)	(60,610,681)
Total other financing sources (uses)	(31,143,942)	(14,763,480)	25,263,421	5,208,460	(15,435,541)
Net change in fund balances	2,990,174	1,548,814	8,395,982	2,805,616	15,740,586
Fund balance - beginning (as restated)	46,565,820	35,084,149	44,687,785	25,169,573	151,507,327
Fund balance - ending	$ 49,555,994	$ 36,632,963	$ 53,083,767	$ 27,975,189	$ 167,247,913

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, 2008

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

Net change in fund balances - total governmental funds	$ 15,740,586
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which net capital outlay ($22,803,459) and gain/loss on disposal ($465,387) exceed the depreciation expenses ($11,946,289).	10,391,783
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	347,900
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	8,359,758
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.	63,509
The internal service fund is used by management to charge the costs of office services.	(56,332)
The internal service fund is used by management to charge the costs of fleet maintenance.	8,129,757
The internal service fund is used by management to charge the costs of risk management.	3,838,731
The internal service fund is used by management to charge the costs of employee health insurance.	(197,154)
The internal service fund is used by management to charge the costs of equipment replacement.	2,743,046
The internal service fund is used by management to charge the costs of City buildings.	(1,263,362)
Change in net assets of governmental activities	$ 48,098,222

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, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes, assessments, interest & penalties	$ 134,911,890	$ 144,704,774	$ 138,161,275	$ (6,543,499)
Licenses, permits & inspection charges	307,450	307,450	313,912	6,462
Fines & forfeitures	1,053,470	1,053,470	1,683,656	630,186
Charges for services	1,072,330	1,072,330	1,305,082	232,752
Other	1,750,920	1,750,920	2,472,328	721,408
Intergovernmental revenue	19,904,650	19,804,650	24,018,104	4,213,454
Total revenues	159,000,710	168,693,594	167,954,357	(739,237)
EXPENDITURES				
Current:				
Administration	2,233,330	2,232,158	2,094,267	137,891
Finance & accountability	6,851,700	10,234,568	9,898,987	335,581
Operations & engineering	6,073,340	5,970,894	5,801,449	169,445
Community & neighborhood services	26,340,060	26,292,072	25,671,915	620,157
Law	1,673,140	1,575,140	1,432,153	142,987
Police	43,490,250	43,180,772	43,153,073	27,699
Fire	29,537,190	29,997,096	29,911,424	85,672
Legislative	881,320	950,565	826,861	123,704
Civil service	943,680	1,168,680	1,145,959	22,721
City elections	280,000	240,000	236,484	3,516
Knoxville Partnership	540,000	540,000	540,000	-
Metropolitan Planning Commission	713,430	713,430	713,430	-
Knoxville Zoological Park	909,920	909,920	909,920	-
Agency grants	1,533,400	1,513,400	1,513,400	-
Waterfront	469,390	384,390	357,119	27,271
Community Action Committee	469,250	469,250	468,950	300
Reserve	2,410,000	1,770,000	-	1,770,000
Mass transit	8,038,850	9,144,850	9,144,850	-
Total expenditures	133,388,250	137,287,185	133,820,241	3,466,944
Excess (deficiency) of revenues over (under) expenditures	25,612,460	31,406,409	34,134,116	2,727,707
OTHER FINANCING SOURCES (USES)				
Transfers in	4,004,730	4,149,380	4,320,702	171,322
Transfers out	(29,617,190)	(35,555,789)	(35,464,644)	91,145
Total other financing sources (uses)	(25,612,460)	(31,406,409)	(31,143,942)	262,467
Net change in fund balances	$ -	$ -	2,990,174	$ 2,990,174
FUND BALANCE - BEGINNING			46,565,820	
FUND BALANCE - ENDING			$ 49,555,994	

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, 2008

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Assets				
Current assets				
Cash & temporary investments	$ 1,170	$ 1,885,172	$ 1,886,342	$ 3,880,388
Investments	5,450,000	8,250,807	13,700,807	58,942,691
Accounts receivable	1,768,361	3,858	1,772,219	95,466
Leases receivable	-	773,467	773,467	-
Net assets held by convention center managers	150,000	-	150,000	-
Inventories	-	10,383	10,383	827,941
Prepaid items	-	-	-	416
Total current assets	7,369,531	10,923,687	18,293,218	63,746,902
Noncurrent assets				
Land & site improvements	2,952,020	3,914,343	6,866,363	-
Building & building improvements	180,237,377	41,222,587	221,459,964	257,391
Equipment	2,885,768	1,569,221	4,454,989	57,518,188
Construction in progress	-	202,612	202,612	1,803,085
Less: accumulated depreciation	(37,090,349)	(22,442,566)	(59,532,915)	(41,331,171)
Total capital assets (net of accumulated depreciation)	148,984,816	24,466,197	173,451,013	18,247,493
Equity interest in joint venture	406,732	703,024	1,109,756	3,561,296
Total noncurrent assets	149,391,548	25,169,221	174,560,769	21,808,789
Total assets	156,761,079	36,092,908	192,853,987	85,555,691
Liabilities				
Current liabilities				
Accounts payable	477,401	261,085	738,486	2,812,762
Accrued liabilities	602,292	70,994	673,286	1,090,524
Customer deposits	-	123,122	123,122	-
Due to other funds	-	808,349	808,349	705,049
Deferred revenue	120,008	41,603	161,611	-
Compensated absences	-	81,000	81,000	125,392
Long-term debt due within one year	3,365,847	12,500	3,378,347	-
Total current liabilities	4,565,548	1,398,653	5,964,201	4,733,727
Noncurrent liabilities				
Long-term debt due in more than one year	139,817,084	122,575	139,939,659	-
Estimated litigation liability	-	-	-	8,500,000
Total noncurrent liabilities	139,817,084	122,575	139,939,659	8,500,000
Total liabilities	144,382,632	1,521,228	145,903,860	13,233,727
Net assets				
Invested in capital assets, net of related debt	5,801,885	24,466,197	30,268,082	18,247,493
Unrestricted	6,576,562	10,105,483	16,682,045	54,074,471
Total net assets	$ 12,378,447	$ 34,571,680	$ 46,950,127	$ 72,321,964

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating revenues				
Charges for services	$ 6,408,504	$ 5,355,710	$ 11,764,214	$ 37,973,274
Total operating revenues	6,408,504	5,355,710	11,764,214	37,973,274
Operating expenses				
Personal services	-	1,967,436	1,967,436	2,424,277
Materials & supplies	-	133,701	133,701	4,691,487
Maintenance	-	1,015,738	1,015,738	408,063
Depreciation & amortization	4,587,424	1,353,975	5,941,399	5,185,947
Other services and charges	10,333,532	2,043,429	12,376,961	21,559,008
Total operating expenses	14,920,956	6,514,279	21,435,235	34,268,782
Operating income (loss)	(8,512,452)	(1,158,569)	(9,671,021)	3,704,492
Nonoperating revenue (expense)				
Interest income	110,623	329,305	439,928	1,451,723
Intergovernmental revenue	6,820,444	670,983	7,491,427	2,313,432
Other revenues	69,147	-	69,147	1,009,463
Gain (loss) on disposal of capital assets	-	-	-	54,569
Interest expense	(6,324,822)	(10,153)	(6,334,975)	-
Total nonoperating revenue (expense)	675,392	990,135	1,665,527	4,829,187
Income (loss) before transfers and capital contributions	(7,837,060)	(168,434)	(8,005,494)	8,533,679
Transfers:				
Transfers in	8,980,827	2,029,190	11,010,017	6,133,313
Transfers out	-	-	-	(1,707,789)
Capital contributions	-	133,333	133,333	235,483
Change in net assets	1,143,767	1,994,089	3,137,856	13,194,686
Total net assets - beginning	11,234,680	32,577,591	43,812,271	59,127,278
Total net assets - ending	$ 12,378,447	$ 34,571,680	$ 46,950,127	$ 72,321,964

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, 2008

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating activities				
Cash received from customers and users	$ 6,248,333	$ 5,164,751	$ 11,413,084	$ -
Receipts from interfund services provided	-	-	-	38,836,715
Cash paid to suppliers	(10,558,474)	(2,864,078)	(13,422,552)	(9,421,987)
Cash paid to employees	-	(1,963,970)	(1,963,970)	(1,436,683)
Cash paid for interfund services used	(90,290)	(199,569)	(289,859)	(547,539)
Payments of claims and insurance	-	-	-	(17,977,483)
Net cash provided by (used in) operating activities	(4,400,431)	137,134	(4,263,297)	9,453,023
Noncapital financing activities				
Transfers from other funds	8,552,050	1,831,770	10,383,820	5,957,797
Transfers to other funds	-	-	-	(12,020)
Capital contributions	-	133,333	133,333	235,483
Tax and intergovernmental revenues	6,889,591	712,586	7,602,177	3,322,895
Net cash provided by (used in) noncapital financing activities	15,441,641	2,677,689	18,119,330	9,504,155
Capital and related financing activities				
Principal paid on general obligation bond maturities	(3,220,847)	(536,534)	(3,757,381)	-
Interest paid	(6,324,822)	(10,153)	(6,334,975)	-
Proceeds from sale of capital assets	-	-	-	1,310
Acquisition and construction of capital assets	(50,419)	(1,004,214)	(1,054,633)	(10,457,698)
Debt proceeds	-	115,000	115,000	-
Net cash provided by (used in) capital and related financing activities	(9,596,088)	(1,435,901)	(11,031,989)	(10,456,388)
Investing activities				
Sales/(purchases) of investments	(5,427,955)	(817,441)	(6,245,396)	(7,028,486)
Investment earnings	110,623	329,305	439,928	1,451,723
Net cash provided by (used in) investing activities	(5,317,332)	(488,136)	(5,805,468)	(5,576,763)
Net increase (decrease) in cash and cash equivalents	(3,872,210)	890,786	(2,981,424)	2,924,027
Cash and cash equivalents				
Beginning of year	3,873,380	994,386	4,867,766	956,361
End of year	$ 1,170	$ 1,885,172	$ 1,886,342	$ 3,880,388

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, 2008

	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)	$ (8,512,452)	$ (1,158,569)	$ (9,671,021)	$ 3,704,492
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,587,424	1,353,975	5,941,399	5,185,947
Change in assets and liabilities				
(Increase) decrease in receivables	(120,175)	22,444	(97,731)	(7,633)
	-	(4,840)	(4,840)	158,257
(Increase) decrease in prepayments	-	-	-	(416)
Increase (decrease) in accounts payable	(209,457)	136,692	(72,765)	924,782
Increase (decrease) in accrued expenses	(105,775)	835	(104,940)	987,594
Increase (decrease) in deferred revenue	(39,996)	(91,504)	(131,500)	-
Increase (decrease) in estimated liability for litigation and claims	-	-	-	(1,500,000)
Increase (decrease) in customer deposits	-	(121,899)	(121,899)	-
Total adjustments	4,112,021	1,295,703	5,407,724	5,748,531
Net cash provided by (used in) operating activities	$ (4,400,431)	$ 137,134	$ (4,263,297)	$ 9,453,023
Noncash investing, capital, and financing activities:				
Increase in equity interest in joint venture	$ 22,045	$ 136,032	$ 158,077	$ 254,418

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, 2008

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	$ 1,756	$ 197,941
Cash equivalents	9,136,908	-
United States government securities	13,927,986	-
State & municipal government securities	1,374,317	45,733
International securities	144,279,971	-
Corporate bonds & debentures	65,604,845	-
Real estate	62,513,536	
Equity securities	192,122,280	-
Pending sales proceeds	3,588,398	-
Other receivables	40,921	48,406
Accrued interest & dividends	3,561,681	-
Equipment, furniture & fixtures	35,883	-
Accumulated depreciation	(31,283)	-
Due from other funds	-	34,658
Total assets	496,157,199	$ 326,738
Liabilities		
Accounts payable	511,669	$ 59,481
Investment purchase pending	4,126,887	-
Due to other funds	-	34,658
Health care claims liability	-	232,599
Total liabilities	4,638,556	$ 326,738
Net assets		
Held in Trust for:		
Pension benefits	$ 491,518,643	

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, 2008

	City Employees' Pension Trust Fund
Additions	
Employee contributions	$ 3,332,254
Employer contributions	10,297,033
Investment earnings:	
Interest and dividends	11,782,729
Net increase (decrease) in the fair value of investments	(44,433,070)
Other income	609,157
Total investment earnings (loss)	(32,041,184)
Less investment expense	(2,396,007)
Net investment earnings (loss)	(34,437,191)
Total additions	(20,807,904)
Deductions	
Benefits paid	34,630,253
Refunds	570,026
Administration	457,152
Total deductions	35,657,431
Change in net assets	(56,465,335)
Total net assets - beginning	547,983,978
Total net assets - ending	$ 491,518,643

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 separate columns in the combined financial statements to emphasize that they are legally separate from the City. The governing bodies of each of these component units are appointed by the City Council. 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 626 South Gay Street Knoxville, Tennessee 37929	Metropolitan Knoxville Airport Authority P. O. Box 15600 Knoxville, Tennessee 37901

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

*Government-wide and Fund Financial Statement*s

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. Each legally separate component unit, for which the primary government is financially accountable, is reported in the government-wide financial statements.

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

Separate financial statements are provided for governmental funds and proprietary funds. Although they are excluded from the government-wide financial statements, separate financial statements are also provided for 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).

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 are reported under the consumption method of accounting.

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

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

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 $6,324,822. Because there was no construction during 2008, no interest was capitalized. Total interest expense incurred by the Metropolitan Knoxville Airport Authority was $5,853,101 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2008, all PFCs were authorized for use and no deferred revenue was recorded.

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

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

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

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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

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

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2008.

General Fund	$ 9,837,534
Special Revenue Funds	7,628,238
Capital Projects Funds	3,474,900

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

A comparison of revenues and expenses - 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	$ 21,711,432	$ 22,389,545	$ 678,113	$ 21,711,432	$ 21,245,778	$ 465,654
Metro Parking	1,746,242	2,377,802	631,560	1,746,242	1,464,245	281,997
Public Assembly Facilities	4,288,678	5,131,325	842,647	4,288,678	4,174,060	114,618
City Golf Courses	725,000	1,009,394	284,394	725,000	886,127	(161,127)
Knoxville Area Transit (Component unit)	20,329,984	31,796,319	11,466,335	20,329,984	30,729,877	(10,399,893)
Internal Service Funds						
Office Services	214,688	38,373	(176,315)	214,688	94,705	119,983
Fleet Maintenance	13,031,931	18,805,670	5,773,739	13,031,931	10,675,913	2,356,018
Risk Management	8,767,015	9,362,740	595,725	8,767,015	5,524,009	3,243,006
Employee Health Insurance	14,821,462	14,225,793	(595,669)	14,821,462	14,422,947	398,515
Equipment Replacement	2,231,730	4,863,386	2,631,656	2,231,730	2,120,340	111,390
City Buildings	2,363,702	1,901,636	(462,066)	2,363,702	3,164,998	(801,296)

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.

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

Investment 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, 2008, the average weighted maturity of the City's portfolio was 110 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.

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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, 2008, the City held securities in various Tennessee municipal bonds of $41.6 million or approximately 20% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from A2 to Baa2 and are part of the permanent fund for Krutch Park.

As of June 30, 2008, the City had the following investments and maturities.

Investments:	Fair Value	Less Than 6 Months	1 - 2 Years	2 - 5 Years
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	$ 4,147,365	$ -	$ 2,392,518	$ 1,754,847
Federal Home Loan Mortgage Corp (FHLMC)	1,378,495	-	879,385	499,110
Federal Farm Credit Bureau (FFCB)	1,397,112	-	150,234	1,246,878
Federal National Mortgage Assoc. (FNMA)	1,108,875	-	606,220	502,655
Other Governmental Bonds	41,657,191	41,657,191	-	-
Corporate Equities	194,777	-	-	-
Tennessee Local Government Investment Pool	162,253,057	162,253,057	-	-
	$ 212,136,872	$ 203,910,248	$ 4,028,357	$ 4,003,490

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	$ 111,674,042	$ 3,720,513	$ -	$ 1,756
Carrying amounts:				
Deposits (outstanding checks) in financial institutions	$ (10,256,995)	$ 2,646,895	$ -	$ 1,756
Certificates of deposit	20,510,473	-	-	-
Super NOW Account	85,695,855	-	-	-
Total deposits - carrying value	$ 95,949,333	$ 2,646,895	$ -	$ 1,756

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	$ -	$ 23,604,000	$ -	$ 9,136,908	$ 32,740,908	$ 32,740,908
United States government securities	50,320,999	6,984,300	-	10,869,754	68,175,053	68,175,053
Equity securities	-	-	-	179,144,602	179,144,602	179,144,602
Corporate bonds	-	-	-	58,530,300	58,530,300	58,530,300
State and municipal government securities	-	-	-	1,374,317	1,374,317	1,374,317
International securities	-	-	-	144,279,971	144,279,971	144,279,971
Total classified investments	50,320,999	30,588,300	-	403,335,852	484,245,151	484,245,151
Investments not categorized:						
Investments held by broker-dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States government securities	-	-	-	3,058,232	3,058,232	3,058,232
Equity securities	-	-	-	71,860,604	71,860,604	71,860,604
Corporate bonds	-	-	-	7,074,545	7,074,545	7,074,545
Third parties holding cash collateral:						
Domestic equity securities	-	-	-	3,630,610	3,630,610	3,630,610
Investments in state treasurer's Investment pool	28,004,568	-	1,455,923	-	29,460,491	29,460,491
Total investments	$ 78,325,567	$ 30,588,300	$ 1,455,923	$ 488,959,843	$ 599,329,633	$ 599,329,633
Total deposits and investments	$ 174,274,900	$ 33,235,195	$ 1,455,923	$ 488,961,599		

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	$ 86,130,107	$ 2,306,020	$ -	$ 9,138,664
Investments	56,520,999	30,588,300	1,445,923	479,822,935
Other assets	416,246	-	-	-
Unused bond proceeds	17,038,363	-	-	-
Bond funds	14,310,473	340,875	-	-
Other temporarily restricted assets	274,958	-	-	-
	174,691,146	33,235,195	1,445,923	488,961,599
Less accrued interest	416,246	-	-	-
Total deposits and investments	$ 174,274,900	$ 33,235,195	$ 1,445,923	$ 488,961,599

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 $84,791,534 held by broker dealers and $3,873,640 held by third parties. 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, 2008.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2008, 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	$ 3,854,341	$ -	$ 5,367,267	$ -	$ 56,443	$ -	$ 9,278,051
Capital projects fund	-	-	1,010,528	-	-	-	1,010,528
Other governmental funds	677,821	-	3,464,635	-	-	-	4,142,456
Knoxville Convention Center	-	-	-	-	1,768,361	-	1,768,361
Other enterprise funds	-	-	-	3,858	-	-	3,858
Internal service funds	-	-	-	95,466	-	-	95,466
Total primary government	4,532,162	-	9,842,430	99,324	1,824,804	-	16,298,720
Component units:							
Knoxville Utilities Board	-	-	-	68,164,956	-	(966,939)	67,198,017
Metropolitan Knoxville Airport Authority	-	578,564	3,734,045	508,332	-	-	4,820,941
Knoxville Area Transit	-	-	6,467,587	-	-	-	6,467,587
Total reporting unit	4,532,162	578,564	20,044,062	68,772,612	1,824,804	(966,939)	94,785,265
City Employees' Pension Trust Fund	-	3,561,681	-	-	40,921	-	3,602,602
Total reporting entity	$ 4,532,162	$ 4,140,245	$ 20,044,062	$ 68,772,612	$ 1,865,725	$ (966,939)	$ 98,387,867

NOTE 6 - LEASES RECEIVABLE

Public Assembly Facilities Fund

The Public Assembly Facilities Fund leases a portion of the exhibition center to an adjoining hotel. Components of the Public Assembly Facilities investment in the capitalized lease at June 30, 2008, are as follows:

Total minimum lease payments receivable	$	1,425,275
Less unearned income		651,808
Net investment in lease receivable	$	773,467

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

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2028. As of June 30, 2008, minimum future base rentals to be received on noncancellable leases are as follows:

Years ended June 30:		
2009	$	8,522,716
2010		2,278,735
2011		2,129,828
2012		1,458,120
2013		1,431,752
Thereafter		20,077,849
	$	35,899,000

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 $972,000 are included in other assets in the accompanying statement of net assets as of June 30, 2008. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to $1,849,251 for the year ended June 30, 2008.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2008 was as follows:

Primary Government	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Governmental activities:				
Nondepreciable:				
Land & site improvements	$ 38,995,947	$ 1,108,942	$ (870,571)	$ 39,234,318
Construction in progress	16,926,462	25,378,753	(34,364,712)	7,940,503
Total nondepreciable capital assets	55,922,409	26,487,695	(35,235,283)	47,174,821
Depreciable:				
Buildings and building improvements	41,213,484	8,859,639	-	50,073,123
Equipment, furniture and fixtures	57,689,182	11,192,207	(6,935,718)	61,945,671
Infrastructure	239,695,859	27,118,265	(5,330,656)	261,483,468
Total depreciable capital assets	338,598,525	47,170,111	(12,266,374)	373,502,262
Accumulated depreciation:				
Buildings and building improvements	(20,823,373)	(1,596,236)	(3,081)	(22,422,690)
Equipment, furniture and fixtures	(44,395,768)	(5,843,542)	6,709,628	(43,529,682)
Infrastructure	(92,107,827)	(9,706,125)	-	(101,813,952)
Total accumulated depreciation	(157,326,968)	(17,145,903)	6,706,547	(167,766,324)
Total depreciable capital assets, net	181,271,557	30,024,208	(5,559,827)	205,735,938
Governmental activities capital assets, net	$ 237,193,966	$ 56,511,903	$ (40,795,110)	$ 252,910,759
Business-type activities:				
Nondepreciable:				
Land & site improvements	$ 6,743,270	$ 123,093	$ -	$ 6,866,363
Artwork	764,875	-	-	764,875
Construction in progress	102,766	795,301	(695,455)	202,612
Total nondepreciable capital assets	7,610,911	918,394	(695,455)	7,833,850
Depreciable:				
Buildings and building improvements	221,480,749	331,130	(351,915)	221,459,964
Equipment, furniture and fixtures	2,842,793	865,239	(17,918)	3,690,114
Total depreciable capital assets	224,323,542	1,196,369	(369,833)	225,150,078
Accumulated depreciation:				
Buildings and building improvements	(52,136,238)	(5,519,505)	-	(57,655,743)
Equipment, furniture and fixtures	(1,460,436)	(421,894)	5,158	(1,877,172)
Total accumulated depreciation	(53,596,674)	(5,941,399)	5,158	(59,532,915)
Total depreciable capital assets, net	170,726,868	(4,745,030)	(364,675)	165,617,163
Business-type activities capital assets, net	$ 178,337,779	$ (3,826,636)	$ (1,060,130)	$ 173,451,013

NOTE 7 - CAPITAL ASSETS (Continued)

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

Governmental activities		
General Government	$	1,337,064
Public Safety		3,338,457
Physical Environment		9,170,450
Economic Development		257,754
Parks & Recreation		2,926,641
Health & Sanitation		115,537
	$	17,145,903

Business-type activities		
Knoxville Convention Center	$	4,587,424
Metro Parking		812,897
Public Assembly Facilities		514,836
Municipal Golf Courses		26,242
	$	5,941,399

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for component units for the year ended June 30, 2008 was as follows:

Component Units	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Knoxville Utilities Board:				
Nondepreciable: Construction in Progress	$ 86,544,402	$ 5,347,602	$ (18,328,028)	$ 73,563,976
Depreciable:				
Pumping and treatment plant	170,552,140	5,736,486	(192,622)	176,096,004
Distribution & collection plant	1,109,111,660	118,518,893	(4,877,444)	1,222,753,109
General plant	115,657,347	10,296,224	(21,562,849)	104,390,722
Total depreciable assets	1,395,321,147	134,551,603	(26,632,915)	1,503,239,835
Accumulated depreciation	(474,992,297)	(33,170,165)	10,481,210	(497,681,252)
Total depreciable capital assets, net	920,328,850	101,381,438	(16,151,705)	1,005,558,583
Total Knoxville Utilities Board	$ 1,006,873,252	$ 106,729,040	$ (34,479,733)	$ 1,079,122,559
Metropolitan Knoxville Airport Authority:				
Nondepreciable:				
Land	$ 22,222,055	$ 428,917	$ -	$ 22,650,972
Construction in progress	13,383,255	14,089,388	(946,496)	26,526,147
Total nondepreciable capital assets	35,605,310	14,518,305	(946,496)	49,177,119
Depreciable:				
Land improvements	122,383,344	427,581	-	122,810,925
Buildings and building improvements	126,794,815	453,770	(10,703)	127,237,882
Equipment, furniture and fixtures	9,766,717	412,857	(249,879)	9,929,695
Total depreciable assets	258,944,876	1,294,208	(260,582)	259,978,502
Accumulated depreciation:				
Land improvements	(77,142,122)	(5,367,195)	-	(82,509,317)
Buildings and building improvements	(44,454,113)	(4,981,977)	2,141	(49,433,949)
Equipment, furniture and fixtures	(7,710,291)	(694,088)	224,103	(8,180,276)
Total accumulated depreciation	(129,306,526)	(11,043,260)	226,244	(140,123,542)
Total depreciable capital assets, net	129,638,350	(9,749,052)	(34,338)	119,854,960
Total Metropolitan Knoxville Airport Authority	$ 165,243,660	$ 4,769,253	$ (980,834)	$ 169,032,079
Knoxville Area Transit:				
Nondepreciable:				
Land	$ -	$ 1,854,780	$ -	$ 1,854,780
Construction in progress	753,427	2,803,448	(1,865,502)	1,691,373
Total nondepreciable capital assets	753,427	4,658,228	(1,865,502)	3,546,153
Depreciable:				
Buildings and building improvements	5,025,175	-	-	5,025,175
Equipment, vehicles, furniture and fixtures	25,416,090	574,141	(2,925,332)	23,064,899
Total depreciable assets	30,441,265	574,141	(2,925,332)	28,090,074
Accumulated depreciation:				
Buildings and building improvements	(2,310,948)	(125,282)	-	(2,436,230)
Equipment, vehicles, furniture and fixtures	(17,047,232)	(2,049,746)	2,614,589	(16,482,389)
Total accumulated depreciation	(19,358,180)	(2,175,028)	2,614,589	(18,918,619)
Total depreciable capital assets, net	11,083,085	(1,600,887)	(310,743)	9,171,455
Total Knoxville Area Transit	$ 11,836,512	$ 3,057,341	$ (2,176,245)	$ 12,717,608
Knoxville Employees' Pension Plan				
Depreciable: Equipment, furniture and fixtures	$ 84,884	$ -	$ (49,001)	$ 35,883
Accumulated Depreciation	(76,923)	(3,361)	49,001	(31,283)
Total Knoxville Employees' Pension Plan	$ 7,961	$ (3,361)	$ -	$ 4,600

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, 2007 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	$ 4,881,177	$ -	$ 4,881,177	$ 7,159,816	$ -
Special Revenue Fund:					
Community Development Block Grants	-	607,171	(607,171)	-	-
City Inspections	-	38,238	(38,238)	-	-
City Court	-	189,859	(189,859)	-	-
Miscellaneous Grants	-	872,572	(872,572)	-	-
Storm Water	-	155,922	(155,922)	-	-
Solid Waste	-	814,023	(814,023)	-	-
Miscellaneous Community Development Funds	-	689,994	(689,994)	-	-
Total governmental activities	4,881,177	3,367,779	1,513,398	7,159,816	-
Business-type activities					
Pubic Assembly Facilities	-	563,349	(563,349)	-	-
City Golf Courses	-	245,000	(245,000)	-	-
Internal Service Funds:					
Health Insurance	-	5,049	(5,049)	-	-
Risk Management	-	-	-	-	-
City Buildings	-	700,000	(700,000)	-	-
Total business-type activities	-	1,513,398	(1,513,398)	-	-
Component Units:					
Knoxville Area Transit	-	-	-	-	7,159,816
	$ 4,881,177	$ 4,881,177	$ -	$ 7,159,816	$ 7,159,816

NOTE 9 - LONG-TERM DEBT

Bonds at June 30, 2008, are comprised of the following issues:

	General Obligation Bonds		
Primary Government	Governmental Activities	Business-type Activities	Total
General Improvement Bonds, Series 2004A maturing through 2024 at varying rates of interest ranging from 2.0% to 4.0%	$ 28,810,000	$ -	$ 28,810,000
General Obligation Refunding Bonds, Series 2004B maturing through 2017 at varying rates of interest ranging from 4.0% to 5.5%	21,630,000	-	21,630,000
General Obligation Bonds Series IIIF through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	-	33,930,000	33,930,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2002A maturing through 2024 at varying rates of interest ranging from 4.0% to 5.0%	-	50,340,000	50,340,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	13,460,000	-	13,460,000
Total Primary Government	$ 63,900,000	$ 144,240,000	$ 208,140,000

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units:		Revenue Bonds
Knoxville Utilities Board:		
Electric Revenue Bonds Series T to X, maturing through 2032 at varying rates of interest ranging from 2.0% to 5.12%	$	110,845,000
Water Revenue Bonds Series O to T maturing through 2042 at varying rates of interest ranging from 2.0% to 5.5%		65,090,000
Gas Revenue Bonds Series I to N, maturing through 2042 at varying rates of interest ranging from 2.0% to 5.2%		92,145,000
Waste Water Revenue Bonds Series 1998, 2001, 2001A 2004A, 2005 A&B, 2007 maturing through 2042 at varying rates of interest ranging from 3.0% to 5.1%		263,460,000
	$	531,540,000
Metropolitan Knoxville Airport Authority:		
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. The remaining principal bears interest at 5.79%	$	15,500,000
Local Government Public Improvement Bonds, 2001 Series III-A maturing through 2028. $45,075,000 bears interest at 7.06%. The remaining principal bears interest at a variable rate (5% at June 30, 2008).		83,880,000
	$	99,380,000

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, 2008, 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
2009	$ 7,340,000	$ 2,694,220	$ 3,430,000	$ 6,662,310
2010	5,325,000	2,383,310	3,580,000	6,514,190
2011	4,560,000	2,135,560	3,735,000	6,359,560
2012	4,660,000	1,924,180	3,900,000	6,196,530
2013	4,770,000	1,707,190	4,075,000	6,024,530
2014 - 2018	21,565,000	5,825,990	23,325,000	27,194,390
2019 - 2023	13,295,000	1,998,950	29,380,000	21,198,430
2024 - 2028	2,385,000	98,390	37,190,000	13,275,990
2029 - 2032	-	-	35,625,000	4,086,240
	63,900,000	$ 18,767,790	144,240,000	$ 97,512,170
Unamortized premium	1,389,206		-	
Unamortized discounts	-		(1,057,069)	
Total	$ 65,289,206		$ 143,182,931	

Component Units	Revenue Bonds	
	Principal	Interest
2009	$ 15,015,000	$ 29,952,444
2010	15,645,000	29,231,736
2011	16,335,000	28,467,412
2012	16,715,000	27,682,985
2013	17,505,000	26,843,385
2014 - 2018	91,750,000	120,905,099
2019 - 2023	124,200,000	94,777,642
2024 - 2028	135,100,000	63,602,760
2029 - 2033	77,680,000	38,204,136
2034 - 2038	61,175,000	22,173,250
2039 - 2042	59,800,000	7,075,375
	630,920,000	$ 488,916,224
Unamortized deferred loss on refunding	(501,018)	
Total	$ 630,418,982	

NOTE 9 - LONG-TERM DEBT (Continued)

Interest Swap Agreements

Primary government

Objective of the Interest Rate Swaps - In 2002 the City entered into an interest rate swap agreement with Wachovia First Union Bank. 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 intention of the swap was to effectively change the City's variable interest rates on its General Obligation Bonds Series IIIF 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. The bonds' variable-rates have historically approximated the Bond Market Association Municipal Index™ (the"BMA"). The City pays Wachovia interest at a fixed rate of 3.955%. Wachovia pays the City of Knoxville interest at a variable rate based upon LIBOR. Payments reflect net amounts and are made only to the recipient party.

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2008, 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 IIIF through Public Building Authority of Sevier County	$33,930,000	5/15/2002	3.955%	70% of 1 Month LIBOR	($1,804,535)	6/1/2020	A+

Fair Value - As of June 30, 2008, the swap had a negative fair value of $1,804,535. The negative fair value of the swaps 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.

Credit Risk - As of June 30, 2008, 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. The swap counterparty was, as of June 30, 2008 still of high quality. The counterparty had experienced a ratings downgrade in the first calendar quarter and had a negative outlook as of June 30, 2008.

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 BMA increases to above 70% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the BMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. Normally the two indices track on a close basis. During the last half of the fiscal year disruptions in the municipal market created a deviation from the norm which resulted in the City paying more in interest on its bonds than it would otherwise do. The deviation was due to the fact that the Series IIIF bonds are insured by AMBAC and the financial uncertainty surrounding AMBAC. The City is working to remove the credit enhancement from the bonds which should eliminate much of the basis risk.

NOTE 9 - LONG-TERM DEBT (Continued)

Termination Risk - The derivative contracts use 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.

Component units

The Airport Authority's Series II-D-1 and III-A Bonds bear interest at variable rates. In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Authority entered into an interest rate swap on portions of the Series II-D-1 and III-A Bonds totaling $15,500,000 and $45,075,000, respectively, as of June 30, 2008. The intention of the swap agreements was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate.

Under these swap agreements, bond principal is not exchanged; only the net difference in interest payments is actually exchanged with the counterparty and recorded by the Authority as interest expense. The Authority, through the trustee, continues to pay interest to the bondholders at the variable rates, which have historically approximated the Bond Market Association Municipal Index ™ (the "BMA"). Under the swap agreements on the Series II-D-1 Bonds, the Authority pays a fixed rate of 5.79% and receives a variable payment computed at 100 percent of the rate on the Series II-D-1 Bonds, which results in a synthetic rate which is also 5.79%. Under the agreement on the Series III-A Bonds the Authority pays a fixed of 4.74% and receive a variable payment computed as 62.5 percent of the London Interbank Offered Rate ("LIBOR"). As of June 30, 2008, the calculated synthetic rate was 7.06%, due to the significant difference between the LIBOR based counter-parties rate of 2.68% and the BMA based bond rate of 5%.

The fair value of the swap agreements is a deferred loss of $4,905,542 as of June 30, 2008. This amounts which is estimated by obtaining quotes from the bank, has not been recorded in the accompanying financial statements. The debt service requirements for the Series II-D-1 and III-A Bonds, as presented on the Schedule of Long-Term Debt Principal and Interest Requirements, are based solely on the fixed rate. Other than the net interest expenditures resulting from the swap agreement, no other amounts are recorded in the financial statements.

The Authority would be exposed to variable rates if the counterparty to the swaps defaults, if the variable rate received from the counterparty is less than that due to bondholders or if the swap is terminated. A termination of the swap agreements could also result in the Authority's making or receiving termination payments.

The Authority incurred additional interest costs of approximately $1,286,000 in 2008 related to the swap agreements.

Advance and Current Refundings

Component units

Knoxville Utilities Board

KUB's Electric Division issued the Series T 2001 bonds to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the 1993 Series Q revenue bonds and 1995 Series R revenue bonds. In fiscal year 2001, KUB's Electric Division issued Series U 2001 bonds to fund Electric capital improvements. During fiscal year 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt. 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. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to

NOTE 9 - LONG-TERM DEBT (Continued)

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 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. The outstanding principal balances on defeased bond issues were $81.3 million at June 30, 2008.

KUB's Gas Division issued the issued Series I 2001 bonds in part to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series F Revenue bonds and 1997 Series G Revenue bonds, as such amounts mature. During fiscal year 2001, KUB's Gas division issued Series J 2001 bonds to fund capital improvements. During fiscal year 2004, KUB issued Series K 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of 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. The outstanding principal balances on defeased bond issues were $61.2 million at June 30, 2008.

KUB's Water Division issued the Series O 2001 bonds to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1992 Series L Revenue bonds and 1993 Series M Revenue bonds, as such amounts mature. During fiscal year 2001, KUB's Water division issued Series P 2001 bonds to fund capital improvements. During fiscal year 2004, KUB issued Series Q 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay 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 improvements and extensions to the water system. KUB's Water Division also issued Series S 2005 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 P 2001 bonds, as such amounts mature. During fiscal year 2008, KUB issued Series T 2007 bonds to fund water system capital improvements. The outstanding principal balances on defeased bond issues were $21.8 million at June 30, 2008.

KUB's Wastewater Division issued Series 1998 bonds in part to retire certain existing debt and to fund Wastewater capital improvements. During fiscal year 2002, KUB's Wastewater Division issued the Series 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series Q revenue bonds as such amounts mature. KUB's Wastewater Division also issued Series 2001A to fund capital improvements to the wastewater system. 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 improvements and extensions to the wastewater system 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. 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. Remaining principal balances outstanding at June 30, 2008, on these defeased bond issues were $29.4 million. 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.

NOTE 9 - LONG-TERM DEBT (Continued)

Metropolitan Knoxville Airport Authority

Proceeds from the Metropolitan Knoxville Airport Authority Series III-A bonds totaling $75,930,000 were used to refund the remaining principal balances of the Series E-1, E-2, II-G-2, III-B-I, III-G-2 and IV-A-I general obligation bonds. The Authority recognized a loss of $999,159 in 2001 on the refunding which has been deferred and is being amortized over the remaining life of the refunded bonds. The remaining unamortized balance of the loss at June 30, 2008 was $501,018.

Other Agreements

Primary government

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

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

	Principal	Interest
2009	$ 68,060	$ 59,310
2010	70,630	55,730
2011	73,480	52,030
2012	76,520	47,990
2013	79,840	43,780
2014-2018	456,910	153,490
2019-2021	330,523	33,610
	$ 1,155,963	$ 445,940

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

In fiscal year 2008, the City purchased 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.

2009	$ 12,500
2010	12,500
2011	12,500
2012	65,000
	$ 102,500

NOTE 9 - LONG-TERM DEBT (Continued)

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.

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, 2008:

	Balance June 30, 2007	Additions and Transfers	Reductions and Transfers	Balance June 30, 2008	Due Within One Year
Primary Government					
Governmental Activities:					
General obligation bonds	$ 72,370,000	$ -	$ 8,470,000	$ 63,900,000	$ 7,340,000
Debt participation agreement	1,221,546	-	65,583	1,155,963	68,060
	73,591,546	-	8,535,583	65,055,963	7,408,060
Add deferred amounts for issuance premiums and gain on refunding	1,494,584	-	105,378	1,389,206	105,378
	75,086,130	-	8,640,961	66,445,169	7,513,438
Compensated absences payable	6,661,222	6,188,211	5,934,393	6,915,040	6,125,392
Total governmental activities long-term liabilities	$ 81,747,352	$ 6,188,211	$ 14,575,354	$ 73,360,209	$ 13,638,830
Business-type Activities:					
General obligation bonds	$ 147,910,000	$ -	$ 3,670,000	$ 144,240,000	$ 3,430,000
Add deferred amounts for issuance premiums	3,911	-	3,911	-	-
Less deferred amounts for issuance discounts	(1,122,131)	-	(65,062)	(1,057,069)	(64,153)
	146,791,780	-	3,608,849	143,182,931	3,365,847
Note payable	-	115,000	12,500	102,500	12,500
Compensated absences payable	115,410	78,326	80,161	113,575	81,000
Total business-type activities long-term liabilities	$ 146,907,190	$ 193,326	$ 3,701,510	$ 143,399,006	$ 3,459,347

NOTE 9 - LONG-TERM DEBT (Continued)

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Component Units					
Knoxville Utilities Board:					
Revenue bonds	$ 431,010,000	$ 112,000,000	$ 11,470,000	$ 531,540,000	$ 11,940,000
Anticipation notes	12,790,000	-	12,790,000	-	-
Capital lease obligations	57,128	-	18,202	38,926	19,030
TVA conservation program	3,730,392	1,739,711	1,341,488	4,128,615	1,500,000
Accrued compensated absences	9,069,139	13,591,361	13,712,328	8,948,172	1,500,000
Customer advances for construction	993,543	559,359	346,358	1,206,544	100,000
Supplemental environmental project	1,250,000	-	250,000	1,000,000	500,000
Other	1,541,520	2,190,667	2,409,447	1,322,740	200,000
Total Knoxville Utilities Board	460,441,722	130,081,098	42,337,823	548,184,997	15,759,030
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	102,305,000	-	2,925,000	99,380,000	3,075,000
Less deferred amounts for loss on refunding	(561,433)	-	(60,415)	(501,018)	-
Total Metropolitan Knoxville Airport Authority	101,743,567	-	2,864,585	98,878,982	3,075,000
Total component units	$ 562,185,289	$ 130,081,098	$ 45,202,408	$ 647,063,979	$ 18,834,030

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 $125,392 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. The City has pledged certain revenues, including its property tax, parking and convention center revenues, as collateral to repay its TN Series A-4-A and Series III-F long-term debt. These debt issues, which mature through 2032, were used primarily to fund convention center construction and parking facilities of the City. For the year ended June 30, 2008, principal and interest payments on these debt issues were less than 6 percent of the pledged revenue. Principal and interest remaining to be paid on these debt issues is approximately $161,530,970, based on market interest rates effective on June 30, 2008.

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.

NOTE 9 - LONG-TERM DEBT (Continued)

Conduit Debt (Continued)

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, 2008.

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, 2008 were $1,217,920.

Component units

The Knoxville Utilities Board has non-cancelable operating lease commitments for office equipment that expire in various years through June 30, 2012. Future minimum lease payments under leases having initial or remaining noncancellable terms in excess of one year as follows:

	Operating Leases
2009	$ 19,028
2010	20,344
2011	16,045
2012	1,338
	$ 56,755

NOTE 11 - FUND BALANCES PERMANENTLY RESTRICTED AND DESIGNATED FOR FUTURE USE

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the Primary Government's program. The Krutch Park Trust fund is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used for maintenance and groundskeeping of the downtown City park. Therefore, the portion of the permanent fund representing the earnings from the permanent portion of the fund is designated for this purpose. The designated balance as of June 30, 2008 is $230,685.

NOTE 12 - PRIOR PERIOD ADJUSTMENT

Primary government

The City purchases various properties in conjunction with various Federal grants through their community development programs. The purchase of these properties has been reflected as expenditures of the various special revenue funds and then reimbursed by the Federal granting agency subject to the various grant agreements. Since these properties are essentially assets held by the City for development, an asset should be recorded and a reserve of fund balance should be reflected for the fair value of these properties. Accordingly, the fund balance of the Community Development Block Grants and Miscellaneous Community Development Funds which are special revenue funds as of the beginning of the fiscal year have been restated, as follows:

	Community Development Block Grants	Miscellaneous Community Development Funds	Governmental Activities
Fund Balance, as previously reported	$ -	$ 1,480,885	$ 354,954,347
Adjustment for inventory held for development	603,824	164,826	768,650
Fund Balance, as restated	$ 603,824	$ 1,645,711	$ 355,722,997

Component units

During fiscal year 2008, KUB discovered an understatement of developer contributions reported for the fiscal years 2005, 2006, 2007 in the amount of $7,449,033. Accordingly, the net assets of KUB as of the beginning of the fiscal year have been restated as follows:

	KUB Component Unit
Net Assets, as previously reported	$ 685,082,893
Adjustment for developer contributions of capital assets	7,449,033
Net Assets, as restated	$ 692,531,926

NOTE 13 - RISK MANAGEMENT

Primary government

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

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

NOTE 13 - RISK MANAGEMENT (Continued)

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 more than adequate to cover any costs incurred but not reported as of year end.

	2008	2007
Claims liability, beginning of year	$ 0	$ 0
Provision for incurred claims	5,111,408	0
Payments made on claims	(4,111,408)	0
Claims liability, end of year	$ 1,000,000	$ 0

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 $8,500,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities.

An analysis of claims activity for the years ended June 30, 2008 and 2007 is as follows:

	2008	2007
Claims liability, beginning of year	$ 10,000,000	$ 8,500,000
Provision for incurred claims	6,186,436	6,624,821
Payments made on claims	(7,686,436)	(5,124,821)
Claims liability, end of year	$ 8,500,000	$ 10,000,000

Additionally, the City's attorney believes that there is a possible liability to the City of approximately $1,074,500 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, 2008, 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 $6 million.

NOTE 13 - RISK MANAGEMENT (Continued)

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, 2008, the amount of these liabilities was $1,933,550. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2008 and 2007 is as follows:

	2008	2007
Claims liability, beginning of year	$ 2,173,264	$ 2,275,752
Provision for incurred claims	12,945,583	12,752,998
Payments made on claims	(13,185,297)	(12,855,486)
Claims liability, end of year	$ 1,933,550	$ 2,173,264

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 14 - JOINT VENTURES

Public Building Authority

In 1975, the Authority was formed as a not-for-profit corporation incorporated pursuant to provisions of the Public Building Authority Act of the State of Tennessee and an operating agreement between the City and Knox County. The Authority constructed and presently maintains and operates the City/County Building, which houses the governments of the City and County. The City and County pay rent to the Authority sufficient to meet operating costs with the City responsible for 36.49% of the payments. An eleven-member board comprised of six County appointees and five City appointees operates the Authority. As described in the operating agreement, the City and County acting jointly may terminate the lease when all debt service and other obligations of the Authority have been met. In the event of termination, the City and County shall direct the Authority to whom and in what manner title to the assets is to be transferred. The City retains an equity interest in the joint venture. Complete separate financial statements for the Public Building Authority may be obtained at Room M22, 400 Main Street, Knoxville, TN 37902.

NOTE 14 - JOINT VENTURES (Continued)

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. Complete separate financial statements for the Animal Center may be obtained at 3201 Division Street, Knoxville, TN 37919.

NOTE 15 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Knoxville Zoo - The City entered into a new agreement on July 1, 2001, with Knoxville Zoological Gardens, Inc. whereby Knoxville Zoological Gardens, Inc. shall lease the Zoo to provide for its operation and management. Under terms of the agreement the City shall grant to Knoxville Zoological Park $855,000 by August 1 each year through 2008.

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.

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 FY 07/08 is $43,320.

IJAMS Nature Park - The City entered into an agreement on August 2, 1993, with the IJAMS Nature Park whereby IJAMS will provide management and operation of a nature park. The agreement has been extended through July 31, 2008. The agreement calls for a management fee of $109,250.

Knoxville Convention Center - The City has negotiated a revised agreement effective 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 FY 2007/08, 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 $50,000 in FY 07/08, said maximum to be annually adjusted by the CPI.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal Financial Assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2008 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, 2008:

	Spent to Date	Contractual Commitment Remaining at June 30, 2008
ADA Access Improvements	$ 0	$ 331,445
Bridge Maintenance Program	2,422,372	262,102
Coliseum-Ice Plant Equipment	0	185,758
Court Software Replacement	21,335	450,199
Cumberland Avenue Project	50,400	1,413,770
Jackson Ave. Ramps Replacement	13,226	799,800
New Financial System	1,433,746	416,935
Paving Program	26,683,144	2,157,967
Pleasant Ridge Road	174,587	1,359,351
Rehab Gay St. Bridge	207,493	242,507
South Knoxville Waterfront	1,625,538	343,568
South Waterfront Project	144,114	1,172,010
Ten Mile Creek Greenway	430,398	143,332
Traffic Signals	1,257,882	495,343
Washington Pike/Millertown Pike	72,963	140,788
Other Projects	24,956,925	748,734
	$ 59,494,123	$ 10,663,609

Knoxville Utilities Board

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

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of underrecovered costs was $174,449 at June 30, 2008.

NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)

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

In October 2006, TVA decreased its wholesale power rates for its electric power distributors, including KUB. The PPA was utilized to flow the wholesale cost reduction through KUB's retail rate structures.

TVA implemented a fuel cost adjustment in October 2006 that is applied on a quarterly basis to wholesale power rates. KUB flowed changes to wholesale power rates, from TVA's fuel cost adjustment mechanism, directly through to its retail electric rates via the purchased power adjustment in January and April 2007, respectively.

In April 2008, TVA increased its wholesale power rates and the PPA was used to flow the costs through the retail rate structures.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2008, 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, 2008, the Gas Division had hedged the price on approximately 16% of its anticipated gas purchases for fiscal year 2009.

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:

	2009	2010	2011	2012	2013
Demand:					
Transportation	$ 14,997,240	$ 13,238,616	$ 13,238,616	$ 13,238,616	$ 13,238,616
Storage	3,396,860	3,396,860	3,396,860	3,396,860	3,396,860
Demand total	$ 18,394,100	$ 16,635,476	$ 16,635,476	$ 16,635,476	$ 16,635,476
Commodity:					
Baseload	$ 46,327,634	$ 22,079,560	$ -	$ -	$ -

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, achieving the goal of remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by June 30, 2016. In addition, KUB is also required to perform an evaluation of the wet-weather performance and capacity of KUB's wastewater treatment plants. The Consent Decree also requires KUB to fund a Supplemental Environmental Project ("SEP") in the amount of $2 million over an eight-year period, which commenced February 2005. The parties to the Consent Decree include KUB, the Department of Justice, the Environmental Protection Agency, the Tennessee Clean Water Network, and the City of Knoxville.

In order to comply with the terms of the Consent Decree related to the collection system, KUB anticipates it will spend over $500 million in capital investments by 2016. KUB's funding plan for the Consent Decree includes approximately $400 million in long-term bond issues plus a series of rate increases phased in over the term of the Consent Decree. Through the end of fiscal year 2008, the Wastewater Division had issued $215 million of bonds to help fund wastewater system capital improvements. To help fund expenditures, the KUB Board of Commissioners also approved two 50 percent rate increases which went into effect April 2005 and January 2007. The Board also approved an 8 percent rate increase to be effective October 2008. KUB also anticipates several small rate increases over the next decade to help fund PACE10.

NOTE 17 - 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 $1,829,283 in aviation area revenue during 2008. In addition, a significant portion of terminal area revenue is directly and indirectly generated from this airline's passengers, which accounted for approximately 58% of total passengers during 2008. As of June 30, 2008 49% of trade accounts receivable are due from these major airlines.

NOTE 18 - TRANSFERS

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

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

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 18 - TRANSFERS (Continued)

A detailed reconciliation of operating transfers at June 30, 2008 is as follows:

	Transfers From:															
	Governmental Activities											Internal Service Funds				
Transfers To:	General Fund	Debt Service	Capital Projects	State Street Aid	Abandoned Vehicles	City Court	Misc. Spec. Rev. Grants	Misc. Grants	Misc. Community Development	Storm Water	Solid Waste	Office Services	Fleet Maintenance	Risk Management	City Buildings	Total
Primary Government:																
Governmental Activities:																
General Fund	$ -	$ -	$ -	$ -	$ -	$ 4,142,830	$ 30,125	$ 108,541	$ 32,732	$ -	$ -	$ 6,474	$ -	$ -	$ -	$ 4,320,702
Capital Projects Fund	13,064,970	10,493,000	216,131	1,275,000	50,000	-	460,000	-	-	-	-	-	-	-	-	25,559,101
Community Development Block Grant	307,972	-	-	-	-	-	-	-	-	-	-	-	-	-	-	307,972
Miscellaneous Community Development Fund	80,000	-	-	-	-	-	-	-	179,013	-	-	-	-	-	-	259,013
Miscellaneous Special Revenue	823,500	-	-	-	-	-	101,422	3,675,081	-	-	-	-	-	-	-	4,600,003
Miscellaneous Grants	88,742	-	-	-	-	-	-	-	-	-	6,687	-	-	-	-	95,429
Storm Water	1,820,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,820,600
Solid Waste	8,212,320	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,212,320
Business-type Activities:																
Metro Parking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	566,992	566,992
Convention Center	4,281,570	4,270,480	-	-	-	-	-	-	-	-	-	-	-	-	428,777	8,980,827
Public Assembly Facilities	1,362,430	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,362,430
City Golf Courses	99,768	-	-	-	-	-	-	-	-	-	-	-	-	-	-	99,768
Internal Service Funds:																
Fleet Maintenance	3,434,000	-	-	-	-	-	-	-	-	-	-	-	-	-	700,000	4,134,000
Risk Management	827,430	-	-	-	-	-	-	-	-	-	-	-	-	-	-	827,430
Health Insurance	1,022,930	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,022,930
Equipment Replacement	38,412	-	79,549	-	682	-	7,642	-	-	13,817	3,305	-	3,825	1,721	-	148,953
	$ 35,464,644	$ 14,763,480	$ 295,680	$ 1,275,000	$ 50,682	$ 4,142,830	$ 599,189	$ 3,783,622	$ 211,745	$ 13,817	$ 9,992	$ 6,474	$ 3,825	$ 1,721	$ 1,695,769	$ 62,318,470

NOTE 19 - 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 19 - 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. No liability existed at June 30, 2008.

At July 1, 2008, the Plan had 2,176 retirees and beneficiaries currently receiving benefits and 37 employees currently participating in the Delayed Retirement Option Program (DROP) and 102 deferred vested participants. Of the approximately 1,523 active employees in the Plan, 1,109 were fully vested at July 1, 2008. 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, 2008 and 2007 (without Board of Education amounts) amounted to approximately $57,434,363 and $55,781,897 respectively.

Employer contributions, excluding Board of Education contributions, and percentages of employer-covered payroll for the years ended June 30, 2008 and 2007 were as follows:

	2008		2007	
	Amount	Rate - %	Amount	Rate - %
Uniformed Police and Fire	$ 7,701,120	26.76%	$ 3,764,587	13.43%
General Government Contribution	2,240,195	7.82%	1,618,040	5.83%
Division G Matching Contribution	355,718	0.87%	249,638	0.90%
Total	$ 10,297,033		$ 5,632,265	

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

City of Knoxville Pension System (Continued)

Funded Status

The System from July 1997 through June 2006 used the aggregate actuarial cost method. The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of June 30, 2008, the most recent actuarial valuation date, the plan was 96.3% funded. The actuarial accrued liability for benefits was $544.8 million, and the actuarial value of assets was $524.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $20.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $58.2 million, and the ratio of the UAAL to the covered payroll was 34.7%.

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 year ended June 30, 2008, 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, 2008 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.

The two significant actuarial assumptions used by the System are the investment return assumption of 8% 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%

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. The Plan is currently overfunded.

At December 31, 2007, the Plan had 703 retirees and beneficiaries currently receiving benefits and 55 terminated employees entitled to benefits but not yet receiving them. Of the approximately 970 current employees in the Plan, 725 were fully vested at December 31, 2007. 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.

NOTE 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

Knoxville Utilities Board Pension Plan (Continued)

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.

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

For the plan year ended December 31, 2007 the actuarial-accrued liability for the Plan was less than the actuarial value of assets; however, a contribution of $564,538 is required to be made because the amortization of the negative unfunded actuarial liability is less than the normal cost. The contribution is required to be made during the plan sponsor's fiscal year ending June 30, 2009. The annual required contribution was determined as part of the January 1, 2007 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 19 - 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 3.21% to 6.26%, and (d) cost of living adjustment of 4% in 2001 and 3% annually for years 2002 through 2006. Use of the RP2000 Mortality Table for 2006 and 2005 in the actuarial valuation represents a change in actuarial assumption from prior years, when the 1983 Group Annuity Mortality Table was used. 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 31, 2007	$ 564,538	100%
December 31, 2006	936,268	100%
December 31, 2005	710,987	100%

Defined Contribution Plans

Knoxville Utilities Board

KUB has a defined contribution 401(k) employee retirement savings plan covering KUB employees who are eligible and elect to participate.

401(k) matching contributions for employees eligible to participate in the KUB Pension Plan were funded by the Pension Plan for the year ended June 30, 2008, using a portion of excess pension assets accumulated during past years. These funds are held by the trustee custodian until necessary for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan.

There were no 401(k) matching contributions for the year ended June 30, 2008, for employees not covered under the Pension Plan.

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 19 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Contribution Plans (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 $658,724 in 2008. There were no employee contributions in 2008.

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 $270,086 in 2008. Employee contributions totaled $240,479 in 2008.

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

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 $119,531 in 2008.

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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, 2008, the City and the retirees contributed $667,100 and $974,322, 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 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.

The ARC for the City for June 30, 2008 is $1,043,000 and the contributions by the City and the retirees totaled $1,641,422 which exceeds the ARC by $598,422. The City does not have a net OPEB obligation for the current year.

Funded Status and Funding Progress

As of June 30, 2008, 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.

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.

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (continued)

In the January 1, 2007 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, 2008 was 30 years.

Component units

Knoxville Utilities Board

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, for KUB, 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 KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 673 former employees and 695 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.

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, 2008, 557 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.

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 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.

An actuarial study was completed in 2007 to determine KUB's actuarial accrued liability for post-employment health care benefits. The present value of the unfunded actuarial accrued OPEB liability is $147 million. This valuation is based on fully funding the liability through the OPEB trust for a period of thirty years, with an assumed annual rate of return of 8 percent. The total ARC (annual required contribution) for FY 2008 was $16 million.

Actual contributions for FY 2008 totaled $14.4 million, including $8.9 million in deposits to the Trust for future claims and $5.5 million in actual claim payments. As a result, KUB's unfunded liability as of June 30, 2008 was $1.6 million.

Metropolitan Knoxville Airport Authority and Knoxville Area Transit

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

NOTE 21 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	$	10,789,585
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	$	11,628,456
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	$	1,241,928
Subsidies paid by the City to Knoxville Area Transit	$	8,314,850

CITY OF KNOXVILLE

Required Supplementary Information
June 30, 2008

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, 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.

CITY OF KNOXVILLE

Required Supplementary Information
June 30, 2008

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)
January 1, 2008	$ 236,655,342	$ 201,099,846	$ (35,555,496)	117.7%	$ 42,925,588	-82.8%
January 1, 2007	229,076,421	192,542,020	(36,534,401)	119.0%	43,054,244	-84.9%
January 1, 2006	232,628,277	200,317,475	(32,310,802)	116.1%	43,064,519	-75.0%
January 1, 2005	236,655,342	201,099,846	(35,555,496)	117.7%	42,925,588	-82.8%
January 1, 2004	244,131,736	198,626,376	(45,505,360)	122.9%	42,964,030	-105.9%
January 1, 2003	249,977,409	197,613,054	(52,364,355)	126.5%	41,832,536	-125.2%
January 1, 2002	266,240,494	196,131,495	(70,108,999)	135.7%	39,852,521	-175.9%
January 1, 2001	278,423,000	195,606,000	(82,817,000)	142.3%	38,094,000	-217.4%
July 1, 2000	385,367,000	201,751,000	(183,616,000)	191.0%	36,901,000	-497.6%
July 1, 1999	314,428,000	202,437,000	(111,991,000)	155.3%	36,194,000	-309.4%

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

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2007	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2006	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2005	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2004	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2003	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2002	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2001	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 2000	N/A	N/A	N/A	N/A	N/A	N/A
July 1, 1999	$ -	$ 49,619	$ 49,619	0.0%	$ 248	N/A (1)

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

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

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Nonmajor Governmental Funds

Special revenue funds 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.
Miscellaneous Community Development Funds	To account for grant funds restricted for housing and humanity.
Storm Water Fund	To account for activities related to the City's water drainage system.
Solid Waste Fund	To account for the City's recycling and solid waste disposal activities.
Coster Redevelopment	To account for trust proceeds related to the cleanup of various sites.
Knoxville Civic Revitalization Fund	To account for the receipt and disbursement of Urban Development Action Grant funds.

Permanent Fund

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

CITY OF KNOXVILLE, TENNESSEE

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Special Revenue Funds						
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
Assets							
Cash & cash equivalents	$ -	$ 35,761	$ 4,182	$ -	$ -	$ 437,281	$ -
Investments	1,408,702	-	2,119,009	960,411	1,361,218	6,448	381,447
Accounts receivable	816,910	832,216	534	2,971	34,534	1,129,015	200
Notes receivable	-	11,550,297	-	-	-	-	-
Inventories	-	670,566	-	-	-	-	-
Total assets	$ 2,225,612	$ 13,088,840	$ 2,123,725	$ 963,382	$ 1,395,752	$ 1,572,744	$ 381,647
Liabilities and fund balances							
Liabilities:							
Accounts payable	$ 276,849	$ 192,964	$ 30,063	$ 6,407	$ 58,923	$ 203,834	$ -
Accrued liabilities	-	32,081	14,237	95,330	44,842	33,513	-
Customer deposits	-	35,761	-	-	-	-	-
Due to other funds	-	607,171	-	38,238	189,859	872,572	-
Due to other governmental agencies	-	-	-	-	3,749	-	-
Deferred revenue	-	11,550,297	-	-	-	5,746	-
Total liabilities	276,849	12,418,274	44,300	139,975	297,373	1,115,665	-
Fund balances:							
Reserved for:							
Encumbrances	-	168,768	-	-	1,951	904,499	-
Inventories	-	670,566	-	-	-	-	-
Permanent funds	-	-	-	-	-	-	-
Designated for:							
Permanent funds	-	-	-	-	-	-	-
Unreserved, undesignated	1,948,763	(168,768)	2,079,425	823,407	1,096,428	(447,420)	381,647
Total fund balances	1,948,763	670,566	2,079,425	823,407	1,098,379	457,079	381,647
Total liabilities and fund balances	$ 2,225,612	$ 13,088,840	$ 2,123,725	$ 963,382	$ 1,395,752	$ 1,572,744	$ 381,647

Special Revenue Funds (continued)						Permanent Fund	
Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
$ 384,346	$ 249,531	$ -	$ 1	$ -	$ 1,111,102	$ 234,231	$ 1,345,333
9,886,249	1,428,270	800,783	5,949,144	2,433,376	26,735,057	620,519	27,355,576
41,701	1,263,514	-	20,861	-	4,142,456	-	4,142,456
-	5,917,266	-	-	-	17,467,563	-	17,467,563
-	314,271	-	-	-	984,837	-	984,837
$ 10,312,296	$ 9,172,852	$ 800,783	$ 5,970,006	$ 2,433,376	$ 50,441,015	$ 854,750	$ 51,295,765
$ 81,673	$ 524,923	$ 5,636	$ 356,998	$ -	$ 1,738,270	$ -	$ 1,738,270
15,893	1,236	62,835	18,914	-	318,881	-	318,881
286,891	4,250	-	-	-	326,902	-	326,902
-	689,994	155,922	814,023	-	3,367,779	-	3,367,779
-	-	-	-	-	3,749	-	3,749
-	6,008,952	-	-	-	17,564,995	-	17,564,995
384,457	7,229,355	224,393	1,189,935	-	23,320,576	-	23,320,576
127,249	442,753	79,200	1,508,384	-	3,232,804	-	3,232,804
-	314,271	-	-	-	984,837	-	984,837
-	-	-	-	-	-	624,065	624,065
-	-	-	-	-	-	230,685	230,685
9,800,590	1,186,473	497,190	3,271,687	2,433,376	22,902,798	-	22,902,798
9,927,839	1,943,497	576,390	4,780,071	2,433,376	27,120,439	854,750	27,975,189
$ 10,312,296	$ 9,172,852	$ 800,783	$ 5,970,006	$ 2,433,376	$ 50,441,015	$ 854,750	$ 51,295,765

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Funds						
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
Revenues							
Taxes, assessments, interest & penalties	$ 4,876,069	$ -	$ -	$ -	$ 805,584	$ -	$ -
Licenses, permits & inspection charges	-	-	-	1,967,522	-	-	-
Fines & forfeitures	-	-	-	-	1,532,080	600	-
Charges for services	-	-	470,595	-	2,659,445	-	43,134
Other	47,890	145,547	585,051	38,835	52,904	149,156	14,408
Intergovernmental revenue	-	2,005,430	-	-	-	2,218,306	-
Total revenues	4,923,959	2,150,977	1,055,646	2,006,357	5,050,013	2,368,062	57,542
Expenditures							
Current:							
Administration	-	-	-	-	-	-	-
Operations & engineering	3,300,026	-	763,037	-	-	82,310	-
Community & neighborhood services	-	2,392,207	-	2,091,061	-	425,661	13,116
Law	-	-	-	-	914,523	-	-
Police	-	-	-	-	-	1,926,182	-
Legislative	-	-	-	-	-	-	-
Total expenditures	3,300,026	2,392,207	763,037	2,091,061	914,523	2,434,153	13,116
Excess (deficiency) of revenues over (under) expenditures	1,623,933	(241,230)	292,609	(84,704)	4,135,490	(66,091)	44,426
Other financing sources (uses)							
Transfers in	-	307,972	-	-	-	95,429	-
Transfers out	(1,275,000)	-	(50,682)	-	(4,142,830)	(3,783,622)	-
Total other financing sources (uses)	(1,275,000)	307,972	(50,682)	-	(4,142,830)	(3,688,193)	-
Net change in fund balances	348,933	66,742	241,927	(84,704)	(7,340)	(3,754,284)	44,426
Fund balance - beginning (as restated)	1,599,830	603,824	1,837,498	908,111	1,105,719	4,211,363	337,221
Fund balance - ending	$ 1,948,763	$ 670,566	$ 2,079,425	$ 823,407	$ 1,098,379	$ 457,079	$ 381,647

Special Revenue Funds (continued)							Permanent Fund	
Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	Coster Redevelopment	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ 5,681,653	$ -	$ 5,681,653
-	-	-	-	-	-	1,967,522	-	1,967,522
1,737,027	-	-	-	-	-	3,269,707	-	3,269,707
807,064	-	188,776	764,401	-	84,227	5,017,642	-	5,017,642
498,968	912,455	30,841	456,523	-	96,184	3,028,762	21,193	3,049,955
458,034	3,456,629	-	-	-	-	8,138,399	-	8,138,399
3,501,093	4,369,084	219,617	1,220,924	-	180,411	27,103,685	21,193	27,124,878
230,575	-	-	-	-	-	230,575	-	230,575
577,833	-	2,026,579	-	-	-	6,749,785	-	6,749,785
375,141	4,038,566	-	9,406,748	-	-	18,742,500	-	18,742,500
-	-	-	-	53,566	-	968,089	-	968,089
830,591	-	-	-	-	-	2,756,773	-	2,756,773
-	80,000	-	-	-	-	80,000	-	80,000
2,014,140	4,118,566	2,026,579	9,406,748	53,566	-	29,527,722	-	29,527,722
1,486,953	250,518	(1,806,962)	(8,185,824)	(53,566)	180,411	(2,424,037)	21,193	(2,402,844)
4,600,003	259,013	1,820,600	8,212,320	-	-	15,295,337	-	15,295,337
(599,189)	(211,745)	(13,817)	(9,992)	-	-	(10,086,877)	-	(10,086,877)
4,000,814	47,268	1,806,783	8,202,328	-	-	5,208,460	-	5,208,460
5,487,767	297,786	(179)	16,504	(53,566)	180,411	2,784,423	21,193	2,805,616
4,440,072	1,645,711	576,569	4,763,567	53,566	2,252,965	24,336,016	833,557	25,169,573
$ 9,927,839	$ 1,943,497	$ 576,390	$ 4,780,071	$ -	$ 2,433,376	$ 27,120,439	$ 854,750	$ 27,975,189

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	$ 4,850,000	$ 4,850,000	$ 4,876,069	$ 26,069
Other	60,000	60,781	47,890	(12,891)
Total revenues	4,910,000	4,910,781	4,923,959	13,178
Expenditures				
Current:				
Operations & engineering	3,635,000	3,635,781	3,300,026	335,755
Total expenditures	3,635,000	3,635,781	3,300,026	335,755
Excess (deficiency) of revenues over (under) expenditures	1,275,000	1,275,000	1,623,933	348,933
Other financing sources (uses)				
Transfers out	(1,275,000)	(1,275,000)	(1,275,000)	-
Total other financing sources (uses)	(1,275,000)	(1,275,000)	(1,275,000)	-
Net change in fund balances	$ -	$ -	348,933	$ 348,933
Fund balance - beginning			1,599,830	
Fund balance - ending			$ 1,948,763	

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Other	$ 170,000	$ 170,000	$ 145,547	$ (24,453)
Intergovernmental revenue	1,956,370	2,611,301	2,005,430	(605,871)
Total revenues	2,126,370	2,781,301	2,150,977	(630,324)
Expenditures				
Current:				
Community & neighborhood services	1,576,370	2,539,301	2,392,207	147,094
Total expenditures	1,576,370	2,539,301	2,392,207	147,094
Excess (deficiency) of revenues over (under) expenditures	550,000	242,000	(241,230)	(483,230)
Other financing sources (uses)				
Transfers in	-	308,000	307,972	(28)
Transfers out	(550,000)	(550,000)	-	550,000
Total other financing sources (uses)	(550,000)	(242,000)	307,972	549,972
Net change in fund balances	$ -	$ -	66,742	$ 66,742
Fund balance - beginning (as restated)			603,824	
Fund balance - ending			$ 670,566	

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 360,000	$ 360,000	$ 470,595	$ 110,595
Other	435,000	539,225	585,051	45,826
Total revenues	795,000	899,225	1,055,646	156,421
Expenditures				
Current:				
Operations & engineering	745,000	848,543	763,037	85,506
Total expenditures	745,000	848,543	763,037	85,506
Excess (deficiency) of revenues over (under) expenditures	50,000	50,682	292,609	241,927
Other financing sources (uses)				
Transfers out	(50,000)	(50,682)	(50,682)	-
Total other financing sources (uses)	(50,000)	(50,682)	(50,682)	-
Net change in fund balances	$ -	$ -	241,927	$ 241,927
Fund balance - beginning			1,837,498	
Fund balance - ending			$ 2,079,425	

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Licenses, permits & inspection charges	$ 2,053,830	$ 2,054,548	$ 1,967,522	$ (87,026)
Other	41,520	41,520	38,835	(2,685)
Total revenues	2,095,350	2,096,068	2,006,357	(89,711)
Expenditures				
Current:				
Community & neighborhood services	2,095,350	2,096,068	2,091,061	5,007
Total expenditures	2,095,350	2,096,068	2,091,061	5,007
Net change in fund balances	$ -	$ -	(84,704)	$ (84,704)
Fund balance - beginning			908,111	
Fund balance - ending			$ 823,407	

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	$ 777,250	$ 790,250	$ 805,584	$ 15,334
Fines & forfeitures	1,462,580	1,514,580	1,532,080	17,500
Charges for services	2,526,480	2,664,580	2,659,445	(5,135)
Other	91,180	93,266	52,904	(40,362)
Total revenues	4,857,490	5,062,676	5,050,013	(12,663)
Expenditures				
Current:				
Law	852,760	919,846	914,523	5,323
Total expenditures	852,760	919,846	914,523	5,323
Excess (deficiency) of revenues over (under) expenditures	4,004,730	4,142,830	4,135,490	(7,340)
Other financing sources (uses)				
Transfers out	(4,004,730)	(4,142,830)	(4,142,830)	-
Total other financing sources (uses)	(4,004,730)	(4,142,830)	(4,142,830)	-
Net change in fund balances	$ -	$ -	(7,340)	$ (7,340)
Fund balance - beginning			1,105,719	
Fund balance - ending			$ 1,098,379	

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Fines & forfeitures	$ 1,035,000	$ 1,031,000	$ 1,737,027	$ 706,027
Charges for services	509,000	534,500	807,064	272,564
Other	383,450	4,188,195	498,968	(3,689,227)
Intergovernmental revenue	-	380,000	458,034	78,034
Total revenues	1,927,450	6,133,695	3,501,093	(2,632,602)
Expenditures				
Current:				
Administration	-	390,000	230,575	159,425
Operations & engineering	663,500	663,500	577,833	85,667
Community & neighborhood services	189,000	447,132	375,141	71,991
Police	1,321,850	4,988,763	830,591	4,158,172
Total expenditures	2,174,350	6,489,395	2,014,140	4,475,255
Excess (deficiency) of revenues over (under) expenditures	(246,900)	(355,700)	1,486,953	1,842,653
Other financing sources (uses)				
Transfers in	663,500	928,500	4,600,003	3,671,503
Transfers out	(416,600)	(572,800)	(599,189)	(26,389)
Total other financing sources (uses)	246,900	355,700	4,000,814	3,645,114
Net change in fund balances	$ -	$ -	5,487,767	$ 5,487,767
Fund balance - beginning			4,440,072	
Fund balance - ending			$ 9,927,839	

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis
Miscellaneous Community Development Funds
For the Year Ended June 30, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Other	$ 430,180	$ 441,376	$ 912,455	$ 471,079
Intergovernmental revenue	1,635,770	2,286,109	3,456,629	1,170,520
Total revenues	2,065,950	2,727,485	4,369,084	1,641,599
Expenditures				
Current:				
Community & neighborhood services	2,065,950	2,727,485	4,038,566	(1,311,081)
Legislative	80,000	80,000	80,000	-
Total expenditures	2,145,950	2,807,485	4,118,566	(1,311,081)
Excess (deficiency) of revenues over (under) expenditures	(80,000)	(80,000)	250,518	330,518
Other financing sources (uses)				
Transfers in	80,000	80,000	259,013	179,013
Transfers out	-	-	(211,745)	(211,745)
Total other financing sources (uses)	80,000	80,000	47,268	(32,732)
Net change in fund balances	$ -	$ -	297,786	$ 297,786
Fund balance - beginning (as restated)			1,645,711	
Fund balance - ending			$ 1,943,497	

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 147,500	$ 147,500	$ 188,776	$ 41,276
Other	13,970	68,644	30,841	(37,803)
Total revenues	161,470	216,144	219,617	3,473
Expenditures				
Current:				
Operations & engineering	2,131,070	2,171,925	2,026,579	145,346
Total expenditures	2,131,070	2,171,925	2,026,579	145,346
Excess (deficiency) of revenues over (under) expenditures	(1,969,600)	(1,955,781)	(1,806,962)	148,819
Other financing sources (uses)				
Transfers in	1,969,600	1,969,600	1,820,600	(149,000)
Transfers out	-	(13,819)	(13,817)	2
Total other financing sources (uses)	1,969,600	1,955,781	1,806,783	(148,998)
Net change in fund balances	$ -	$ -	(179)	$ (179)
Fund balance - beginning			576,569	
Fund balance - ending			$ 576,390	

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 598,050	$ 598,050	$ 764,401	$ 166,351
Other	250,320	1,500,561	456,523	(1,044,038)
Total revenues	848,370	2,098,611	1,220,924	(877,687)
Expenditures				
Current:				
Community & neighborhood services	9,960,690	11,100,918	9,406,748	1,694,170
Total expenditures	9,960,690	11,100,918	9,406,748	1,694,170
Excess (deficiency) of revenues over (under) expenditures	(9,112,320)	(9,002,307)	(8,185,824)	816,483
Other financing sources (uses)				
Transfers in	9,112,320	9,012,320	8,212,320	(800,000)
Transfers out	-	(10,013)	(9,992)	21
Total other financing sources (uses)	9,112,320	9,002,307	8,202,328	(799,979)
Net change in fund balances	$ -	$ -	16,504	$ 16,504
Fund balance - beginning			4,763,567	
Fund balance - ending			$ 4,780,071	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Debt Service Funds
June 30, 2008

Assets	
Cash & cash equivalents	$ 118,861
Investments	34,312,294
Taxes on real & personal property receivable	1,082,537
Notes receivable	2,009,800
Total assets	$ 37,523,492
Liabilities and fund balances	
Liabilities:	
Customer deposits	$ 26,400
Deferred revenue	864,129
Total liabilities	890,529
Fund balances:	
Reserved for:	
Notes receivable	2,009,800
Unreserved	34,623,163
Total fund balances	36,632,963
Total liabilities and fund balances	$ 37,523,492

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, 2008

	Budget			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	$ 25,101,130	$ 25,101,130	$ 25,789,302	$ 688,172
Other	1,386,120	1,386,120	2,201,443	815,323
Total revenues	26,487,250	26,487,250	27,990,745	1,503,495
Expenditures				
Current:				
Debt service:				
Principal retirement	8,535,590	8,540,290	8,540,279	11
Interest payments on bonds & notes	3,138,180	3,138,180	3,138,172	8
Other services & charges	50,000	45,300	-	45,300
Total expenditures	11,723,770	11,723,770	11,678,451	45,319
Excess (deficiency) of revenues over (under) expenditures	14,763,480	14,763,480	16,312,294	1,548,814
Other financing sources (uses)				
Transfers out	(14,763,480)	(14,763,480)	(14,763,480)	-
Total other financing sources (uses)	(14,763,480)	(14,763,480)	(14,763,480)	-
Net change in fund balances	$ -	$ -	1,548,814	$ 1,548,814
Fund balance - beginning			35,084,149	
Fund balance - ending			$ 36,632,963	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Capital Projects Fund
June 30, 2008

Assets		
Cash & cash equivalents	$	354,956
Investments		56,590,366
Accounts receivable		1,010,528
Total assets	$	57,955,850
Liabilities and fund balances		
Liabilities:		
Accounts payable	$	4,872,083
Total liabilities		4,872,083
Fund balances:		
Unreserved		53,083,767
Total fund balances		53,083,767
Total liabilities and fund balances	$	57,955,850

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, 2008

	Actual				Actual
	Prior Years	Current Year	Total to Date	Project Authorization	Over (Under) Final Budget
Revenues					
Other	$ 6,327,048	$ 2,987,280	$ 9,314,328	$ 7,041,190	$ 2,273,138
Intergovernmental revenue	5,060,108	2,829,083	7,889,191	10,051,846	(2,162,655)
Total revenues	11,387,156	5,816,363	17,203,519	17,093,036	110,483
Expenditures					
Current:					
Capital & grant projects	20,205,483	22,683,802	42,889,285	88,529,409	(45,640,124)
Total expenditures	20,205,483	22,683,802	42,889,285	88,529,409	(45,640,124)
Excess (deficiency) of revenues over (under) expenditures	(8,818,327)	(16,867,439)	(25,685,766)	(71,436,373)	45,750,607
Other financing sources (uses)					
Issuance of debt	842,000	-	842,000	9,842,000	(9,000,000)
Transfers in	7,976,327	25,559,101	33,535,428	61,890,053	(28,354,625)
Transfers out	-	(295,680)	(295,680)	(295,680)	-
Total other financing sources (uses)	8,818,327	25,263,421	34,081,748	71,436,373	(37,354,625)
Net change in fund balances	$ -	8,395,982	$ 8,395,982	$ -	$ 8,395,982
Fund balance - beginning		44,687,785			
Fund balance - ending		$ 53,083,767			

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, 2008

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Assets				
Current assets				
Cash & temporary investments	$ 1,641,911	$ -	$ 243,261	$ 1,885,172
Investments	2,073,546	6,177,261	-	8,250,807
Accounts receivable	-	-	3,858	3,858
Leases receivable	-	773,467	-	773,467
Inventories	-	-	10,383	10,383
Total current assets	3,715,457	6,950,728	257,502	10,923,687
Noncurrent assets				
Land & site improvements	2,079,796	1,711,454	123,093	3,914,343
Building & building improvements	21,594,627	19,627,960	-	41,222,587
Equipment	4,450	1,259,123	305,648	1,569,221
Construction in progress	-	202,612	-	202,612
Less: accumulated depreciation	(8,973,400)	(13,440,706)	(28,460)	(22,442,566)
Total capital assets (net of accumulated depreciation)	14,705,473	9,360,443	400,281	24,466,197
Equity interest in joint venture	703,024	-	-	703,024
Total noncurrent assets	15,408,497	9,360,443	400,281	25,169,221
Total assets	19,123,954	16,311,171	657,783	36,092,908
Liabilities				
Current liabilities				
Accounts payable	99,900	51,802	109,383	261,085
Accrued liabilities	-	70,994	-	70,994
Customer deposits	3,536	119,586	-	123,122
Due to other funds	-	563,349	245,000	808,349
Deferred revenue	41,603	-	-	41,603
Compensated absences	-	81,000	-	81,000
Long-term debt due within one year	-	-	12,500	12,500
Total current liabilities	145,039	886,731	366,883	1,398,653
Noncurrent liabilities				
Long-term debt due in more than one year	-	32,575	90,000	122,575
Total noncurrent liabilities	-	32,575	90,000	122,575
Total liabilities	145,039	919,306	456,883	1,521,228
Net assets				
Invested in capital assets, net of related debt	14,705,473	9,360,443	400,281	24,466,197
Unrestricted	4,273,442	6,031,422	(199,381)	10,105,483
Total net assets	$ 18,978,915	$ 15,391,865	$ 200,900	$ 34,571,680

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2008

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	$ 1,716,372	$ 2,863,045	$ 776,293	$ 5,355,710
Total operating revenues	1,716,372	2,863,045	776,293	5,355,710
Operating expenses				
Personal services	-	1,967,436	-	1,967,436
Materials & supplies	-	133,701	-	133,701
Maintenance	-	1,015,738	-	1,015,738
Depreciation & amortization	812,897	514,836	26,242	1,353,975
Other services and charges	641,195	542,349	859,885	2,043,429
Total operating expenses	1,454,092	4,174,060	886,127	6,514,279
Operating income (loss)	262,280	(1,311,015)	(109,834)	(1,158,569)
Nonoperating revenue (expense)				
Interest income	94,438	234,867	-	329,305
Intergovernmental revenue	-	670,983	-	670,983
Interest expense	(10,153)	-	-	(10,153)
Total nonoperating revenue (expense)	84,285	905,850	-	990,135
Income (loss) before transfers and capital contributions	346,565	(405,165)	(109,834)	(168,434)
Transfers:				
Transfers in	566,992	1,362,430	99,768	2,029,190
Capital contributions	-	-	133,333	133,333
Change in net assets	913,557	957,265	123,267	1,994,089
Total net assets - beginning	18,065,358	14,434,600	77,633	32,577,591
Total net assets - ending	$ 18,978,915	$ 15,391,865	$ 200,900	$ 34,571,680

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2008

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating activities				
Cash received from customers and users	$ 1,719,908	$ 2,671,074	$ 773,769	$ 5,164,751
Cash paid to suppliers	(545,566)	(1,505,016)	(813,496)	(2,864,078)
Cash paid to employees	-	(1,963,970)	-	(1,963,970)
Cash paid for interfund services used	(8,810)	(190,759)	-	(199,569)
Net cash provided by (used in) operating activities	1,165,532	(988,671)	(39,727)	137,134
Noncapital financing activities				
Transfers from other funds	-	1,532,002	299,768	1,831,770
Capital contributions	-	-	133,333	133,333
Tax and intergovernmental revenues	41,603	670,983	-	712,586
Net cash provided by (used in) noncapital financing activities	41,603	2,202,985	433,101	2,677,689
Capital and related financing activities				
Principal paid on general obligation bond maturities	(524,034)	-	(12,500)	(536,534)
Interest paid	(10,153)	-	-	(10,153)
Acquisition and construction of capital assets	-	(660,122)	(344,092)	(1,004,214)
Debt proceeds	-	-	115,000	115,000
Net cash provided by (used in) capital and related financing activities	(534,187)	(660,122)	(241,592)	(1,435,901)
Investing activities				
Sales/(purchases) of investments	(24,419)	(793,022)	-	(817,441)
Investment earnings	94,438	234,867	-	329,305
Net cash provided by (used in) investing activities	70,019	(558,155)	-	(488,136)
Net increase (decrease) in cash and cash equivalents	742,967	(3,963)	151,782	890,786
Cash and cash equivalents				
Beginning of year	898,944	3,963	91,479	994,386
End of year	$ 1,641,911	$ -	$ 243,261	$ 1,885,172

Continued:

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2008

	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)	$ 262,280	$ (1,311,015)	$ (109,834)	$ (1,158,569)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	812,897	514,836	26,242	1,353,975
Change in assets and liabilities				
(Increase) decrease in receivables	-	24,968	(2,524)	22,444
	-	-	(4,840)	(4,840)
Increase (decrease) in accounts payable	89,450	(3,987)	51,229	136,692
Increase (decrease) in accrued expenses	(2,631)	3,466	-	835
Increase (decrease) in deferred revenue	-	(91,504)	-	(91,504)
Increase (decrease) in customer deposits	3,536	(125,435)	-	(121,899)
Total adjustments	903,252	322,344	70,107	1,295,703
Net cash provided by (used in) operating activities	$ 1,165,532	$ (988,671)	$ (39,727)	$ 137,134
Noncash investing, capital, and financing activities:				
Increase in equity interest in joint venture	$ 136,032	$ -	$ -	$ 136,032

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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.

Office Services Fund	To provide printing, copying, mailing and telephone services for all City departments, and office and operating inventory.
Fleet Maintenance Fund	To supply city departments with quality, cost effective rolling stock that is in continuous state of good repair and capable of efficient performance in the service for which it is assigned.
Risk Management Fund	To account for the cost of insurance and claims against City employees or injury to citizens while on City property.
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, 2008

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Assets						
Current assets						
Cash & temporary investments	$ 3,836,737	$ 28,641	$ -	$ 15,010	$ -	$ 3,880,388
Investments	18,237,026	19,564,234	10,138,970	10,092,766	909,695	58,942,691
Accounts receivable	385	5,417	84,539	5,125	-	95,466
Inventories	827,941	-	-	-	-	827,941
Prepaid items	-	416	-	-	-	416
Total current assets	22,902,089	19,598,708	10,223,509	10,112,901	909,695	63,746,902
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	39,626,014	14,908	-	17,877,266	-	57,518,188
Construction in progress	46,577	-	-	1,756,508	-	1,803,085
Less: accumulated depreciation	(29,123,707)	(14,908)	-	(12,192,556)	-	(41,331,171)
Total capital assets (net of accumulated depreciation)	10,806,275	-	-	7,441,218	-	18,247,493
Equity interest in joint venture	-	-	-	-	3,561,296	3,561,296
Total noncurrent assets	10,806,275	-	-	7,441,218	3,561,296	21,808,789
Total assets	33,708,364	19,598,708	10,223,509	17,554,119	4,470,991	85,555,691
Liabilities						
Current liabilities						
Accounts payable	109,006	245,641	1,573,713	876,926	7,476	2,812,762
Accrued liabilities	71,197	14,098	1,005,229	-	-	1,090,524
Due to other funds	-	-	5,049	-	700,000	705,049
Compensated absences	105,510	12,073	7,809	-	-	125,392
Total current liabilities	285,713	271,812	2,591,800	876,926	707,476	4,733,727
Noncurrent liabilities						
Estimated litigation liability	-	8,500,000	-	-	-	8,500,000
Total noncurrent liabilities	-	8,500,000	-	-	-	8,500,000
Total liabilities	285,713	8,771,812	2,591,800	876,926	707,476	13,233,727
Net assets						
Invested in capital assets, net of related debt	10,806,275	-	-	7,441,218	-	18,247,493
Unrestricted	22,616,376	10,826,896	7,631,709	9,235,975	3,763,515	54,074,471
Total net assets	$ 33,422,651	$ 10,826,896	$ 7,631,709	$ 16,677,193	$ 3,763,515	$ 72,321,964

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2008

	Office Services	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating revenues							
Charges for services	$ 37,411	$ 13,696,934	$ 7,543,383	$ 12,818,471	$ 2,001,729	$ 1,875,346	$ 37,973,274
Total operating revenues	37,411	13,696,934	7,543,383	12,818,471	2,001,729	1,875,346	37,973,274
Operating expenses							
Personal services	42,365	1,868,778	365,800	147,334	-	-	2,424,277
Materials & supplies	6,010	4,674,974	7,533	2,970	-	-	4,691,487
Maintenance	-	304,450	-	-	-	103,613	408,063
Depreciation & amortization	-	3,091,948	-	-	2,093,999	-	5,185,947
Other services and charges	39,856	731,938	5,148,955	14,272,643	-	1,365,616	21,559,008
Total operating expenses	88,231	10,672,088	5,522,288	14,422,947	2,093,999	1,469,229	34,268,782
Operating income (loss)	(50,820)	3,024,846	2,021,095	(1,604,476)	(92,270)	406,117	3,704,492
Nonoperating revenue (expense)							
Interest income	962	642,027	-	384,392	398,052	26,290	1,451,723
Intergovernmental revenue	-	864	-	-	2,312,568	-	2,313,432
Other revenues	-	15,452	991,927	-	2,084	-	1,009,463
Gain (loss) on disposal of capital assets	-	80,910	-	-	(26,341)	-	54,569
Total nonoperating revenue (expense)	962	739,253	991,927	384,392	2,686,363	26,290	4,829,187
Income (loss) before transfers and capital contributions	(49,858)	3,764,099	3,013,022	(1,220,084)	2,594,093	432,407	8,533,679
Transfers:							
Transfers in	-	4,134,000	827,430	1,022,930	148,953	-	6,133,313
Transfers out	(6,474)	(3,825)	(1,721)	-	-	(1,695,769)	(1,707,789)
Capital contributions	-	235,483	-	-	-	-	235,483
Change in net assets	(56,332)	8,129,757	3,838,731	(197,154)	2,743,046	(1,263,362)	13,194,686
Total net assets - beginning	56,332	25,292,894	6,988,165	7,828,863	13,934,147	5,026,877	59,127,278
Total net assets - ending	$ -	$ 33,422,651	$ 10,826,896	$ 7,631,709	$ 16,677,193	$ 3,763,515	$ 72,321,964

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2008

	Office Services	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating activities							
Receipts from interfund services provided	$ 37,411	$ 13,702,101	$ 7,537,966	$ 12,816,213	$ 2,867,678	$ 1,875,346	$ 38,836,715
Cash paid to suppliers	(9,402)	(5,729,302)	(1,298,238)	(908,176)	-	(1,476,869)	(9,421,987)
Cash paid to employees	(65,547)	(1,862,672)	(363,597)	855,133	-	-	(1,436,683)
Cash paid for interfund services used	(39,856)	(481,812)	(21,748)	(4,123)	-	-	(547,539)
Payments of claims and insurance	-	-	(5,323,317)	(12,654,166)	-	-	(17,977,483)
Net cash provided by (used in) operating activities	(77,394)	5,628,315	531,066	104,881	2,867,678	398,477	9,453,023
Noncapital financing activities							
Transfers from other funds	-	4,134,000	816,742	858,102	148,953	-	5,957,797
Transfers to other funds	(6,474)	(3,825)	(1,721)	-	-	-	(12,020)
Capital contributions	-	235,483	-	-	-	-	235,483
Tax and intergovernmental revenues	-	16,316	991,927	-	2,314,652	-	3,322,895
Net cash provided by (used in) noncapital financing activities	(6,474)	4,381,974	1,806,948	858,102	2,463,605	-	9,504,155
Capital and related financing activities							
Proceeds from sale of capital assets	1,310	-	-	-	-	-	1,310
Acquisition and construction of capital assets	-	(5,056,031)	-	-	(5,401,667)	-	(10,457,698)
Net cash provided by (used in) capital and related financing activities	1,310	(5,056,031)	-	-	(5,401,667)	-	(10,456,388)
Investing activities							
Sales/(purchases) of investments	-	(2,581,410)	(2,309,373)	(1,347,375)	(365,561)	(424,767)	(7,028,486)
Investment earnings	962	642,027	-	384,392	398,052	26,290	1,451,723
Net cash provided by (used in) investing activities	962	(1,939,383)	(2,309,373)	(962,983)	32,491	(398,477)	(5,576,763)
Net increase (decrease) in cash and cash equivalents	(81,596)	3,014,875	28,641	-	(37,893)	-	2,924,027
Cash and cash equivalents							
Beginning of year	81,596	821,862	-	-	52,903	-	956,361
End of year	$ -	$ 3,836,737	$ 28,641	$ -	$ 15,010	$ -	$ 3,880,388

Continued:

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2008

	Office Services	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)	$ (50,820)	$ 3,024,846	$ 2,021,095	$ (1,604,476)	$ (92,270)	$ 406,117	$ 3,704,492
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	-	3,091,948	-	-	2,093,999	-	5,185,947
Change in assets and liabilities							
(Increase) decrease in receivables	-	5,167	(5,417)	(2,258)	(5,125)	-	(7,633)
	27,429	130,828	-	-	-	-	158,257
(Increase) decrease in prepayments	-	-	(416)	-	-	-	(416)
Increase (decrease) in accounts payable	(30,821)	(630,580)	13,601	709,148	871,074	(7,640)	924,782
Increase (decrease) in accrued expenses	(23,182)	6,106	2,203	1,002,467	-	-	987,594
Increase (decrease) in estimated liability for litigation and claims	-	-	(1,500,000)	-	-	-	(1,500,000)
Total adjustments	(26,574)	2,603,469	(1,490,029)	1,709,357	2,959,948	(7,640)	5,748,531
Net cash provided by (used in) operating activities	$ (77,394)	$ 5,628,315	$ 531,066	$ 104,881	$ 2,867,678	$ 398,477	$ 9,453,023
Noncash investing, capital, and financing activities:							
Increase in equity interest in joint venture	$ -	$ -	$ -	$ -	$ -	$ 254,418	$ 254,418

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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, 2008

	City Choice Plus	Employee Health Savings Fund	Totals
Assets			
Cash	$ -	$ 197,941	$ 197,941
State & municipal government securities	45,733	-	45,733
Other receivables	48,406	-	48,406
Due from other funds	-	34,658	34,658
Total assets	$ 94,139	$ 232,599	$ 326,738
Liabilities			
Accounts payable	$ 59,481	$ -	$ 59,481
Due to other funds	34,658	-	34,658
Health care claims liability	-	232,599	232,599
Total liabilities	$ 94,139	$ 232,599	$ 326,738

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2008

	July 1, 2007	Additions	Deductions	June 30, 2008
City Choice Fund				
Assets				
Cash	$ 28,477	$ 464,829	$ 493,306	$ -
State & municipal government securities	28,637	17,096	-	45,733
Other receivables	-	460,975	412,569	48,406
Total assets	$ 57,114	$ 942,900	$ 905,875	$ 94,139
Liabilities				
Accounts payable	$ 57,114	$ 467,196	$ 464,829	$ 59,481
Due to other funds	-	34,658	-	34,658
Total liabilities	$ 57,114	$ 501,854	$ 464,829	$ 94,139
Employee Health Savings Fund				
Assets				
Cash	$ 124,502	$ 197,941	$ 124,502	$ 197,941
Due from other funds	-	232,599	197,941	34,658
Total assets	$ 124,502	$ 430,540	$ 322,443	$ 232,599
Liabilities				
Health care claims liability	$ 124,502	$ 232,599	$ 124,502	$ 232,599
Total All Agency Funds				
Assets				
Cash	$ 152,979	$ 662,770	$ 617,808	$ 197,941
State & municipal government securities	28,637	17,096	-	45,733
Other receivables	-	460,975	412,569	48,406
Due from other funds	-	232,599	197,941	34,658
Total assets	$ 181,616	$ 1,373,440	$ 1,228,318	$ 326,738
Liabilities				
Accounts payable	$ 57,114	$ 467,196	$ 464,829	$ 59,481
Due to other funds	-	34,658	-	34,658
Health care claims liability	124,502	232,599	124,502	232,599
Total liabilities	$ 181,616	$ 734,453	$ 589,331	$ 326,738

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COMPONENT UNIT

CITY OF KNOXVILLE, TENNESSEE

Statement of Net Assets
Knoxville Area Transit - Component Unit
June 30, 2008

Assets	
Current assets:	
Investments	$ 1,445,923
Accounts receivable	6,467,587
Inventories	938,807
Total current assets	8,852,317
Noncurrent assets:	
Land & site improvements	1,854,780
Building & building improvements	5,025,175
Equipment	23,064,899
Construction in progress	1,691,373
Less: accumulated depreciation	(18,918,619)
Total noncurrent assets	12,717,608
Total assets	21,569,925
Liabilities:	
Current liabilities:	
Accounts payable	528,550
Accrued liabilities	62,469
Due to primary government	7,159,816
Total current liabilities	7,750,835
Total liabilities	7,750,835
Net assets:	
Invested in capital assets, net of related debt	12,717,608
Unrestricted	1,101,482
Total net assets	$ 13,819,090

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, 2008

Operating revenues	
Charges for services	$ 4,107,577
Total operating revenues	4,107,577
Operating expenses	
Personal services	15,158,590
Materials & supplies	3,108,543
Maintenance	1,449,683
Depreciation & amortization	2,175,029
Other services and charges	8,582,680
Total operating expenses	30,474,525
Operating income (loss)	(26,366,948)
Nonoperating revenue (expense)	
Interest income	26,902
Intergovernmental revenue	26,431,239
Other revenues	1,230,601
Gain (loss) on disposal of capital assets	(255,352)
Total nonoperating revenue (expense)	27,433,390
Change in net assets	1,066,442
Total net assets - beginning	12,752,648
Total net assets - ending	$ 13,819,090

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, 2008

Operating activities		
Cash received from customers and users	$	1,013,002
Cash paid to suppliers		(13,536,934)
Cash paid to employees		(15,161,553)
Net cash used in operating activities		(27,685,485)
Noncapital financing activities		
Transfers to other funds		3,369,578
Tax and intergovernmental revenues		27,661,840
Net cash provided by noncapital financing activities		31,031,418
Capital and related financing activities		
Acquisition and construction of capital assets		(3,311,477)
Net cash used in capital and related financing activities		(3,311,477)
Investing activities		
Sales/(purchases) of investments		(710,696)
Investment earnings		26,902
Net cash used in investing activities		(683,794)
Net decrease in cash and cash equivalents		(649,338)
Cash and cash equivalents		
Beginning of year		649,338
End of year	$	-

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, 2008

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	$	(26,366,948)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		2,175,029
Change in assets and liabilities		
(Increase) decrease in receivables		(2,960,328)
		(223,862)
(Increase) decrease in prepayments		192,528
Increase (decrease) in accounts payable		(364,694)
Increase (decrease) in accrued expenses		(2,963)
Increase (decrease) in deferred revenue		(134,247)
Total adjustments		(1,318,537)
Net cash used in operating activities	$	(27,685,485)

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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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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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 SEVEN YEARS
(accrual basis of accounting)
(unaudited - amounts expressed in thousands)

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Governmental Activities							
Invested in capital assets, net of related debt	$ 111,609	$ 155,214	$ 157,139	$ 137,765	$ 139,547	$ 162,108	$ 186,466
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487
Unrestricted	109,435	140,737	67,800	101,204	114,881	157,067	179,868
Total Governmental Activities Net Assets	$ 245,222	$ 312,950	$ 251,740	$ 270,088	$ 287,275	$ 354,954	$ 403,821
Business-type Activities							
Invested in capital assets, net of related debt	$ 22,412	$ 52,821	$ 21,070	$ 18,712	$ 32,217	$ 31,546	$ 30,268
Unrestricted	1,235	(26,531)	6,226	8,838	9,350	12,266	16,682
Total Business-type Activities Net Assets	$ 23,647	$ 26,290	$ 27,296	$ 27,550	$ 41,567	$ 43,812	$ 46,950
Primary Government							
Invested in capital assets, net of related debt	$ 134,021	$ 208,035	$ 178,209	$ 156,477	$ 171,764	$ 193,654	$ 216,734
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487
Unrestricted	110,670	114,206	74,026	110,042	124,231	169,333	196,550
Total Primary Government Net Assets	$ 268,869	$ 339,240	$ 279,036	$ 297,638	$ 328,842	$ 398,766	$ 450,771

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

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

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Expenses							
Governmental Activities:							
General government	$ 11,657	$ 10,331	$ 13,200	$ 12,218	$ 15,015	$ 11,671	$ 9,630
Public safety	62,146	67,423	66,325	65,384	69,949	60,882	78,172
Physical environment	29,135	28,920	27,910	49,678	70,289	40,686	42,048
Health & Sanitation	8,446	9,729	9,209	9,696	9,740	9,498	9,833
Parks & Recreation	7,075	4,217	6,542	10,484	10,760	10,068	11,634
Economic Development	6,937	7,872	6,924	12,428	8,070	8,314	8,732
Transportation	24,149	6,273	5,791	6,844	5,728	7,783	9,614
Interest on long-term debt	5,269	4,706	3,199	4,754	4,005	3,585	3,138
Other	10,574	13,721	13,412	1,830	1,683	-	-
Total governmental activities expenses	165,388	153,192	152,512	173,316	195,239	152,487	172,801
Business-type Activities:							
Metro parking	893	928	740	857	819	1,264	1,464
Public assembly facilities	3,296	3,778	3,696	3,974	3,718	3,902	4,174
Knoxville Convention Center	5,363	20,328	18,573	19,562	20,848	20,734	21,246
Municipal Golf Courses	-	-	-	-	-	306	886
Total business-type activities	9,552	25,034	23,009	24,393	25,385	26,206	27,770
Total primary government	$ 174,940	$ 178,226	$ 175,521	$ 197,709	$ 220,624	$ 178,693	$ 200,571
Program Revenues							
Governmental Activities:							
Charges for Services:							
General government	$ 2,204	$ 2,424	$ 6,506	$ 480	$ 519	$ 697	$ 629
Public safety	1,059	912	1,191	6,995	7,473	9,016	9,233
Physical environment	565	594	772	815	856	924	1,135
Health & sanitation	657	916	682	26	30	48	43
Parks & recreation	160	289	217	408	634	666	801
Economic Development	1,318	1,636	1,946	-	-	78	-
Transportation	188	2,219	114	674	665	830	857
Other	2,867	3,216	5,734	1,170	-	-	-
Operating grants and contributions	9,857	8,770	9,033	14,899	13,662	9,656	9,804
Capital grants and contributions	350	1,574	890	4,064	9,693	4,558	5,753
Total governmental activities program revenues	19,225	22,550	27,085	29,531	33,532	26,473	28,255
Business-type Activities:							
Charges for Services:							
Metro parking	742	967	999	1,397	698	1,308	1,716
Public assembly facilities	1,555	1,923	1,810	1,725	1,994	2,210	2,863
Knoxville Convention Center	609	4,111	3,748	5,048	4,814	5,975	6,409
Municipal Golf Courses	-	-	-	-	-	211	776
Operating grants and contributions	-	-	-	-	-	-	-
Capital grants and contributions	-	11,998	-	-	-	80	-
Total business-type activities program revenues	2,906	18,999	6,557	8,170	7,506	9,784	11,764
Total primary government program revenues	$ 22,131	$ 41,549	$ 33,642	$ 37,701	$ 41,038	$ 36,257	$ 40,019
Net expense:							
Governmental Activities	$ 146,163	$ 130,642	$ 125,427	$ 143,785	$ 161,707	$ 126,014	$ 144,546
Business-type Activities	6,646	6,035	16,452	16,223	17,879	16,422	16,006
Total primary government net expense	$ 152,809	$ 136,677	$ 141,879	$ 160,008	$ 179,586	$ 142,436	$ 160,552

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

Continued on Next Page

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

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
General Revenues and Other Changes in Net Assets							
Governmental Activities:							
Property taxes, interest and penalties	$ 100,157	$ 93,991	$ 94,957	$ 99,274	$ 104,290	$ 107,901	$ 109,619
Intergovernmental revenues	45,801	45,957	47,215	61,816	56,902	64,449	65,482
Other taxes	13,496	14,907	10,052	6,962	16,392	17,259	17,883
Other revenue	11,260	8,431	3,104	5,113	10,845	11,454	10,670
Transfers	(12,957)	(8,356)	(11,040)	(11,032)	(9,535)	(10,261)	(11,010)
Total governmental activities	157,757	154,930	144,288	162,133	178,894	190,802	192,644
Business-type Activities:							
Other taxes	-	-	4,975	3,978	7,085	6,517	6,820
Intergovernmental revenues	-	-	1,382	1,367	155	1,296	671
Grants & contributions	113	-	-	-	-	-	
Other revenue	4	322	61	100	15,120	594	643
Transfers	8,135	8,356	11,040	11,032	9,535	10,261	11,010
Total business-type activities	8,252	8,678	17,458	16,477	31,895	18,668	19,144
Total primary government	$ 166,009	$ 163,608	$ 161,746	$ 178,610	$ 210,789	$ 209,470	$ 211,788
Changes in Net Assets							
Governmental activities	$ 11,594	$ 24,288	$ 18,861	$ 18,348	$ 17,187	$ 64,788	$ 48,098
Business-type activities	1,606	2,643	1,006	254	14,016	2,246	3,138
Prior period adjustment	-	43,440	(80,072)	-	-	-	-
Total primary government	$ 13,200	$ 70,371	$ (60,205)	$ 18,602	$ 31,203	$ 67,034	$ 51,236

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

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

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
General Fund							
Reserved	$ 3,146	$ 1,802	$ 1,953	$ 1,298	$ 248	$ 1,366	$ 1,333
Unreserved	24,851	16,696	18,239	23,748	34,501	45,200	48,223
Total general fund	$ 27,997	$ 18,498	$ 20,192	$ 25,046	$ 34,749	$ 46,566	$ 49,556
All other governmental funds							
Reserved/Designated	$ 36,192	$ 44,038	$ 62,791	$ 35,609	$ 13,132	$ 15,017	$ 7,082
Unreserved, reported in:							
Special Revenue funds	5,671	5,645	7,664	(2,284)	8,583	11,527	22,903
Debt Service funds	-	-	-	28,722	30,571	32,941	34,623
Capital Projects funds	1,885	783	8,831	17,499	28,008	44,688	53,084
Total all other governmental funds	$ 43,748	$ 50,466	$ 79,286	$ 79,546	$ 80,294	$ 104,173	$ 117,692

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

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

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Revenues							
Taxes, assessments, interest & penalties	$ 131,697	$ 133,667	$ 135,130	$ 153,817	$ 160,146	$ 168,434	$ 169,632
Licenses, permits & inspection charges	1,551	1,838	2,110	2,312	2,342	2,565	2,281
Intergovernmental revenue	35,977	31,210	30,995	31,632	36,907	34,185	34,986
Charges for services	3,664	4,240	4,906	5,547	5,405	6,030	6,323
Fines & forfeitures	2,665	2,315	3,302	1,536	3,127	4,231	4,953
Other	38,571	9,187	5,276	8,714	12,727	9,303	10,711
Total revenues	214,125	182,457	181,719	203,558	220,654	224,748	228,886
Expenditures							
Current							
General government	13,405	12,742	12,039	11,715	12,974	12,461	16,914
Public safety	60,925	64,328	63,888	64,643	68,447	70,466	75,821
Physical environment	27,870	30,470	29,321	21,377	22,742	25,441	21,696
Solid waste	8,440	9,675	9,193	9,369	-	-	-
Parks & recreation	6,634	6,867	6,832	6,567	738	908	910
Economic development	8,750	10,426	8,658	26,423	41,325	41,810	48,007
Other	7,539	4,779	5,483	162	446	-	-
Capital Outlay	30,836	19,547	23,317	27,802	27,666	12,504	22,684
Debt Service							
Principal	11,837	12,158	19,304	10,973	10,646	9,773	8,540
Interest	5,398	4,796	2,973	4,592	4,004	3,585	3,138
Total expenditures	181,634	175,788	181,008	183,623	188,988	176,948	197,710
Excess of revenues over expenditures	32,491	6,669	711	19,935	31,666	47,800	31,176
Other Financing Sources (Uses)							
Proceeds from issuance of debt	1,521	1,929	42,967	256	-	-	-
Transfers in	32,085	39,995	29,637	40,566	29,474	47,722	45,175
Transfers out	(41,662)	(51,374)	(42,801)	(55,642)	(50,689)	(59,826)	(60,611)
Total other financing sources (uses)	(8,056)	(9,450)	29,803	(14,820)	(21,215)	(12,104)	(15,436)
Net changes in fund balances	$ 24,435	$ (2,781)	$ 30,514	$ 5,115	$ 10,451	$ 35,696	$ 15,740
Debt service as a percentage of noncapital expenditures	11.4%	10.9%	14.1%	10.0%	9.1%	8.1%	6.7%

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

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:					Assessed	Estimated	Assessed	Estimated	Assessed			Direct	Assessed Value as a Percentage
Fiscal Year	Commercial	Industrial	Residential & Farm	Exempt Properties	Total's	Taxable Value	Actual Value	Taxable Value	Actual Value	Taxable Value	Estimated Actual Value	Assessed Taxable Value	Tax Rate	of Actual Value
1999	2,538,362	181,061	3,385,457	N/A	6,104,880	1,934,291	808,457	242,537	233,799	128,589	7,147,136	2,305,417	2.85	32%
2000	2,623,463	175,338	3,449,968	N/A	6,248,769	1,982,170	860,991	258,297	253,897	139,643	7,363,657	2,380,110	2.85	32%
2001	2,708,735	172,468	3,503,801	N/A	6,385,004	2,028,589	869,832	260,949	247,421	136,081	7,502,257	2,425,619	3.04	32%
2002	3,216,225	189,705	4,085,050	N/A	7,490,980	2,383,807	987,686	296,306	327,312	180,022	8,805,978	2,860,135	2.70	32%
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%

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
1999	1.93	0.52	0.09	0.04	2.58	1.24	0.26	1.27	2.77	5.35
2000	2.20	0.52	0.09	0.04	2.85	1.56	0.32	1.44	3.32	6.17
2001	2.20	0.52	0.09	0.04	2.85	1.51	0.31	1.50	3.32	6.17
2002	2.09	0.82	0.09	0.04	3.04	1.58	0.31	1.43	3.32	6.36
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

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

		2008			1999		
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
Bell South Telecom	Communications	$ 53,274	1	1.52%	$ 72,578	1	3.15%
East Towne Mall	Retail	21,524	2	0.61%	23,646	3	1.03%
AT&T Telecommunications	Communications	20,051	3	0.57%	12,335	5	0.54%
Ft Sanders Regional Medical Cent	Health Care	17,024	4	0.49%			
Tennessee Holding LLC	Property Management	14,786	5	0.42%			
East Tennessee Baptist Hospital	Health Care	9,503	6	0.27%	10,699	9	0.46%
Lillie Mae Cain Estate	Property Management	7,584	7	0.22%	11,515	7	0.50%
All Eleven LLC	Property Management	7,289	8	0.21%			
West Town Mall	Retail	5,194	9	0.15%	25,691	2	1.11%
Furrow Samuel J	Property Management	3,778	10	0.11%			
Parkway Property	Property Management				27,891	4	1.21%
Goody's Family Clothing	Retail				12,080	6	0.52%
First American	Financial Services				11,076	8	0.48%
Riverview Tower	Property Management				7,707	10	0.33%
		$ 160,007		4.57%	$ 215,218		9.33%

[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
1999	$ 66,173	$ 63,045	95.27%	$ 2,955	$ 66,000	99.74%
2000	68,098	64,377	94.54%	3,510	67,887	99.69%
2001	73,953	69,892	94.51%	3,731	73,623	99.55%
2002	77,513	73,595	94.95%	3,512	77,107	99.48%
2003	79,041	74,363	94.08%	4,160	78,523	99.34%
2004	79,603	75,122	94.37%	3,964	79,086	99.35%
2005	91,075	85,989	94.42%	4,297	90,286	99.13%
2006	93,804	90,406	96.38%	2,470	92,876	99.01%
2007	95,423	91,412	95.80%	2,410	93,822	98.32%
2008	98,233	93,938	95.63%	-	93,938	95.63%

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

	Governmental Activities			Business Type Activities			
Fiscal Year	General Obligation Bonds	Notes Payable	Debt Participation Agreement	General Obligation Bonds	Total Primary Government[1]	% of Personal Income[2]	Per Capita[2]
2002	$ 91,696	$ -	$ 1,521	$ 164,384	$ 257,601	14.59%	$ 1,456.39
2003	79,595	1,929	1,464	162,855	245,843	13.37%	1,384.29
2004	103,106	-	1,406	158,184	262,696	13.44%	1,474.84
2005	92,595	-	1,346	154,890	248,831	12.15%	1,381.40
2006	82,080	-	1,285	151,475	234,840	11.18%	1,291.10
2007	72,370	-	1,222	147,910	221,502	10.23%	1,206.79
2008	63,900	-	1,156	144,240	209,296	6.27%	1,140.29

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.

The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002. Reliable comparative data not available prior to 2002.

CITY OF KNOXVILLE, TENNESSEE
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST SEVEN 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
2002	$ 91,696	$ 24,178	$ 67,518	2.36%	$ 381.73
2003	79,595	16,999	62,596	2.15%	352.46
2004	103,106	26,801	76,305	2.61%	428.40
2005	92,595	28,722	63,873	2.14%	354.60
2006	82,080	30,572	51,508	1.54%	283.18
2007	72,370	32,941	39,429	1.16%	214.82
2008	63,900	34,623	29,277	0.84%	159.51

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

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
1999	$ 431,185	$ 374,103	$ 57,082	$ 44,290	1.29
2000	443,313	382,151	61,162	36,787	1.66
2001	501,830	439,372	62,458	16,951	3.68
2002	464,208	413,129	51,079	24,068	2.12
2003	500,073	429,096	70,977	26,568	2.67
2004	529,340	460,396	68,944	61,308	1.12
2005	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

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
1999	$ 15,456	$ 7,910	$ 7,546	$ 3,658	206.3%
2000	18,151	9,275	8,876	3,844	230.9%
2001	19,807	11,291	8,516	6,632	128.4%
2002	18,769	11,485	7,284	4,582	159.0%
2003	18,693	11,630	7,063	4,676	151.0%
2004	19,614	11,843	7,771	4,649	167.2%
2005	22,746	12,643	10,103	4,806	210.2%
2006	25,743	13,615	12,128	7,345	165.1%
2007	27,768	15,274	12,494	7,770	160.8%
2008	29,213	16,100	13,113	8,778	149.4%

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2008
(unaudited - amounts expressed in thousands)

Governmental Unit	Net Direct Outstanding Debt [1]	Percentage Applicable to Knoxville[2]	Amount Applicable to Knoxville
City of Knoxville	$ 65,056	100.00%	$ 65,056
Knox County	369,632	41.74%	154,284
Knox County Schools	245,630	41.74%	102,526
Total	$ 680,318		$ 321,866

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 NINE 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]	Unemployment Rate[4]
2000	175,645	$ 16,568,988	$ 26,834	37.3	28.3%	25.6%	15.0%	9.5%	56,703	3.1%
2001	176,781	17,138,808	27,429	-	-	-	-	-	56,458	3.3%
2002	176,876	17,654,927	27,931	-	-	-	-	-	52,391	3.6%
2003	177,595	18,384,062	28,703	38.2	-	-	-	-	56,935	3.8%
2004	178,118	19,544,768	30,209	-	-	-	-	-	55,720	3.9%
2005	180,130	20,266,000	30,899	-	-	-	-	-	53,130	4.1%
2006	182,337	21,643,000	32,430	-	-	-	-	-	56,851	3.8%
2007	183,546	33,373,000	33,963	-	-	-	-	-	57,576	4.2%
2008[5]										

Data sources
(1) U.S. Census Bureau
(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) Tennessee Department of Labor and Workforce Development - Knox County
(5) 2008 Data not currently available

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

	2008			1999		
Employer's Name	Employees	Rank	Percentage of Total Area Employment[1]	Employees	Rank	Percentage of Total Area Employment[2]
University of Tennessee, Knoxville	9,317	1	4.17%			
Covenant Health	8,000	2	3.58%			
St. Mary's Medical Center	3,666	3	1.64%			
University of Tennessee Medical Center	3,225	4	1.44%			
City of Knoxville	2,820	5	1.26%			
County of Knox	2,500	6	1.12%			
Clayton Homes	2,500	7	1.12%	2,400	1	1.26%
Baptist Health Systems	2,347	8	1.05%			
ALCOA	2,300	9	1.03%	1,800	3	0.95%
Denso	2,100	10	0.94%	1,411	4	0.74%
DeRoyal Industries				2,350	2	1.24%
Philips Electronics of North America Corp.				979	5	0.52%
Levi Strauss and Company				936	6	0.49%
Allied Signal, Inc.				641	7	0.34%
Robertshaw Controls Company				575	8	0.30%
Knoxville News-Sentinel Company				570	9	0.30%
Plasti-Line				460	10	0.24%

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 SEVEN FISCAL YEARS
(Unaudited)

	Full-time Equivalent Employees as of June 30,						
Department	2002	2003	2004	2005	2006	2007	2008
Administration	23.0	23.0	21.5	19.5	24.5	24.5	25.0
Finance and Accountability							
Finance	54.0	54.0	48.0	55.5	56.5	54.5	52.5
Information Systems	30.0	30.0	28.0	29.0	29.0	30.0	30.0
Subtotal	84.0	84.0	76.0	84.5	85.5	84.5	82.5
Operations & Engineering							
Engineering	88.5	89.5	86.0	88.0	88.0	90.0	89.5
Fleet Services	67.0	67.0	58.0	58.0	57.0	57.0	56.0
Inspections	31.0	31.0	30.0	30.0	31.0	31.0	31.0
Subtotal	186.5	187.5	174.0	176.0	176.0	178.0	176.5
Community and Neighborhood Services							
Public Services	335.0	338.0	315.0	308.0	309.0	307.0	307.0
Development Services	5.0	5.0	5.0	3.0	3.0	4.0	4.0
Community Development	20.0	20.0	21.5	20.5	18.5	19.5	21.5
Recreation	63.5	62.5	58.5	60.5	60.5	59.0	58.0
Subtotal	423.5	425.5	400.0	392.0	391.0	389.5	390.5
Law	26.5	25.5	25.5	13.0	13.0	13.0	13.0
Police							
Sworn	446.0	456.0	421.0	414.0	414.0	414.0	416.0
Civilian	133.0	133.0	121.0	120.5	120.5	120.5	121.0
Emergency Management	4.0	4.0	4.0	3.0	3.0	3.0	3.0
Subtotal	583.0	593.0	546.0	537.5	537.5	537.5	540.0
Fire							
Sworn	358.0	358.0	328.0	328.0	328.0	328.0	328.0
Civilian	12.0	12.0	11.0	11.0	11.0	10.0	10.0
Subtotal	370.0	370.0	339.0	339.0	339.0	338.0	338.0
Board Administered/Other Departments							
Legislative	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
Civil Service	15.0	15.0	14.0	14.0	14.0	14.5	13.0
Public Assembly Facilities	47.0	37.0	36.0	36.0	36.0	35.5	35.5
Subtotal	83.0	73.0	71.0	71.0	71.0	71.0	69.5
GRAND TOTAL	1,779.5	1,781.5	1,653.0	1,632.5	1,637.5	1,636.0	1,635.0

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

Department	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Public Safety							
Police							
Arrests	14,181	13,435	14,101	14,706	16,656	15,176	20,492
Citations	36,809	87,387	96,509	84,428	64,705	64,683	95,121
Fire							
Fire Inspections	3,166	3,604	4,600	4,298	4,057	4,957	3,742
Alarms Attended	19,940	17,876	17,836	17,639	18,603	19,432	20,174
First Responder Calls	10,515	11,236	9,234	9,654	9,869	9,146	10,272
Engineering							
Miles of Streets Resurfaced	51	44	37	50	42	9	84
Parks & Recreation							
Recreation Center Participants	328,139	198,684	158,941	309,913	314,836	338,510	415,371
Service							
Pothole Repairs (by tons of asphalt)	764	1,435	723	528	961	435	675

Sources: Various city departments

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

Department	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Public Safety							
Safety Building - Police	1	1	1	1	1	1	1
Fire Halls	18	18	18	18	18	18	18
Operations & Engineering							
Street Lights	28,170	28,545	28,545	28,983	29,436	29,440	29,506
Miles of Streets maintained	968	1,253	1,257	1,264	1,264	1,264	1,274
Parks & Recreation							
Recreation Centers	15	14	13	14	14	14	14
Parks	78	78	79	79	79	79	81
Park Acreage	1,741	1,741	1,856	1,856	1,856	1,857	1,858
Swimming Pools	4	4	4	5	5	5	5
Tennis Courts	61	61	61	61	61	61	68
Miles of Greenway	28	30	33	38	40	42	42
Stormwater							
Storm Sewers (miles)	367	367	371	371	372	372	372

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

COMPLIANCE SECTION

CITY OF KNOXVILLE, TENNESSEE

SINGLE AUDIT REPORT AND
FINDINGS AND RECOMMENDATIONS
For the Fiscal Year Ended June 30, 2008

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CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2008

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/07	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/08
FEDERAL ASSISTANCE							
U.S. Department of Housing and Urban Development							
Direct assistance	Community Development Block Grant	14.218	B-07-MC-47-0005	$ -	$ 453,520	$ 1,285,736	$ 832,216
	Community Development Block Grant	14.218	B-06-MC-47-0005	92,529	1,265,742	1,173,213	-
	Community Development Block Grant	14.218	B-05-MC-47-0005	755,840	755,840	-	-
	Empowerment Zone	14.244	EZ-99-TN-0012	405,382	1,749,595	1,708,045	363,832
	Fair Housing 2005	14.400	FF204K054012	(33,115)		30,029	(3,086)
	Fair Housing 2006	14.400	FF204K064012	(17,900)	5,200	-	(23,100)
	Fair Housing 2007	14.400	FF204K074012	(35,340)	21,660	-	(57,000)
	Fair Housing 2008	14.400	FF204K084012	-	8,500	-	(8,500)
	Home Grant 2002	14.239	M02-MC-47-0201	57,106	57,125	19	-
	Home Grant 2004	14.239	M04-MC-47-0201	235,991	753,909	517,918	-
	Home Grant 2005	14.239	M05-MC-47-0201	118,099	154,981	36,882	-
	Home Grant 2006	14.239	M06-MC-47-0201	133,526	604,790	471,264	-
	Home Grant 2007	14.239	M07-MC-47-0201	-	504,723	1,350,759	846,036
Total direct assistance				1,712,118	6,335,585	6,573,865	1,950,398
Passed through from							
TN Department of Human Services	Emergency Shelter	14.231	S-06-MC-47-005	50,070	83,123	33,053	-
TN Department of Human Services	Emergency Shelter	14.231	S-07-MC-47-005	-	-	53,647	53,647
Total pass through assistance				50,070	83,123	86,700	53,647
Total U.S. Department of Housing and Urban Development				1,762,188	6,418,708	6,660,565	2,004,045
U.S. Department of Justice							
Direct assistance							
	COPS DNA	16.710	2004-CX-WX-K015	25,255	25,255	-	-
	Police Integrity Training Initiative	16.710	2003-HS-WX-K025	19,194	52,754	132,113	98,553
	RCPI Training 2005	16.710	2004-CK-WX-K039	15,101	32,234	52,358	35,225
	Regional Community Policing Institutes	16.710	2003-CK-WX-K033	17,146	70,515	53,369	-
	LEIC - Regional Community Policing Institutes	16.710	2005-HS-WX-K022	12,348	28,756	49,977	33,569
	Project Safe Neighborhoods	16.609	2003-GP-CX-0177	3,630	92,357	190,957	102,230
	Project Safe Neighborhoods	16.609	2003-GP-CX-0017	748	748	-	-
	2006 Bulletproof Vest Partnership Funding	16.609	2006-BOBX-06136064	-	-	4,355	4,355
	2006 Knoxville Anti-Gang Initiative	16.609	2006-GP-BX-0089	-	-	28,334	28,334
	Family Justice Center	16.590	2004-WE-AX-K007	79,509	171,335	119,748	27,922
	Healing the Heartland	16.590	2006-WE-AX-0073	28,254	101,073	100,913	28,094
Office of Violence Against Children	Transitional Housing Assistance	16.736	2007-WH-AX-0009	-	-	29,912	29,912
Total direct assistance				201,185	575,027	762,036	388,194

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (continued)
For the Year Ended June 30, 2008

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2007	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2008
U.S. Department of Justice (Continued)							
Passed through from							
Department of Finance and Administration:							
Criminal Justice Program	Byrne Memorial Grant - Juvenile Collaborative	16.580	Z-99-088381-00	$ 18,234	$ 11,256	$ (6,978)	$ -
Criminal Justice Program	Knox County Family Violence Coalition	16.580	Z-99-088428-00	19,716	19,716	-	-
Criminal Justice Program	2007 Byrne/Justice Assistance Grant Program	16.579	Z-06-027520-00	-	17,340	29,790	12,450
Office of Juvenile Justice and Delinquency Prevention	Internet Crimes Against Children	16.543	2000-MC-CXK-004	17,593	187,011	169,418	-
Office of Juvenile Justice and Delinquency Prevention	Internet Crimes Against Children	16.543	2007-MC-CX-K008	-	-	43,668	43,668
Department of Children's Services	Juvenile Accountability Incentive Block Grant	16.523	GG-05-11-362-00	838	-	(838)	-
	Juvenile Accountability Incentive Block Grant 2007	16.523	GG-07-12876-00	2,328	4,444	2,116	-
Total pass through assistance				58,709	239,767	237,176	56,118
Total U.S. Department of Justice				259,894	814,794	999,212	444,312
U.S. Department of Homeland Security							
Direct assistance							
	Metropolitan Medical Response System	97.071	EMW-2004-GR-0772	78,195	-	30,123	108,318
	2006 Metropolitan Medical Response System	97.067	2006-GE-T6-0011	-	-	117,676	117,676
Total direct assistance				78,195	-	147,799	225,994
Passed through from							
Tennessee Emergency Management Agency	Emergency Management Performance Grant	97.042	Z-07-20644-00	-	85,021	85,021	-
Tennessee Emergency Management Agency	DOE Offsite Emergency Planning and Response	83.552	Z-07-21875-00	-	-	15,000	15,000
Tennessee Emergency Management Agency	Assistance to Firefighters - 2005	97.044	EMW-05-FG-19230	154,548	474,036	319,488	-
Total pass through assistance				154,548	559,057	419,509	15,000
Total U.S. Department of Homeland Security				232,743	559,057	567,308	240,994
U.S. Department of Labor							
Passed through from							
Senior Service America, Inc.	Senior Aides	17.235	AD-15758-06-60	73,623	73,623	-	-
	Senior Aides	17.235	AD-16177-07-60-A-24	-	330,677	364,579	33,902
Total U.S. Department of Labor				73,623	404,300	364,579	33,902

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (continued)
For the Year Ended June 30, 2008

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2007	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2008
U.S. Department of Transportation							
Direct assistance							
	Downtown Knoxville Transit Center/ Linkages Study	20.500	TN-03-0045-00	$ 14,138	$ -	$ -	$ 14,138
	Knoxville Station Transit Center	20.500	TN-03-0091	222,929	631,927	2,203,857	1,794,859
	2006 Job Access Grant	20.516	TN-37-X063-00	210,450	210,450	-	-
	2007 Job Access Grant	20.516	TN-37-X066-00	10,146	160,572	202,220	51,794
	2003 Formula Grant	20.507	TN-90-X206-00	23,557	54,483	30,926	-
	2004 Formula Grant	20.507	TN-90-X214-00	14,639	67,833	53,194	-
	2005 Formula Grant	20.507	TN-90-X229-00	59,773	59,773	-	-
	2006 Formula Grant	20.507	TN-90-X241	232,543	667,172	447,782	13,153
	2007 Formula Grant	20.507	TN-90-X265	1,988,755	3,121,927	1,200,967	67,795
	2008 Formula Grant	20.507	TN-90-X275	-	-	2,971,951	2,971,951
	2005 CMAQ Funding	20.507	TN-90-X248	39,174	39,174	-	-
	2006 CMAQ Funding	20.507	TN-90-X256 contract pending	1,548	-	21,137	22,685
	Y-12 Express Bus Service	20.507	TN-90-X237	27,482	102,908	103,375	27,949
Total direct assistance				2,845,134	5,116,219	7,235,409	4,964,324
Passed through from							
Governor's Highway Safety	Aggressive Driving Enforcement Campaign	20.600	Z-06-027286-00	3,747	3,747	-	-
Governor's Highway Safety	Aggressive Driving Enforcement Campaign	20.600	Z-07-035677-00	51,522	76,356	24,834	-
Governor's Highway Safety	High Visibility Law Enforcement Campaign	20.601	Z-07-036051-00	5,000	5,000	-	-
Governor's Highway Safety	GHSO - Traffic Enforcement Program	20.600	Z-08-023688-00	-	59,416	95,665	36,249
Governor's Highway Safety	Commercial Vehicle Enforcement Grant	20.218	GG-07-20579-01	-	52,442	114,146	61,704
Tennessee Department of Transportation	Ten Mile Creek Greenway	20.205	STP-EN-9109(47)	-	241,714	386,122	144,408
Tennessee Department of Transportation	Widening of Pleasant Ridge Rd. to 3 lanes with sidewalks	20.205	STP-M-9109(53)	-	-	139,670	139,670
Tennessee Department of Transportation	Washington Pike and Millertown Pike Widening	20.205	STP-M-9109(64)	-	-	58,371	58,371
Tennessee Department of Transportation	Northwest/Badgett Field Greenway	20.205	STP-EN-9109(67)	34,310	206,112	171,802	-
Tennessee Department of Transportation	Bearden Village Vehicle Trip Reduction, Phase I	20.205	STP-EN-9109(73)	-	-	168,199	168,199
Tennessee Department of Transportation	Bearden Village Vehicle Trip Reduction, Phase II	20.205	STP-EN-9109(100)	96,963	-	125,110	222,073
Tennessee Department of Transportation	Lower Second Creek Greenway	20.205	Contract 050208; Pin 105322.00	462,303	462,303	-	-
Tennessee Department of Transportation	Lower Second Creek Greenway	20.205	TCSP-E3TN(3) Pin 104602.00	682,653	1,106,581	423,928	-
	Industrial Access Road	20.205	Contract 070204; Pin 109810.00	-	-	229,359	229,359
Total pass through assistance				1,336,498	2,213,671	1,937,206	1,060,033
Total U.S. Department of Transportation				4,181,632	7,329,890	9,172,615	6,024,357
Total Federal Assistance				$ 6,510,080	$ 15,526,749	$ 17,764,279	$ 8,747,610

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (continued)
For the Year Ended June 30, 2008

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/07	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/08
STATE ASSISTANCE							
Tennessee Department of Environment and Conservation	Household Hazardous Waste		GG-07-12744-00	$ 15,491	$ 15,491	$ -	$ -
Tennessee Department of Environment and Conservation	Household Hazardous Waste		GG-08-23533-00	-	29,163	82,310	53,147
Tennessee Department of Environment and Conservation	Local Parks and Recreation Fund - Lonsdale Park		Z-05-022831-00	142,116	142,116	-	-
Tennessee Department of Transportation	2008 State Operating Grant		Z-08-021342-01	-	1,971,310	1,971,310	-
Criminal Justice Program	Internet Crimes Against Children by State Legislation		GG-08-23491-00	-	41,758	282,883	241,125
Tennessee Department of Transportation	FTA-TN-90-X214		GG-05-11546-00	11,044	17,693	6,649	-
Tennessee Department of Transportation	FTA-TN-37-X063		GG-06-21997-00	105,225	105,225	-	-
Tennessee Department of Transportation	FTA-TN-37-X066		47-5016-S3-002 contract pending	5,073	-	101,110	106,183
Tennessee Department of Transportation	FTN-TN-90-X206		GG-04-10515-00	2,945	6,811	3,866	-
Tennessee Department of Transportation	FTA-TN-03-0087		GG-05-11676-00	9,256	9,256	-	-
Tennessee Department of Transportation	FTA-TN-90-X229		GG-06-12155-00	7,521	2,901	(4,620)	-
Tennessee Department of Transportation	FTA-TN-03-0091		GG-06-12952-00	75,343	126,467	275,482	224,358
Tennessee Department of Transportation	FTA-TN-90-X241		GG-06-12804-00	310,254	355,844	47,234	1,644
Tennessee Department of Transportation	FTA-TN-90-X248		GG-07-20980-00	9,794	9,794	-	-
Tennessee Department of Transportation	FTA-TN-90-X256		47-901-9622 pending contract	1,154	-	3,167	4,321
Tennessee Department of Transportation	FTA-TN-90-X237		GG-06-12547-00	3,435	12,864	12,922	3,493
Tennessee Department of Transportation	FTA-TN-90-X265		GG-08-24190-00	248,594	-	150,121	398,715
Tennessee Department of Transportation	FTA-TN-90-X275		contract pending	-	-	371,493	371,493
Total State Assistance				$ 947,245	$ 2,846,693	$ 3,303,927	$ 1,404,479

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2008

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, 2008. These 2008 loan funding balances are also included in the federal expenditures presented in the schedule.

Cluster / Program Title	CFDA Number	FY 08 Loan Funding	Outstanding Balance
Community Development Block Grants	14.218	$ 386,252	$ 11,550,297
HOME Investment Partnerships Program	14.239	706,598	5,917,266
Total loans		$ 1,092,850	$ 17,467,563

Note 3 - Expenditures Reconciliation

Expenditures associated with the following grant awards are equal to the total operating expenditures per the fund financial statements plus additions to the inventory for property held for redevelopment in their respective fund. The following reconciliations detail the expenditures as reported on the Schedule of Expenditures of Federal Awards:

	Expenditures per fund financial statements	Additions to Inventory - other	Total expenditures per Schedule of Federal and State Awards
Community Development Block Grants	$ 2,392,207	$ 66,742	$ 2,458,949
Empowerment Zone	1,580,930	127,115	1,708,045

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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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 7, 2009. Our report was modified to include 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 includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported separately by those other auditors. However, this report, insofar as it related to the results of the other auditors, is based solely on the reports of the other auditors.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies referenced as 08-1 and 07-1 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 08-2.

We also noted certain matters that we reported to management of the City in a separate letter dated January 7, 2009.

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
January 7, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL 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 compliance of the City of Knoxville, Tennessee ("the City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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.

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 on the City's compliance with those requirements.

In our opinion, the City of Knoxville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-3.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

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
January 7, 2009

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness identified?	____	yes	X	no
• Significant deficiency (ies) identified that are not considered to be material weakness?	X	yes	____	no
Noncompliance material to financial statements noted	____	yes	X	no

Federal Awards

Internal control over major federal programs:				
• Material weakness identified?	____	yes	X	no
• Significant deficiency (ies) identified that are not considered to be material weaknesses?	X	yes	____	no
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?	____	yes	X	no

Major federal programs for the City of Knoxville for the fiscal year ended June 30, 2008 are:

Program Name	CFDA#
Community Development Block Grant	14.218
Missing Children's Assistance	16.543
National Motor Carrier Safety	20.218
Federal Transit – Capital Investment and Formula Grants	20.500/20.507

Dollar threshold used to distinguish between Type A and Type B Programs	$ 532,928			
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 Finding:

Finding 07-1: 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 Finding (continued):

Management's Response: We concur with the auditor's findings and have started implementing some of the recommendations.

The accounting system is modular in design and we have found that it allows for the modules to have different balances than the city's general ledger. While our focus is on keeping the modules in balance when inputting transactions, we have implemented monthly reconciliations to confirm that the modules agree with the general ledger. During the end of the fiscal year closing of the ledgers, the monthly reconciliations will be performed on a daily or weekly basis, depending on the number of closing transactions that are being processed at that time. This should eliminate or at least control this issue in a timely basis.

The auditor's recommendation to transfer construction in progress (CIP) is a good recommendation; however we are not satisfied as to the cost effectiveness of implementing it. We have progressed significantly in this area in the past year with enhancements being implemented into the accounting system and an employee having fixed assets as part of their job responsibility. Construction management is spread among various departments and progress reported quarterly to the Mayor. The transfer process is time intensive for all parties involved and since the system will allocate depreciation properly regardless of when the actual transaction occurs, we will review and decide if we want to do this semi annually.

Current Status: This finding has not been completely resolved. The City has made significant strides in improving the reconciliation process for construction in progress, but certain expenditure items included in CIP need to be maintained separately from those projects that will be capitalized in order to have a more defined record of what actually was utilized in getting the capital asset into service.

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

Current Year Audit Findings:

Finding 08-1: Coliseum Cash Disbursement Procedures and Reconciliation

Criteria: Cash disbursement procedures should allow for proper segregation of duties and proper recording of the Coliseum activity in the financial statements of the City.

Condition: No review of the checks or invoices paid by the Coliseum personnel is performed by the Finance department to ensure appropriateness and proper recording of the activity in the City's financial statements. Checks written against the City's bank account for the Coliseum are only recorded when clearing the bank. We were informed that checks which require dual signatures were sometimes signed in advance by one or both check signers when shows closed late in the evening. The current accounting software utilized by the Coliseum and check writing procedures are out of date and could allow the payees to be altered after checks are typed.

Context: Coliseum disbursements written outside of the finance department totaled approximately $5 million.

Effect: Payments made directly by the Coliseum could violate City purchasing and disbursement policies and are not recorded timely.

Cause: Current reconciliation procedures for the Coliseum activity only account for the shows closed in the month to be reported to the Finance department.

Recommendation: We recommend that only show related expenditures be paid by the Coliseum and all other routine purchases and services be submitted through the current purchasing procedures at the City. We also recommend that periodic review of show reconciliations be performed by the finance department to ensure proper adherence to laws and regulations. In addition, signing checks in advance should be strictly forbidden since it negates the purpose of having dual signatures. We recommend that terms be negotiated with the event promoters to wire the settlement to the promoter's bank account on the next business day to avoid advance signing of checks. The accounting software should be updated to the most current version and the audit trail safeguards of the software enabled to track any changes to checks after they have been written. Checks should be printed utilizing a peripheral printer instead of hand typing.

Management's Response: We concur with the finding and have already started incorporating the recommendations along with other control enhancements.

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

Current Year Audit Findings (continued):

Finding 08-2: 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.

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

Effect: Not depositing funds within three days violates TCA § 6-56-111 as it relates to the City.

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.

Management's Response: The tardy deposit of funds is not acceptable and corrective action will be taken as appropriate to meet the requirements of State Law and good internal control.

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

Finding 08-3: Reporting

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 in a timely manner.

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Condition: During our audit, we noted that the Community Development Department maintained an Access based report to track and report the activity of the grant to the reporting system required by HUD without reconciling the information to the official financial statement records maintained by the City. Forgivable loan balances were also 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 expenditures for CDBG for fiscal year 2008 totaled $2,458,948.

Effect: Maintaining separate accounting records outside of the official financial statement records could allow the department to report erroneous information to HUD.

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

Recommendation: We recommend the Community Development Department perform monthly reconciliations of the information maintained in Access to the accounting records maintained by the finance department to ensure that the information reported to HUD through IDIS agrees. In addition, Community Development should provide all loan balances to the Finance department properly categorized so that the finance department can reconcile and maintain these balances by fund appropriately.

Management's Response: Community Development is well aware of the problems associated with continuing to utilize Access as the basis for HUD reporting and with Information System's and Accounting's assistance are working on improving the process in order to assure compliance with HUD and city guidelines.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Corrected Prior Audit Findings
For the Year Ended June 30, 2008

There are no corrected prior audit findings.

CITY OF KNOXVILLE

BILL HASLAM, 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:	To correct this issue, we will need to modify our accounting procedures for the accumulation of costs associated with the acquisition of capital assets. We have changed our process going forward and over time, will completely convert to the new methodology as existing projects are completed and capitalized.
Anticipated Completion Date:	December 31, 2009
Finding 2008-1:	Coliseum Cash Disbursement Procedures and Reconciliation
Name of contact person:	Jim York, Finance Director
Corrective action:	We have commenced correcting the deficiency in the interfacing of the accounting system utilized by the Coliseum with the City's accounting system. Personnel have signed up for training in the Coliseum accounting system and once completed, the knowledge will be there to better integrate and reconcile any differences between the systems.
Anticipated Completion Date:	March 31, 2009
Finding 2008-2:	Timely depositing of funds
Name of contact person:	Jim York, Finance Director
Corrective action:	We recognize that funds are to be deposited in a timely manner and have revisited this need with the departments responsible for the collection of city funds.
Anticipated Completion Date:	December 15, 2008
Finding 2008-3:	Reporting (Community Development Block Grant ("CDBG") (CFDA# 14.218)
Name of contact person:	Madeline Rogero, Director of Community Development
Corrective action:	Community Development is well aware of the problems associated with using Access as the basis for HUD reporting, but had no alternative because the city's financial system software can not accommodate our customized reporting needs for HUD. We have been working with Information Systems and Accounting to customize the city's system to include the data we need, which will allow us to stop using Access. In the meantime, prior to drawing down HUD funds, Community Development verifies that Access data does match Orbit data. Information Systems is working on a custom report that will allow weekly reconciliations of Orbit and Access. In addition, we have begun providing monthly reports to Finance of all loans, including deferred payment loans and principal reduction payment loans, along with their funding source.
Anticipated Completion Date:	Information Systems anticipates completing our migration from Access to the city's financial system by July 1, 2009.

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