



CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2011

KNOXVILLE, TENNESSEE
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COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF KNOXVILLE, TENNESSEE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

PREPARED BY:
CITY OF KNOXVILLE FINANCE DEPARTMENT

JAMES YORK,
DIRECTOR OF FINANCE

CLYDE 'BOE' COLE, CMFO, CGFO
COMPTROLLER

CITY OF KNOXVILLE, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

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INTRODUCTORY SECTION



December 29, 2011

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, 2011. This report discusses the financial results for the year, provides information on budgetary performance, and includes information on the financial condition of the City. I am pleased to report that the financial condition of the City remains strong.

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

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

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

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

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 financial operations of the City of Knoxville, including component units. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; construction and maintenance of highways, streets, and

infrastructure; recreational activities; and cultural events. In addition, the City of Knoxville has financial accountability over three component units, Knoxville Utilities Board (KUB), the Metropolitan Knoxville Airport Authority (MKA), Knoxville Area Transit (KAT). The financial statements of KUB, MKA 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 reflects the nationwide economic downturn, and is expected to recover when the economy rebounds. The City of Knoxville has fared better than the nation and other major cities in Tennessee. The City serves as the economic hub of the 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 lowest 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-four percent of the taxable sales within the County occur inside the corporate limits of Knoxville. Approximately seventy-two percent of the taxes collected within the City are distributed to the Knox County School System with the remainder flowing to the City's general fund. The following table displays the City's portion of local sales tax collections (in thousands) over the past nine years.

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

As shown above, the City experienced a 3.66% increase in local sales tax. The growth occurred in the second half of the fiscal year. This growth appears to indicate an increase in consumer confidence and slight strengthening of the local economy.

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 the fact that Knoxville's unemployment rate is lower than both the state and national average, which averaged 8.3% (Knoxville MSA) in FY2011. This compares very favorably to the national unemployment rate of 9.3% and as well as the other major metropolitan areas of the state (Chattanooga – 9.1%, Memphis – 10.9%, and Nashville – 9.0%). On a positive note, Knoxville's unemployment rate has continued to decrease. As of October 2011, Knoxville's unemployment rate has decreased to 7.0%. The Knoxville MSA had a labor force of 375,210 in 2011.

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

The Knoxville Utility Board (KUB) provides electricity, water and wastewater, and gas to approximately 439,800 customers in Knox, Union, Granger, Jefferson and Sevier Counties. It is comprised of 5 major plants, 297 remote facilities, and has over 900 employees. Operating with a

\$862 million budget and \$1.7 billion in plant assets, it is the fourth largest customer of the Tennessee Valley Authority.

The McGhee Tyson Airport (MKA) is served by seven passenger airlines. Departures and arrivals total 1.7 million passengers annually. The direct and indirect economic impact of the airport is estimated by the Metropolitan Knoxville Airport Authority to be approximately \$1 billion annually. This figure includes payroll, local spending, transportation cost savings, capital spending and other benefits.

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

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

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

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

Knoxville consistently receives high honors for quality of life. According to the 2010 American Chamber of Commerce Researchers Association (ACCRA) Cost of Living (COL) Index, which measures the relative price levels for consumer goods and services in metropolitan and nonmetropolitan areas whose chambers agree to participate, Knoxville ranked as one of the top southeast urban areas with a COL Index of 89.6. With the average of all participating cities equaling 100.0, Knoxville ranked among the top markets for low cost of living. In October 2010, the U.S. Department of Housing and Urban Development awarded Knoxville with a \$4.3 million dollar grant to create a plan centered on livability principles that will guide our region for the next 30 years.

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, Pilot Corporation, and Sea Ray Boats. In addition, Sysco, a major food service corporation, has located a distribution center in Knoxville.

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 an average enrollment of 27,523 students, including its teaching hospital and veterinary school. The University of Tennessee Knoxville ranked 46th among 164 national public universities by U.S. News and World Report. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are five hospitals including the only two trauma centers for a 27-county area. The presence of the Tennessee Valley Authority, UT-Battelle, and BWXT-Bechtel serve as a magnet for technology-based corporations in the East Tennessee area. The growing trend toward allowing technology transfer to private industry is also benefiting the region. The development of the multi-billion dollar spallation neutron source project at the Oak Ridge National Laboratory is also expected to enhance economic activity and lure newer companies to the area.

Relevant Financial Policies/Controls

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

Budgetary Controls

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

Debt Administration

Total general obligation indebtedness of the City in FY2011 decreased by \$8.295 million through budgeted debt repayments. The total amount of general obligation debt outstanding as of June 30, 2011 is \$180 million. Of this amount, \$133.5 million represents proprietary fund debt on the Convention Center and the Locust Street Garage.

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 2011 is as follows:

General Obligation Debt	G.O. Debt (in thousands)		Ratio of Debt to Total Assessed Valuation		Ratio of Debt To Est. Actual Value		Debt per Capita	
	FY 10/11	FY 09/10	FY 10/11	FY 09/10	FY 10/11	FY 09/10	FY 10/11	FY 09/10
Net direct bonded debt	\$180,170	\$188,465	4.30%	4.51%	1.34%	1.40%	\$1,007	\$997
Overlapping debt of:								
Knox County	404,761	363,954	4.01%	3.65%	1.16%	1.05%	890	1,361
Knox County Schools	286,425	250,017	2.84%	2.51%	0.82%	0.72%	890	1,361
Total	\$871,356	\$802,436	11.15%	10.67%	3.32%	3.17%	\$2,788	\$3,720

In FY2010, the Fitch Rating Service upgraded the City of Knoxville's credit rating to AAA—the highest possible rating from the agency. Fitch noted that the City's "Financial Management is strong highlighted by prudent budget practices and robust reserve levels." Fitch analysts also credited the city's moderate debt burden, consistent operating surpluses and the benefits of being part of a "broad and diverse economy anchored by stable government and higher education," as factors in its decision.

All three of the major bond rating agencies - Fitch Ratings, Moody's Investors Service and Standard & Poor's upgraded the city's credit rating since 2008 despite difficult economic conditions that have left some governments struggling to maintain services. Both Moody's and Standard & Poor's have given the city its second highest credit rating. The City's and its component unit's current and prior bond ratings are as follows:

Debt Type	Fitch Ratings		Standard & Poor's		Moody's Investors Service	
	FY10/11	FY09/10	FY10/11	FY09/10	FY10/11	FY09/10
City of Knoxville -						
General Obligation Bonds	AAA	AA+	AA+	AA+	Aa1	Aa2
Component Units -						
Knoxville Utilities Board Revenue Bonds						
Electric	N/A	N/A	AA+	AA+	Aa2	Aa3
Gas	N/A	N/A	AA	AA	Aa2	Aa3
Water	N/A	N/A	AA+	AA+	Aa2	Aa3
Waste Water	N/A	N/A	AA+	AA+	Aa2	Aa3
Metro Knoxville Airport	N/A	N/A	A -	A -	A3	A3

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 0.754%. Average weighted maturities were 218 days. The average maturity during the preceding fiscal year was 165 days.

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 to perform actual investment services.

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. Net assets of \$16.5 million was reported for the Risk Management fund as of June 30, 2011, an increase of \$1,889,822 from the previous fiscal year.

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 2011 audit.

MAJOR INITIATIVES

I. Energy and Sustainability –

The City of Knoxville has successfully managed Department of Energy (DOE) funds, hitting every spend deadline and program requirement, and gaining a positive national reputation for logical creation and execution of a sustainability program. In 2011, the City's first Energy and Sustainability Work Plan was written and released, including 31 publically vetted initiatives in now various stages of completion.

The \$200,000 DOE Solar America Cities grant of 2007 was completed this year, funding the City's Sustainability Coordinator position for 3 years, leveraging over \$100,000 in partnership, and growing the existing 15 kilowatts in our area to more than one megawatt (1,000 kilowatts) through education and support of the solar design and install community.

The \$2,017,700 in energy and sustainability related DOE ARRA funding is 100% obligated and 70% spent. This included 7 initiatives: 1.) funding both the Program Manager and (after expiration of SAC funds) the Sustainability Coordinator positions, 2.) launching a green incentive program for solar and appliances, 3.) weatherization of 19 middle income homes, 4.) replacing 17 HVAC systems in City Fire Stations, 5.) educating 141 local building professionals in Energy Code and Earth Craft design, 6.) launching single stream curbside recycling with the purchase of 20,000 bins, and 7.) installing 90 kilowatts of solar PV on the Convention Center roof in the southeast's first municipal third party finance agreement. Of those activities, only 2 and 7 remain to complete and both are under contract.

2011 saw completion of Phase I of the City's 13 year \$19,000,000 Energy Savings Performance Contract with Ameresco. The improvements are 100% installed with a guaranteed return on investment over the negotiated payback period. 2011 also saw contract executions for both the solar and non-solar electric vehicle charging stations with ORNL and ECOTality. Installations will be complete in 2012, beginning a year of federal user data collection.

Partnerships with the Transportation Authority and UTK (car share program contract negotiations underway), ORNL (energy user data collection project), and the State and other Tennessee Cities continue with the capture of the DOE Sunshot initiative, promoting solar at the permitting level. Knoxville co-chairs a 9-state southeastern city sustainability network with Asheville, NC, which is supported by the US EPA and the Urban Sustainability Director's Network. Knoxville is active in national sustainability networks, including core teams dealing with energy efficiency in rental housing, regional network collaboration, and long term funding of sustainability. The Program Manager was on the 2011 ICLEI Southeast conference planning committee and co-authored two books on the topic of sustainability this year, in addition to prioritizing federal grant obligations and local daily commitments.

II. Redevelopment –

The city is continuing to expand the strong growth it has experienced in recent years in Downtown Knoxville outward into the Downtown North area, the Cumberland Avenue Corridor and across the Tennessee River into the South Waterfront project.

In the Downtown North area, funding has been secured and detailed design work completed for the renovation of the 300 and 600 blocks of N. Gay Street while a consultant has been selected to produce detailed plans for the ongoing improvements to Central Street.

The Cumberland Avenue Corridor Project aims to transform the street into a more pedestrian-friendly, mixed use street. The street is the main entrance to the University of Tennessee and downtown Knoxville in addition to the Fort Sanders neighborhood, one of the most densely-populated neighborhoods in Tennessee and home to a major medical center.

The detailed design process for the extensive streetscape renovations on Cumberland is underway and funding for the upcoming construction effort has been obtained.

Redevelopment along the South Waterfront has been slowed by economic conditions but the part of the planned riverwalk that will travel along three miles of South Knox Riverfront has been completed. Also completed in FY2011 was road and utility improvements on Blount Avenue along the Tennessee River. The detailed design phase of a pedestrian/bicycle bridge that will span the river from South Knoxville to the University of Tennessee also began this past year.

III. Livability - The Gay Street Streetscapes Project was essentially completed. The effort, also known as the 100 Block Construction, involved the reconstruction of the street and sidewalks and addition of street features to one of the city's most popular and eclectic blocks in addition to upgrading utilities and shoring up the bridge-like support structure it has rested upon for nearly a century.

Work also began on expanding the Jean Teague Greenway in West Knoxville which will connect it to several miles of greenway in far west Knoxville and in Knox County. The long-awaited Fountain City Skate Park was completed, and the city was working on significant improvement projects to both Inskip and Morningside Parks and added land to Victor Ashe Park, one of the city's recreation facilities.

Street and sidewalk improvements to sections of both Market Street and Union Avenue were completed in FY 2011.

IV. Employee Compensation – The city completed bringing the total compensation of its employees in line with its peer institutions, an effort that begun in FY 2008. This project was completed at a total cost of \$9.3 million.

V. Economic Development - The city continues to work with developers to rehabilitate and redevelop historic buildings downtown. It has added several hundred parking spaces at lots along the

periphery of downtown and is working with the Knoxville Chamber and other entities to recruit businesses to the city.

VI. Other – The city initiated a single-stream, curbside recycling program. Currently, 19,932 residents are participating in the program.

VII. The city is also continuing to address ongoing issues including its homeless population, blighted and chronic problem properties and flood control in North Knoxville. It has also continued to provide significant amounts of funding for infrastructure improvements particularly repaving of roads and sidewalk construction among many other worthy efforts.

As of June 30, 2011, the city has been awarded \$11,750,000 in ARRA (American Recovery and Reinvestment Act of 2009) grant funding, with \$8.6 million being spent as of the end of the fiscal year. ARRA funding has funded numerous infrastructure, energy and safety projects throughout the city. ARRA funds of \$2.9 million were utilized for the new downtown John Duncan Jr. Knoxville Station Transit Center.

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, 2010. This was the twenty-fifth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate. The City of Knoxville received GFOA's Distinguished Budget Presentation Award for the annual operating budget dated July 1, 2011. This marks the twenty-fourth consecutive year that the City has won this Award. The Distinguished Budget Presentation Award recognizes that the City's budget document is a proficient policy document, financial plan, operation guide and communications medium.

Acknowledgments

The preparation of this report results from the combined efforts of many people. Special recognition and appreciation goes to the City's Finance Department, Melissa Peters, the City's Internal Auditor, the City's independent auditors, Pugh & Company, P.C., and the City Council audit committee comprised of Marilyn Roddy (Chair), Daniel Brown, Duane Grieve, Brenda Palmer, and Nick Della Volpe. 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 Knoxville residents.

Sincerely,

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

James York
Director of Finance

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, 2010

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.



Linda C. Davidson

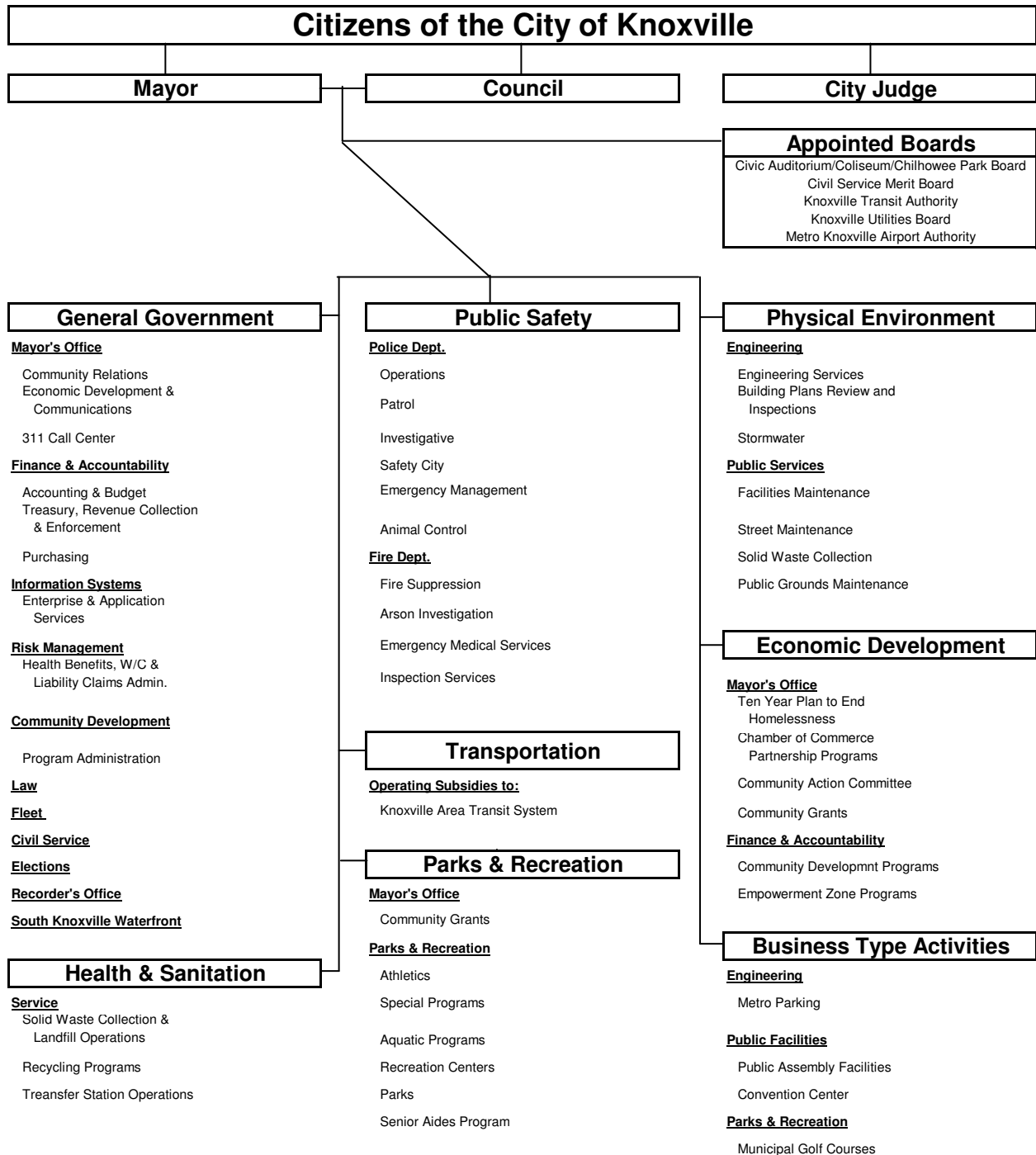
President

Jeffrey R. Enner

Executive Director

City of Knoxville, Tennessee

Organizational Structure by Function



OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR
Madeline Rogero

CITY COUNCIL

George Wallace
Brenda Palmer
Marshall Stair

Nick Pavlis, Vice Mayor
Nick Della Volpe
Mark Campen

Duane Grieve
Daniel Brown
Finbarr Saunders

CITY JUDGE
John Rosson

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Deputy to the Mayor – Eddie Mannis, Chief Operating Officer
Deputy to the Mayor – William Lyons, Chief Policy Officer
Community Relations Director and Special Assistant to the Mayor – Thomas E. Strickland, Jr.
Communications – Angela Starke – Sr. Director
Airport – Bill Marrison, President
City Recorder – Cindy Mitchell
Civil Service – Vicki Hatfield, Director
Community Development – Becky Wade, Director
Finance & Accountability – Jim York, Sr. Director
Fire – Stan Sharp, Chief
Information Systems – Janet Wright, Director
Knoxville Area Transit – Cindy McGinnis, General Manager
Knoxville Utilities Board – Mintha Roach, President
Law – Debra Poplin, Sr. Director
Police – David B. Rausch, Chief
Public Assembly Facilities – Robert Polk, Director
Public Works – Steve King, Director
Special Events – Judith Foltz, Director

FINANCIAL SECTION

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Knoxville Utilities Board or the Metropolitan Knoxville Airport Authority. The Knoxville Utilities Board comprises 86 percent of the assets, 83 percent of net assets and 91 percent of revenues of the total discretely presented component units. The Metropolitan Knoxville Airport Authority comprises 11 percent of the assets, 12 percent of net assets and 4 percent of revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Knoxville Utilities Board and Metropolitan Knoxville Airport Authority, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to 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, 2011, 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.

- 1 -



An Independently Owned Member
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Of Certified Public Accountants

McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their respective names, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-19 and the schedules of funding progress of the pension plans on pages 91 and 92 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 and the other auditors 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 94 to 131, 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
Knoxville, Tennessee
December 29, 2011

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, 2011.

Financial Highlights

- The assets of the City of Knoxville primary government exceeded its liabilities at the close of the most recent fiscal year by \$556,655,747 (*net assets*). Of this amount, \$267,154,275 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets increased by \$34,528,555, an increase of 6.6% over fiscal 2010 as a result of effective budgetary controls and involvement of all employees in controlling expenses in light of declining revenues associated with the world-wide economic downturn.
- As of the close of the fiscal year, the city's governmental funds reported combined ending fund balances of \$205,109,356, an increase of \$5,401,014 in comparison with the prior year. Approximately 68.6% (\$137,026,186) is available for spending at the city's discretion.
- Fund Balance for the City's General Fund increased by \$4,599,973, an increase of 7.6%. Stronger than anticipated tax collections augmented by efficient use of resources contributed significantly to the budgetary surplus for the year. To a lesser extent, adoption of the new Governmental Accounting Standards Board (GASB) Statement 54 relating to Fund Balance contributed to the surplus by moving fund balances (\$217,869) previously reported in Special Revenue funds to the General Fund. \$2,150,286 is now considered nonspendable under the new fund balance standard and \$63,113,379 is considered spendable but of that amount \$35,125,397 is assigned or committed, leaving \$27,987,982 available for spending at the City's discretion.
- Overall, the City's total general obligation debt for the primary government decreased by \$8,295,000 (4.6%) to \$180,170,000 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

Governmental Activities
Business-Type Activities

Component Units

Knoxville Utilities Board
Metropolitan Knoxville Airport Authority
Knoxville Area Transit

STATEMENT OF NET ASSETS

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

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

STATEMENT OF ACTIVITIES

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

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

Funds Financial Statements

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

Governmental Funds

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

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

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

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

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.

Major Governmental Funds

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

Non-Major Governmental Funds/Special Revenue Funds

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

Permanent Fund

Krutch Park Trust

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

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

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

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

Proprietary Funds

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

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

Business-Type Activities

Knoxville Convention Center
Other Business-Type Activities -
Metro Parking
Public Assembly Facilities
Municipal Golf Courses

Governmental Activities/Internal Service Funds

Fleet Maintenance
Risk Management
Health Insurance
Equipment Replacement
City Buildings

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

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

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

Fiduciary and Component Unit Statements

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

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

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

Notes to the Financial Statements

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

Other Information

Following the notes, this document provides required supplementary information regarding Knoxville's progress in funding its obligation to provide pension benefits to its employees. The combining statements for 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, 2011

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	
	2011	2010	2011	2010	2011	2010
Current and other assets:						
Cash and investments	\$ 273,377	\$ 256,244	\$ 24,538	\$ 19,943	\$ 297,915	\$ 276,187
Other assets	166,951	172,405	11,476	7,849	178,427	180,254
Capital assets	277,138	268,308	158,961	162,989	436,099	431,297
Deferred Outflow s	-	-	3,194	3,729	3,194	3,729
Total assets	<u>\$ 717,466</u>	<u>\$ 696,957</u>	<u>\$ 198,169</u>	<u>\$ 194,510</u>	<u>\$ 915,635</u>	<u>\$ 891,467</u>
Other liabilities	\$ 153,372	\$ 159,541	\$ 6,160	\$ 6,916	\$ 159,532	\$ 166,457
Noncurrent liabilities	67,225	66,223	132,222	136,660	199,447	202,883
Total liabilities	<u>\$ 220,597</u>	<u>\$ 225,764</u>	<u>\$ 138,382</u>	<u>\$ 143,576</u>	<u>\$ 358,979</u>	<u>\$ 369,340</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 220,028	\$ 213,568	\$ 26,075	\$ 26,344	\$ 246,103	\$ 239,912
Restricted	43,399	39,449	-	-	43,399	39,449
Unrestricted	233,442	218,176	33,712	24,590	267,154	242,766
Total net assets	<u>\$ 496,869</u>	<u>\$ 471,193</u>	<u>\$ 59,787</u>	<u>\$ 50,934</u>	<u>\$ 556,656</u>	<u>\$ 522,127</u>

Governmental Activities

Assets have increased by 2.9% and liabilities have decreased by 2.3% when compared to 2010 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. The change in liabilities was primarily due to the reduction in debt by routine current year debt payment activity. The net result of these changes is an increase of 5.45% 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.

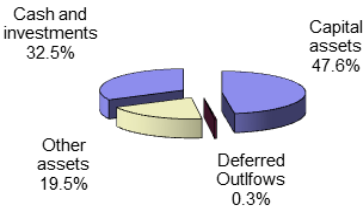
Business-Type Activities

Assets have increased by 1.9% and liabilities have decreased by 3.6% from 2010 levels, resulting in an increase of 17.4% in total net assets. Increased cash and investments from positive financial activities accounted for the bulk of the increase in assets while the reduction in long term debt accounted for the change in noncurrent liabilities.

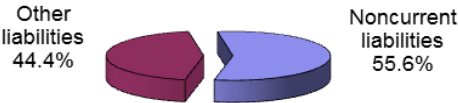
Total Primary Government

The City’s capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 47.6% of \$915.6 million in total assets. Taxes and governmental receivables constitute 19.5%. Deferred outflows representing interest rate swaps account for 0.3% and current liquidity, as shown by cash and investments, composes the remaining 32.5% of total assets.

Primary Government Total Assets



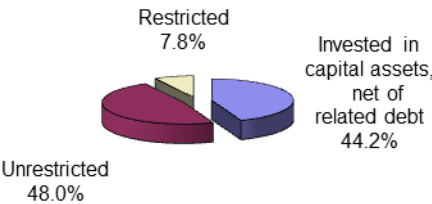
Primary Government Total Liabilities



55.6% of the total government liabilities are in long-term debt outstanding. Of long-term debt, approximately \$133.5 million, or 68.9% is related to debt issued to finance the convention center complex.

A portion of the City’s total net assets is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. The unrestricted net assets of the City’s governmental activities represent 48% of total primary government net assets.

Primary Government Total Net Assets



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

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	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 12,893	\$ 13,571	\$ 9,786	\$ 10,008	\$ 22,679	\$ 23,579
Operating grants & contributions	14,811	15,758	1,500	1,434	16,311	17,192
Capital grants & contributions	3,777	4,724	-	-	3,777	4,724
General revenues:						
Taxes	195,747	194,400	9,757	9,330	205,504	203,730
Interest	2,042	2,940	255	136	2,297	3,076
Other	3,669	2,733	344	104	4,013	2,837
Total revenues	\$ 232,939	\$ 234,126	\$ 21,642	\$ 21,012	\$ 254,581	\$ 255,138
Expenses:						
General government	\$ 13,495	\$ 13,348	\$ -	\$ -	\$ 13,495	\$ 13,348
Public safety	83,060	81,664	-	-	83,060	81,664
Physical Environment	46,977	45,244	-	-	46,977	45,244
Transportation	10,466	9,647	-	-	10,466	9,647
Economic development	11,878	16,441	-	-	11,878	16,441
Parks and recreation	12,308	12,858	-	-	12,308	12,858
Health & Sanitation	10,361	10,430	-	-	10,361	10,430
Interest on long-term debt	2,152	2,398	-	-	2,152	2,398
Other	-	-	29,355	26,972	29,355	26,972
Total expenses	\$ 190,697	\$ 192,030	\$ 29,355	\$ 26,972	\$ 220,052	\$ 219,002
Increase (decrease) in net assets before transfers	\$ 42,242	\$ 42,096	\$ (7,713)	\$ (5,960)	\$ 34,529	\$ 36,136
Transfers	(16,352)	(10,900)	16,352	10,900	-	-
Changes in net assets	25,890	31,196	8,639	4,940	34,529	36,136
Beginning net assets (as restated)	470,979	439,997	51,148	45,994	522,127	485,991
Ending net assets	\$ 496,869	\$ 471,193	\$ 59,787	\$ 50,934	\$ 556,656	\$ 522,127

Governmental Activities

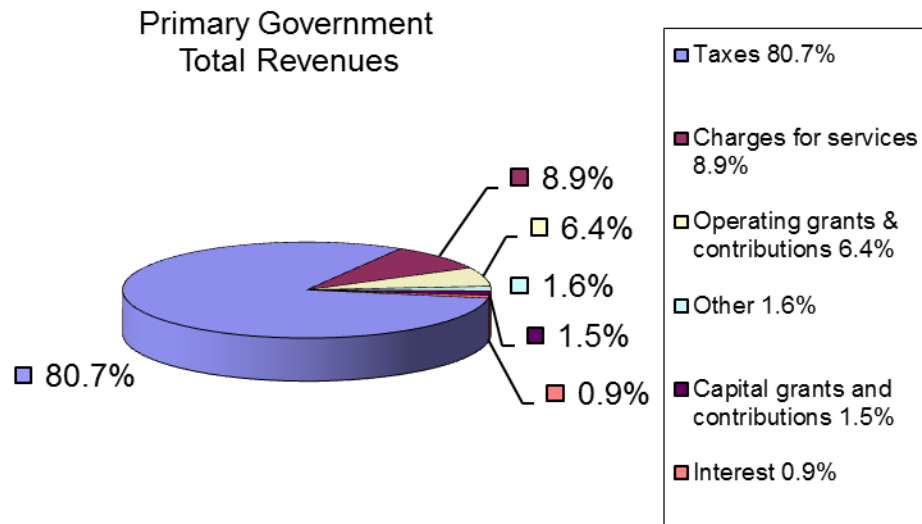
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2011, only the General Fund, State Street Aid, Animal Control, and Miscellaneous Special Revenue Funds (Police Forfeiture Operations) generated material revenues in excess of current expenditures. Excess revenue generated by the City Court is transferred to the General Fund to finance general operations. Grant revenue proceeds of \$7.9 million were earmarked for the City's Community Development efforts. Public safety operations accounted for approximately 43.6% of the City's total governmental operations of \$191 million. All other City of Knoxville sections and operations are financed by either local or state taxes, grants, or various shared revenues.

Business-type Activities

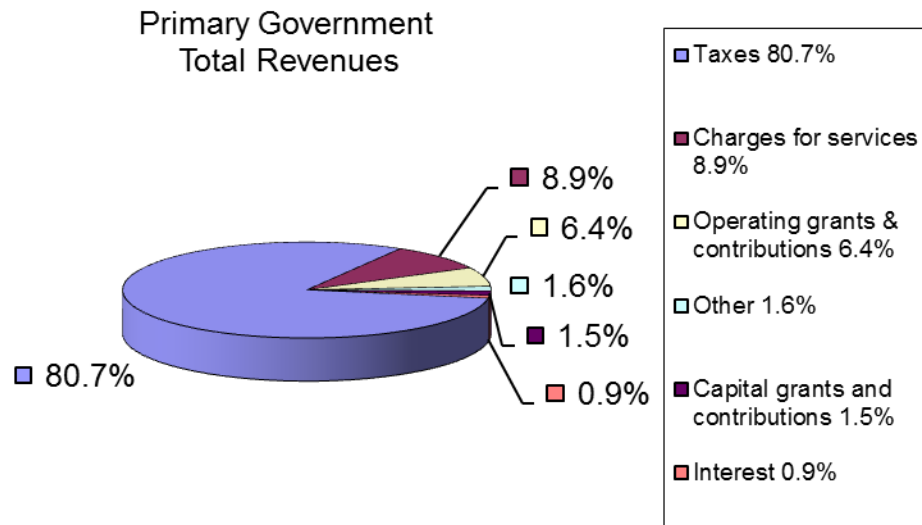
The City's business-type activities include public parking, public assembly facilities and the municipal golf courses. The City also operates the Knoxville Convention Center and the Knoxville Civic Coliseum/ Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands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

Total Government

Primary Government Revenues were \$255 million. The largest portion of these revenues (\$205.5 MM - 81%) was from taxes.



Total primary government expenses totaled \$220 million, 38% 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:

For Fiscal Year Ending June 30,
(In \$1,000's)

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Program Revenues	\$ 724,623	\$ 675,301	\$ 34,479	\$ 35,637	\$ 28,285	\$ 35,249	\$ 787,387	\$ 746,187
Program Expenses	(698,767)	(648,239)	(34,529)	(31,883)	(34,761)	(34,601)	(768,057)	(714,723)
Total General Revenues	1,876	2,291	807	1,024	9,377	8,640	12,060	11,955
Change in Net Assets	\$ 27,732	\$ 29,353	\$ 757	\$ 4,778	\$ 2,901	\$ 9,288	\$ 31,390	\$ 43,419
Net Assets at Year End	\$ 808,969	\$ 781,237	\$ 120,999	\$ 120,242	\$ 43,807	\$ 40,906	\$ 973,775	\$ 942,385

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2011

The total Governmental Funds balance as of June 30, 2011 is \$205.1 million of which the general fund's balance is approximately \$65.3 million, debt service fund is \$42.5 million, capital projects comprise \$68.4, miscellaneous community development \$1.7 million and the remaining \$27.2 million is distributed between the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances grew by \$5.6 million over the prior year. The general fund grew by \$4.4 million as a result of favorable financial operations and the merging of special revenue funds which were separately stated in previous fiscal years (\$217,869). The debt service fund increased by \$3.9 million, capital projects decreased by \$4.3 million as a result of increased capital project activity and the remaining \$1.6 million was spread over various special revenue and permanent funds. Significant causes of the various increases are explained in the following section.

Statement of Revenues, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2011

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, 2011, 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	2011	2010	Percent of Total 2011	Increase (Decrease) from Prior Year	Percent of Increase (Decrease)
Taxes, assessments, interest & penalties	\$ 173,425	\$ 168,880	75.13%	\$ 4,545	2.69%
Licenses, permits and inspection charges	1,708	1,726	0.74%	(18)	(1.04%)
Intergovernmental revenue	37,081	40,729	16.07%	(3,648)	(8.96%)
Charges for services	6,859	6,997	2.97%	(138)	(1.97%)
Fines and forfeitures	5,536	5,924	2.40%	(388)	(6.55%)
Other	6,207	7,568	2.69%	(1,361)	(17.98%)
Totals	<u>\$ 230,816</u>	<u>\$ 231,824</u>	<u>100.00%</u>	<u>\$ (1,008)</u>	<u>(0.43%)</u>

A comparison of revenues between FY10 and FY11 shows the total general government revenues decreased approximately \$1 million or 0.43%.

The increase in Revenues from Taxes was the result of greater than anticipated collections of the local option sales and business taxes. Other tax collections were stronger than anticipated as well contributing another \$5 million to the general revenues. License and permit revenues exceeded expectations as well but are still well under collections in prior years when building was stronger. The major decrease in intergovernmental revenues came from reductions in Community Development Fund proceeds associated with grant activities and a reduction in the Hall Income Tax, a state tax on investment interest and dividends, a portion of which is distributed to the City. While we also had swings in revenues from charges for services and fines and forfeits, the most significant decrease in Other revenues was caused by reduced investment earnings (\$0.884 Million) resulting from lower interest rates.

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, 2011, and the percentage of increases and decreases in relation to prior year amounts.

Condensed Financial Information
Total Governmental Funds - Expenditures
For Fiscal Years Ending 06/30/11 and 06/30/10
(In \$1,000's)

Expenditures	2011	2010	Percent of Total 2011	Increase (Decrease) from Prior Year	Percentage Change from Prior Year
Administration	\$ 4,003	\$ 2,482	1.96%	\$ 1,521	61.28%
Finance and Accountability	7,424	6,901	3.63%	523	7.58%
Operations and Engineering	13,051	12,382	6.39%	669	5.40%
Community and Neighborhood Services	53,554	57,127	26.21%	(3,573)	(6.25%)
Law	2,405	2,433	1.18%	(28)	(1.15%)
Police	49,092	48,470	24.02%	622	1.28%
Fire	32,521	30,601	15.91%	1,920	6.27%
Legislative	791	962	0.39%	(171)	(17.78%)
Civil Service	882	932	0.43%	(50)	(5.36%)
City Elections	5	248	0.00%	(243)	(97.98%)
Metropolitan Planning Commission	905	800	0.44%	105	13.13%
Knoxville Zoological Park	906	906	0.44%	-	0.00%
Community agency grants	819	1,174	0.40%	(355)	(30.24%)
Waterfront operations	571	578	0.28%	(7)	(1.21%)
Community Action Committee	580	543	0.28%	37	6.81%
Mass Transit	9,886	9,105	4.84%	781	8.58%
Capital and grant projects	19,155	20,864	9.37%	(1,709)	(8.19%)
Debt service:					
Principal retirement	5,577	5,396	2.73%	181	3.35%
Interest on bonds and notes	2,188	2,439	1.07%	(251)	(10.29%)
Total Expenditures	<u>\$ 204,315</u>	<u>\$ 204,343</u>	<u>99.97%</u>	<u>\$ (28)</u>	<u>(0.01%)</u>

While total general government expenditures for FY11 were relatively flat compared to FY10, there were significant deviations in various activities. The increase in Administration was due to federal American Recovery and Reinvestment Act (ARRA) funded recovery programs and energy efficiency grant activities. Community and Neighborhood Service expenditures decreased in the Special Revenue and Other Governmental funds (\$3.6 Million) due to reductions in federal grant programs. Changes in public safety funding (Police and Fire) were mainly due to increases in fleet replacement funding. The change in City Election costs was due to limited election activity. Increased funding for the Metropolitan Planning commission was needed to assist them with sustaining their activity for the city due to their loss of grant funding. Community Agency Grant and Capital funding was reduced so funding could be reallocated to other necessary activities. Increases in Mass Transit funding were necessary to support the new Transit Center.

Proprietary Funds Statements

Statement of Net Assets at June 30, 2011

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, 2011

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 \$13.9 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2011

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. The city's two golf courses continued to operate at a loss with subsidies coming from the General Fund. When the city reacquired the courses from the private operators four years ago, the condition of the courses and their reputations had diminished. The city is working to rebuild the public's confidence in the courses and has achieved a certain degree of success but general economic factors have taken their toll by leveling off of customer revenues. Expenses remain high due to the rejuvenation of the courses which should level off over time. 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	
	2011	2010	2011	2010	2011	2010
I. Business-type Activities						
A. Knoxville Convention Center	\$ 15,950	\$ 16,141	\$ 19,395	\$ 19,358	\$ 6,256	\$ 8,484
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,574	1,700	1,610	1,364	4,411	(995)
2. Public Assembly Facilities	2,580	1,918	6,540	4,855	5,141	3,222
3. Municipal Golf Courses	1,285	1,225	1,811	1,368	544	189
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	14,262	13,817	11,777	10,670	2,133	1,269
2. Risk Management	6,817	6,589	5,354	4,913	426	390
3. Health Insurance	15,880	14,856	15,963	15,031	897	1,099
4. Equipment Replacement	2,463	2,412	2,435	2,246	148	856
5. City Buildings	1,664	1,813	2,303	1,550	930	27
Totals	<u>\$ 62,475</u>	<u>\$ 60,471</u>	<u>\$ 67,188</u>	<u>\$ 61,355</u>	<u>\$ 20,886</u>	<u>\$ 14,541</u>

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	
	2011	2010	2011	2010	2011	2010
I. Business-type Activities						
A. Knoxville Convention Center	\$ -	\$ -	\$ 2,811	\$ 5,267	\$ 21,259	\$ 18,448
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	4,375	(659)	20,908	16,533
2. Public Assembly Facilities	-	-	1,181	285	17,113	15,932
3. Municipal Golf Courses	254	-	272	46	507	235
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	358	215	4,976	4,631	48,331	43,355
2. Risk Management	-	-	1,890	2,066	16,487	14,597
3. Health Insurance	-	-	814	924	12,466	11,652
4. Equipment Replacement	-	-	176	1,022	18,616	18,440
5. City Buildings	-	-	291	290	4,417	4,126
Totals	<u>\$ 612</u>	<u>\$ 215</u>	<u>\$ 16,786</u>	<u>\$ 13,872</u>	<u>\$ 160,104</u>	<u>\$ 143,318</u>

Fiduciary Funds Statements

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

	Condensed Financial Information		Estimated
	Pension Trust Fund Contribution Rates		FY 11/12
	FY 10/11 Contribution Rates	FY 09/10 Contribution Rates	Contribution Rates
General Government Employees	9.72%	7.72%	11.72%
Police and Fire Employees	18.57%	16.54%	21.64%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 88.7%. 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 \$8.74 million increase in appropriations between the original and final General Fund's budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2011

Department	Carry Forward of Prior Year Encumbrances	Other	Total Changes
Administration	\$ -	\$ 138,390	\$ 138,390
Finance & Accountability:			
Finance	-	205,610	205,610
Purchasing	9,661	72,750	82,411
Information Systems	122,085	(11,540)	110,545
Community Development	7,524	-	7,524
South Knoxville Waterfront	-	2,370	2,370
Operations and Efficiency:			
Parks & Recreation	58,503	156,738	215,241
Public Works:			
Public Services	27,841	1,591,610	1,619,451
Engineering	50,814	220,521	271,335
Law	26,846	2,560	29,406
Public Safety:			
Police	214,947	(86,059)	128,888
Fire	53,879	198,820	252,699
Legislative	-	(5,400)	(5,400)
Board Administered & Other Departments:			
Civil Service	36	4,560	4,596
City Elections	-	5,400	5,400
Central Business Improvement District	-	(40,000)	(40,000)
Second Creek Greenway	-	10	10
Community Action Committee	-	13,000	13,000
Downtown Cinema	-	(2,380)	(2,380)
Reserve	-	(1,246,000)	(1,246,000)
Transfers	-	7,481,749	7,481,749
Total General Fund Expenditures	\$ 572,136	\$ 8,702,709	\$ 9,274,845

The largest changes occurred in Parks & Recreation, Public Services, Fire, Reserves and Transfers. A combination of winter storms required additional funding to be allocated to Parks & Recreation and Public Services for snow removal costs and storm damage to city facilities. In April and May, the city experienced two significant storm events which ultimately qualified us for Federal Emergency Management Agency (FEMA) funding. While there was significant damage to city facilities, the process of obtaining estimates and performing remediation other than minor emergency repair did not occur within the FY11 fiscal period. Due to the relatively moderate weather in the Knoxville area, we do not normally budget for large snow events, preferring instead to do a supplemental appropriation if and when necessary. Additional budgetary savings in the Public Safety budgets for Police and Fire covered the snow event costs. \$7 Million of the change in Transfers was to allow additional funding for capital projects previously not budgeted.

Capital Asset and Debt Administration

As of June 30, 2011 the primary government of the City had invested \$436.3 million in capital assets as reflected by the following table. The total belies the fact that the investment in Infrastructure increased by \$5.9 million due to the completion of various projects and revitalization efforts throughout the city and in the downtown area. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets in the other categories, primarily equipment, which includes vehicles. For additional information on the capital assets of the City, please refer to Note 7 of the Notes to Financial Statements.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land and site improvements	\$ 51,729	\$ 48,295	\$ 7,272	\$ 6,866	\$ 59,001	\$ 55,161
Buildings and improvements	57,894	56,998	222,968	222,315	280,862	279,313
Equipment, furniture & fixtures	75,278	70,735	5,847	5,426	81,125	76,161
Infrastructure	296,394	278,580	-	-	296,394	278,580
Construction in progress	6,247	8,233	998	350	7,245	8,583
Less accumulated depreciation	(210,404)	(194,533)	(78,123)	(71,968)	(288,527)	(266,501)
Totals	<u>\$ 277,138</u>	<u>\$ 268,308</u>	<u>\$ 158,962</u>	<u>\$ 162,989</u>	<u>\$ 436,100</u>	<u>\$ 431,297</u>

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

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Beginning balance	\$ 462,841	\$ 446,371	\$ 234,957	\$ 234,148	\$ 697,798	\$ 680,519
Additions	54,029	23,061	3,550	1,311	57,579	24,372
Deletions	(29,328)	(6,591)	(1,422)	(502)	(30,750)	(7,093)
Balance before depreciation	487,542	462,841	237,085	234,957	724,627	697,798
Accumulated depreciation	(210,404)	(194,533)	(78,123)	(71,968)	(288,527)	(266,501)
Balance after depreciation	<u>\$ 277,138</u>	<u>\$ 268,308</u>	<u>\$ 158,962</u>	<u>\$ 162,989</u>	<u>\$ 436,100</u>	<u>\$ 431,297</u>

As of the year-end, the City's Total Primary Government had \$180.1 million in general obligation debt outstanding. The city paid the remaining balance of the note associated with the city's obligation to Knox County, representing the City's portion of the joint construction costs of the City/County animal shelter. Debt in the form of a Lease Purchase Agreement is included to recognize the city's liability under a master lease purchase agreement covering the construction and related debt associated with an energy savings construction and enhancement program as more fully described in Note 9.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current - Due in 1 year						
General Obligation Bonds	\$ 4,660	\$ 5,325	\$ 3,900	\$ 3,735	\$ 8,560	\$ 9,060
Debt Participation Agreement	-	70	-	-	-	70
Capital Lease	4	-	78	-	82	-
Note Payable	-	-	12	87	12	87
Total Current	4,664	5,395	3,990	3,822	8,654	9,217
Non Current - Due in more than 1 year						
General Obligation Bonds	42,015	45,910	129,595	133,495	171,610	179,405
Debt Participation Agreement	-	947	-	-	-	947
Capital Lease	13,467	13,471	102	-	13,569	13,471
Note Payable	-	-	65	257	65	257
Total Non Current	55,482	60,328	129,762	133,752	185,244	194,080
Subtotal	60,146	65,723	133,752	137,574	193,898	203,297
Unamortized Premiums, Discounts and Gain on Refunding	1,073	1,178	(865)	(929)	208	249
Total Long Term Debt	\$ 61,219	\$ 66,901	\$ 132,887	\$ 136,645	\$ 194,106	\$ 203,546

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

	2011	2010
Moody's Investors Service	Aa1	Aa2
Standard & Poor's	AA+	AA+
Fitch Ratings	AAA	AA+

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 \$140.9 million or 83% 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 FY11 the taxable value of real property decreased by 0.25% and the overall tax roll increased remained flat. Historically, the city has collected an average of 95% of property taxes in the year they are due. The trend in recent years has been higher than the long-term average due to better economic conditions and enhanced collection efforts but has slipped somewhat with the current recession but not to a worrisome level. Personal property growth has been higher than real property in the recent past and has also declined with the economic downturn that is facing the country. We expect no real growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately \$33.8 million or 20% of total General Fund revenues. Like the rest of the country, Knoxville experienced a slight increase in sales tax receipts in FY 10/11 – a trend continued from last fiscal year which started out strong but midway through the fiscal year, started to taper off. While our revenues have declined in this area, we have been fortunate in that our diverse economy has limited our decline in relation to the general economy.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for \$23.1 million or 13.6% of total revenue. The decrease in this category was due to a reduction in the

Hall Income Tax (an intangible tax on investments), generating \$7.3 million for the city, a decrease of \$2.15 million from FY10. We have not been able to determine the nature of the root causes of the increase in this revenue and do budget or anticipate that it will continue at this high level.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system 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 which have fallen due to the general reduction in short term interest rates.

Health care benefits are accounted for in a separate internal service fund. The City's Employee Health Insurance Fund is funded by both employer and employee contributions. The City has experienced double digit premium increases in recent years. In FY07, the City was able to slow these increases and keep the premiums the same due to a change in plans, and the implementation of programs that focus on wellness and disease prevention. In FY08, the City terminated its outside health care insurance plans and converted to a self insurance plan. FY10 and FY11, claims versus revenues were such that we have been able to stabilize premiums through controlled plan expenses and deductible revisions. The plan is stable and has allowed us to control costs more effectively.

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. As a result of a citywide energy audit, the City entered into a Master Lease Purchase Agreement with Ameresco for the replacement or rejuvenation of various energy using items in the City. This \$13.5 Million contract provides that the City utilize projected energy savings to pay for its debt under the lease purchase agreement, thereby eliminating any direct cost to our taxpayers.

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

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

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

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's 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, 2011

	Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
	Governmental Activities	Business Type Activities	Total Primary Government		
Assets					
Cash & cash equivalents	\$ 4,623,615	\$ 2,508,440	\$ 7,132,055	\$ 136,766,948	\$ 143,899,003
Investments	268,753,363	22,029,272	290,782,635	115,876,423	406,659,058
Receivables (net of allowance for uncollectibles):					
Accounts	9,899,121	2,348,845	12,247,966	84,973,980	97,221,946
Taxes	127,242,040	-	127,242,040	-	127,242,040
Notes and leases	22,284,492	716,035	23,000,527	-	23,000,527
TVA conservation program	-	-	-	8,549,048	8,549,048
Other	14,524	-	14,524	1,064,087	1,078,611
Internal balances	(670,117)	670,117	-	-	-
Due from component units	-	6,597,663	6,597,663	-	6,597,663
Inventories	1,369,959	144,427	1,514,386	6,465,519	7,979,905
Prepaid items	78,502	29,797	108,299	11,738,709	11,847,008
Net pension obligation asset	2,889,856	-	2,889,856	-	2,889,856
Equity interest in joint venture	3,842,133	968,823	4,810,956	-	4,810,956
Deferred charges	-	-	-	5,472,728	5,472,728
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	22,056,863	22,056,863
Unused bond proceeds	-	-	-	47,847,090	47,847,090
Receivables	-	-	-	475,000	475,000
Other	-	-	-	128,582	128,582
Other assets	-	-	-	25,247,341	25,247,341
Capital assets:					
Land & site improvements	51,729,175	7,271,646	59,000,821	174,643,757	233,644,578
Building & building improvements	57,893,479	222,968,187	280,861,666	175,838,354	456,700,020
Utility plant in service	-	-	-	1,772,751,320	1,772,751,320
Equipment, furniture & fixtures	75,278,249	5,847,150	81,125,399	37,632,817	118,758,216
Infrastructure	296,394,095	-	296,394,095	-	296,394,095
Construction in progress	6,247,291	997,753	7,245,044	119,636,736	126,881,780
Less accumulated depreciation	(210,403,939)	(78,122,601)	(288,526,540)	(804,371,040)	(1,092,897,580)
Total assets	717,465,838	194,975,554	912,441,392	1,942,794,262	2,855,235,654
Deferred outflow of resources:					
Deferred outflow of resources - interest rate swap	-	3,193,666	3,193,666	6,690,376	9,884,042
Total assets and deferred outflows of resources	717,465,838	198,169,220	915,635,058	1,949,484,638	2,865,119,696
Liabilities					
Accounts payable	7,056,993	1,191,922	8,248,915	53,487,884	61,736,799
Matured principal & interest on bonds	-	-	-	11,182,299	11,182,299
Accrued liabilities	6,000,646	93,468	6,094,114	32,273,314	38,367,428
Due to primary government	-	-	-	6,597,663	6,597,663
Due to other governmental agencies	437,560	-	437,560	-	437,560
Unearned revenue	127,706,929	44,050	127,750,979	-	127,750,979
Customer deposits, plus accrued interest	434,712	318,874	753,586	13,653,431	14,407,017
Liabilities payable with restricted assets:					
Long-term debt due within one year	11,414,254	4,005,984	15,420,238	28,002,000	43,422,238
Accrued interest	320,696	505,325	826,021	99,575	925,596
Other noncurrent liabilities due within one year	5,000,000	-	5,000,000	-	5,000,000
Noncurrent liabilities:					
Long-term debt due in more than one year	58,025,465	129,028,767	187,054,232	808,516,626	995,570,858
Derivative instrument - interest rate swap	-	3,193,666	3,193,666	6,690,376	9,884,042
Other noncurrent liabilities	4,200,000	-	4,200,000	15,207,629	19,407,629
Total liabilities	220,597,255	138,382,056	358,979,311	975,710,797	1,334,690,108
Net assets					
Invested in capital assets, net of related debt	220,027,560	26,074,999	246,102,559	647,066,850	893,169,409
Restricted for:					
Debt service	42,531,990	-	42,531,990	10,298,820	52,830,810
Park Maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	242,858	-	242,858	-	242,858
Other	-	-	-	1,179,327	1,179,327
Unrestricted	233,442,110	33,712,165	267,154,275	315,228,844	582,383,119
Total net assets	\$ 496,868,583	\$ 59,787,164	\$ 556,655,747	\$ 973,773,841	\$ 1,530,429,588

CITY OF KNOXVILLE, TENNESSEE

Statement of Activities For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General Government	\$ 13,495,298	\$ 756,645	\$ 2,902,907	\$ -
Public Safety	83,059,437	8,945,074	2,693,775	1,197,040
Physical Environment	46,976,932	985,274	233,716	1,224,609
Transportation	10,466,433	954,343	-	-
Economic Development	11,877,959	665,157	8,980,686	1,290,743
Parks & Recreation	12,307,505	537,034	-	-
Health & Sanitation	10,361,182	49,264	-	64,797
Interest on Long-Term Debt	2,152,343	-	-	-
Total governmental activities	<u>190,697,089</u>	<u>12,892,791</u>	<u>14,811,084</u>	<u>3,777,189</u>
Business-type activities:				
Metro Parking	1,609,626	1,565,048	-	-
Public Assembly Facilities	6,538,668	1,854,466	-	-
Knoxville Convention Center	19,395,003	5,171,109	1,500,000	-
Municipal Golf Courses	1,811,342	1,195,355	-	-
Total business-type activities	<u>29,354,639</u>	<u>9,785,978</u>	<u>1,500,000</u>	<u>-</u>
Total primary government	<u>\$ 220,051,728</u>	<u>\$ 22,678,769</u>	<u>\$ 16,311,084</u>	<u>\$ 3,777,189</u>
Combined Discretely Presented Component Units	<u>\$ 768,057,734</u>	<u>\$ 753,995,557</u>	<u>\$ 6,186,942</u>	<u>\$ 27,204,245</u>

General revenues:

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

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning (as restated)

Net assets - ending

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Combined	Total
Governmental Activities	Business-type Activities	Total	Discretely Presented Component Units	Reporting Unit
\$ (9,835,746)	\$ -	\$ (9,835,746)	\$ -	\$ (9,835,746)
(70,223,548)	-	(70,223,548)	-	(70,223,548)
(44,533,333)	-	(44,533,333)	-	(44,533,333)
(9,512,090)	-	(9,512,090)	-	(9,512,090)
(941,373)	-	(941,373)	-	(941,373)
(11,770,471)	-	(11,770,471)	-	(11,770,471)
(10,247,121)	-	(10,247,121)	-	(10,247,121)
(2,152,343)	-	(2,152,343)	-	(2,152,343)
(159,216,025)	-	(159,216,025)	-	(159,216,025)
-	(44,578)	(44,578)	-	(44,578)
-	(4,684,202)	(4,684,202)	-	(4,684,202)
-	(12,723,894)	(12,723,894)	-	(12,723,894)
-	(615,987)	(615,987)	-	(615,987)
-	(18,068,661)	(18,068,661)	-	(18,068,661)
(159,216,025)	(18,068,661)	(177,284,686)	-	(177,284,686)
-	-	-	19,329,010	19,329,010
116,001,165	-	116,001,165	-	116,001,165
61,220,678	4,539,277	65,759,955	8,972,860	74,732,815
-	2,105,951	2,105,951	-	2,105,951
-	3,111,699	3,111,699	-	3,111,699
274,433	-	274,433	-	274,433
10,691,414	-	10,691,414	-	10,691,414
5,885,274	-	5,885,274	-	5,885,274
1,673,718	-	1,673,718	-	1,673,718
2,784,578	344,239	3,128,817	567,132	3,695,949
2,042,062	254,658	2,296,720	2,473,835	4,770,555
884,095	-	884,095	46,146	930,241
(16,351,627)	16,351,627	-	-	-
185,105,790	26,707,451	211,813,241	12,059,973	223,873,214
25,889,765	8,638,790	34,528,555	31,388,983	65,917,538
470,978,818	51,148,374	522,127,192	942,384,858	1,464,512,050
\$ 496,868,583	\$ 59,787,164	\$ 556,655,747	\$ 973,773,841	\$ 1,530,429,588

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Governmental Funds
June 30, 2011

	General	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Assets						
Cash & cash equivalents	\$ 190,421	\$ -	\$ 72,782	\$ 233,997	\$ 1,458,766	\$ 1,955,966
Investments	54,313,673	40,598,959	67,042,898	802,840	27,699,084	190,457,454
Accounts receivable	2,309,210	199,076	1,015,341	396,075	5,054,320	8,974,022
Taxes receivable	97,543,495	29,698,545	-	-	-	127,242,040
Notes receivable	-	1,595,500	-	16,963,923	3,725,069	22,284,492
Due from other funds	141,702	-	7,230,876	509,244	555,992	8,437,814
Inventories	346,784	-	-	212,632	31,586	591,002
Prepaid items	78,502	-	-	-	-	78,502
Total assets	<u>\$ 154,923,787</u>	<u>\$ 72,092,080</u>	<u>\$ 75,361,897</u>	<u>\$ 19,118,711</u>	<u>\$ 38,524,817</u>	<u>\$ 360,021,292</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 1,412,758	\$ -	\$ 2,995,282	\$ 295,479	\$ 1,526,680	\$ 6,230,199
Accrued liabilities	3,398,854	-	1,036,933	9,816	395,933	4,841,536
Customer deposits	-	-	-	3,004	431,708	434,712
Due to other funds	3,809,402	126,444	-	58,907	5,247,778	9,242,531
Due to other governmental agencies	424,885	-	8,824	-	3,851	437,560
Deferred revenue	80,614,223	29,433,646	2,923,294	16,998,707	3,755,528	133,725,398
Total liabilities	<u>89,660,122</u>	<u>29,560,090</u>	<u>6,964,333</u>	<u>17,365,913</u>	<u>11,361,478</u>	<u>154,911,936</u>
Fund balances:						
Reserved for:						
Nonspendable	425,286	-	-	212,632	655,651	1,293,569
Restricted	1,989,232	42,531,990	3,279,424	1,538,535	17,714,652	67,053,833
Committed	34,630,200	-	65,118,140	1,631	8,793,036	108,543,007
Assigned	230,965	-	-	-	-	230,965
Unassigned	27,987,982	-	-	-	-	27,987,982
Total fund balances	<u>65,263,665</u>	<u>42,531,990</u>	<u>68,397,564</u>	<u>1,752,798</u>	<u>27,163,339</u>	<u>205,109,356</u>
Total liabilities and fund balances	<u>\$ 154,923,787</u>	<u>\$ 72,092,080</u>	<u>\$ 75,361,897</u>	<u>\$ 19,118,711</u>	<u>\$ 38,524,817</u>	<u>\$ 360,021,292</u>

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, 2011

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

Ending fund balance - governmental funds	\$ 205,109,356
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheets of the governmental funds.	252,148,064
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Revenues that have been deferred in the balance sheet of the governmental funds because they were not available to pay current liabilities of the period are recognized as revenue in the statement of activities and therefore are not included in the statement of net assets.	6,020,575
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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.	100,315,854
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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.	(320,696)
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Negative net pension obligation recorded as an asset as an adjustment to net assets.	2,889,856
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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	\$ (46,675,000)	
Capital Lease	(13,470,609)	
Discounts and Premiums (net)	(1,073,070)	
Compensated Absences	(8,075,747)	(69,294,426)
		<hr/>

Net assets of governmental activities	<u><u>\$ 496,868,583</u></u>
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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, 2011

				Special Revenue Fund		
				Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Capital Projects			
Revenues						
Taxes, assessments, interest & penalties	\$ 140,927,670	\$ 27,007,206	\$ -	\$ -	\$ 5,490,104	\$ 173,424,980
Licenses, permits & inspection charges	338,082	-	-	-	1,369,547	1,707,629
Intergovernmental	23,097,349	-	1,290,743	3,564,369	9,128,657	37,081,118
Charges for services	1,839,405	-	-	665,157	4,354,961	6,859,523
Fines & forfeitures	2,125,561	-	-	-	3,410,343	5,535,904
Other	1,115,948	952,681	2,085,611	558,134	1,494,412	6,206,786
Total revenues	169,444,015	27,959,887	3,376,354	4,787,660	25,248,024	230,815,940
Expenditures						
Current:						
Administration	2,592,821	-	-	-	1,410,141	4,002,962
Finance & accountability	7,323,887	-	-	-	99,999	7,423,886
Operations & engineering	5,310,995	-	-	-	7,740,184	13,051,179
Community & neighborhood services	30,918,902	-	-	4,504,004	17,496,289	52,919,195
Law	1,521,669	-	-	-	883,195	2,404,864
Police	45,893,863	-	-	-	3,197,927	49,091,790
Fire	32,515,414	-	-	-	5,401	32,520,815
Legislative	791,358	-	-	-	-	791,358
Civil service	881,916	-	-	-	-	881,916
City elections	5,383	-	-	-	-	5,383
Knoxville Partnership	634,925	-	-	-	-	634,925
Metropolitan Planning Commission	905,000	-	-	-	-	905,000
Knoxville Zoological Park	906,660	-	-	-	-	906,660
Agency grants	818,607	-	-	-	-	818,607
Waterfront	570,636	-	-	-	-	570,636
Community Action Committee	580,623	-	-	-	-	580,623
Mass transit	9,885,810	-	-	-	-	9,885,810
Capital & grant projects	-	-	19,155,022	-	-	19,155,022
Debt service:						
Principal retirement	-	5,577,290	-	-	-	5,577,290
Interest payments on bonds & notes	-	2,187,572	-	-	-	2,187,572
Total expenditures	142,058,469	7,764,862	19,155,022	4,504,004	30,833,136	204,315,493
Excess (deficiency) of revenues over (under) expenditures	27,385,546	20,195,025	(15,778,668)	283,656	(5,585,112)	26,500,447
Other financing sources (uses)						
Transfers in	5,028,938	3,500,000	19,180,080	-	12,018,467	39,727,485
Transfers out	(28,032,380)	(19,807,170)	(7,658,109)	-	(5,114,738)	(60,612,397)
Total other financing sources (uses)	(23,003,442)	(16,307,170)	11,521,971	-	6,903,729	(20,884,912)
Net change in fund balances	4,382,104	3,887,855	(4,256,697)	283,656	1,318,617	5,615,535
Fund balance - beginning (as restated)	60,881,561	38,644,135	72,654,261	1,469,142	25,844,722	199,493,821
Fund balance - ending	\$ 65,263,665	\$ 42,531,990	\$ 68,397,564	\$ 1,752,798	\$ 27,163,339	\$ 205,109,356

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, 2011

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

Net change in fund balances - total governmental funds	\$ 5,615,535
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 (\$19,155,943) and net gain on disposal (\$884,095) exceed the depreciation expenses (\$13,290,129).	6,749,909
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	164,607
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	5,229,675
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.	35,229
Change in net pension obligation.	(51,487)
The internal service fund is used by management to charge the costs of fleet maintenance.	4,976,050
The internal service fund is used by management to charge the costs of risk management.	1,889,822
The internal service fund is used by management to charge the costs of employee health insurance.	813,683
The internal service fund is used by management to charge the costs of equipment replacement.	175,775
The internal service fund is used by management to charge the costs of City buildings.	290,967
Change in net assets of governmental activities	<u>\$ 25,889,765</u>

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, 2011**

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
REVENUES						
Property taxes -						
Current	\$ 71,201,550	\$ 71,201,550	\$ 70,907,009	\$ -	\$ 70,907,009	\$ (294,541)
Prior years	3,318,300	3,318,300	4,501,737	-	4,501,737	1,183,437
Business taxes	4,144,300	4,644,300	5,884,442	-	5,884,442	1,240,142
Local shared sales tax	31,617,180	31,617,180	33,848,744	-	33,848,744	2,231,564
Alcoholic beverage taxes	10,437,580	10,437,580	10,691,414	-	10,691,414	253,834
Payments in lieu of taxes	13,092,030	13,092,030	13,420,606	-	13,420,606	328,576
Franchise fees	1,651,380	1,651,380	1,673,718	-	1,673,718	22,338
Intergovernmental -						
Federal	973,500	973,500	838,086	-	838,086	(135,414)
State -						
Sales tax	10,271,590	10,271,590	11,556,971	-	11,556,971	1,285,381
Income tax	3,215,900	3,215,900	7,298,785	-	7,298,785	4,082,885
Other	3,626,880	3,626,880	3,350,507	-	3,350,507	(276,373)
Local	53,000	53,000	53,000	-	53,000	-
Licenses & permits	311,080	311,080	338,082	-	338,082	27,002
Fines & forfeits	2,307,800	2,307,800	2,125,561	-	2,125,561	(182,239)
Charges for services	1,511,450	1,525,330	1,839,405	-	1,839,405	314,075
Other -						
Interest	625,000	625,000	451,822	-	451,822	(173,178)
Rents & concessions	391,440	391,440	417,411	-	417,411	25,971
Miscellaneous	275,180	781,108	246,715	-	246,715	(534,393)
Appropriated fund balance	1,650,000	9,905,037	-	-	-	(9,905,037)
Total revenues	160,675,140	169,949,985	169,444,015	-	169,444,015	(505,970)
EXPENDITURES						
Current:						
Administration	2,529,700	2,668,090	2,490,120	-	2,490,120	177,970
Finance & Accountability -						
Finance	4,014,640	4,302,661	3,790,785	76,113	3,866,898	435,763
Information systems	4,077,990	4,188,535	3,533,102	138,750	3,671,852	516,683
Community development	1,404,240	1,411,764	1,243,348	306	1,243,654	168,110
South Knoxville Waterfront	623,260	625,630	570,636	-	570,636	54,994
Operations & Efficiency -						
Parks & recreation	6,901,630	7,116,871	7,065,813	22,694	7,088,507	28,364
Mass transit	9,885,810	9,885,810	9,885,810	-	9,885,810	-
Public Works -						
Public services	20,372,640	21,992,091	21,936,914	42,437	21,979,351	12,740
Engineering	5,673,040	5,944,374	5,501,004	45,034	5,546,038	398,336
Law	1,764,930	1,794,336	1,521,669	22,217	1,543,886	250,450
Public Safety -						
Police	46,275,860	46,404,748	45,806,555	73,665	45,880,220	524,528
Fire	32,322,580	32,575,279	32,515,414	37,622	32,553,036	22,243
Board Administered & Other Departments -						
Legislative	995,560	990,160	791,358	-	791,358	198,802
Civil service	991,330	995,926	881,916	-	881,916	114,010

Continued:

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Nondepartmental -						
City elections	\$ -	\$ 5,400	\$ 5,383	\$ -	\$ 5,383	\$ 17
Knoxville Partnership	651,300	651,300	634,925	-	634,925	16,375
Metropolitan Planning Commission	905,000	905,000	905,000	-	905,000	-
Knoxville Zoological Gardens	906,660	906,660	906,660	-	906,660	-
Community agency grants	876,500	836,500	818,607	-	818,607	17,893
Second Creek Greenway	47,720	47,730	47,727	-	47,727	3
Community Action Committee	567,650	580,650	580,623	-	580,623	27
Downtown Cinema	82,700	80,320	56,660	-	56,660	23,660
Budgeted reserve	1,650,000	404,000	-	-	-	404,000
Tax increment payments	832,820	832,820	568,440	-	568,440	264,380
Total expenditures	144,353,560	146,146,655	142,058,469	458,838	142,517,307	3,629,348
Excess (deficiency) of revenues over (under) expenditures	16,321,580	23,803,330	27,385,546	(458,838)	26,926,708	3,123,378
OTHER FINANCING SOURCES (USES)						
Transfers in	4,643,010	4,652,330	5,028,938	-	5,028,938	376,608
Transfers out	(20,964,590)	(28,455,660)	(28,032,380)	-	(28,032,380)	423,280
Total other financing sources (uses)	(16,321,580)	(23,803,330)	(23,003,442)	-	(23,003,442)	799,888
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	4,382,104	(458,838)	3,923,266	<u>\$ 3,923,266</u>
FUND BALANCE - BEGINNING (as restated)			60,881,561	-	60,881,561	
FUND BALANCE - ENDING			<u>\$ 65,263,665</u>	<u>\$ (458,838)</u>	<u>\$ 64,804,827</u>	

CITY OF KNOXVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis

Miscellaneous Community Development Funds For the Year Ended June 30, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,474,570	\$ 3,239,570	\$ 3,564,369	\$ 324,799
Charges for services	-	750,000	665,157	(84,843)
Other	850,000	850,000	558,134	(291,866)
Total revenues	<u>2,324,570</u>	<u>4,839,570</u>	<u>4,787,660</u>	<u>(51,910)</u>
Expenditures				
Current:				
Community & neighborhood services	<u>2,324,570</u>	<u>4,839,570</u>	<u>4,504,004</u>	<u>335,566</u>
Total expenditures	<u>2,324,570</u>	<u>4,839,570</u>	<u>4,504,004</u>	<u>335,566</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>283,656</u>	<u>283,656</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>283,656</u>	<u>\$ 283,656</u>
Fund balance - beginning			<u>1,469,142</u>	
Fund balance - ending			<u>\$ 1,752,798</u>	

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, 2011

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Assets				
Current assets				
Cash & temporary investments	\$ -	\$ 2,508,440	\$ 2,508,440	\$ 2,667,649
Investments	11,224,058	10,805,214	22,029,272	78,295,909
Accounts receivable	2,081,734	267,111	2,348,845	939,623
Leases receivable	-	716,035	716,035	-
Due from other funds	-	1,153,866	1,153,866	134,891
Due from component units	5,344,577	1,253,086	6,597,663	-
Inventories	108,341	36,086	144,427	778,957
Prepaid items	8,003	21,794	29,797	-
Total current assets	18,766,713	16,761,632	35,528,345	82,817,029
Noncurrent assets				
Land & site improvements	2,952,020	4,319,626	7,271,646	-
Building & building improvements	180,566,772	42,401,415	222,968,187	257,391
Equipment	3,091,613	2,755,537	5,847,150	68,948,515
Construction in progress	833,148	164,605	997,753	1,446,127
Less: accumulated depreciation	(50,838,264)	(27,284,337)	(78,122,601)	(45,661,747)
Total capital assets (net of accumulated depreciation)	136,605,289	22,356,846	158,962,135	24,990,286
Equity interest in joint venture	204,877	763,946	968,823	3,842,133
Total noncurrent assets	136,810,166	23,120,792	159,930,958	28,832,419
Total assets	155,576,879	39,882,424	195,459,303	111,649,448
Deferred outflow of resources:				
Deferred outflow of resources - interest rate swap	3,193,666	-	3,193,666	-
Total assets and deferred outflows of resources	158,770,545	39,882,424	198,652,969	111,649,448
Liabilities				
Current liabilities				
Accounts payable	960,365	231,557	1,191,922	826,794
Accrued liabilities	505,325	93,468	598,793	1,159,110
Customer deposits	222,521	96,353	318,874	-
Due to other funds	-	483,749	483,749	291
Deferred revenue	-	44,050	44,050	2,106
Compensated absences	-	80,000	80,000	145,293
Long-term debt due within one year	3,835,847	90,137	3,925,984	5,000,000
Total current liabilities	5,524,058	1,119,314	6,643,372	7,133,594
Noncurrent liabilities				
Long-term debt due in more than one year	128,794,543	234,224	129,028,767	-
Estimated litigation liability	-	-	-	4,200,000
Derivative instrument - interest rate swap	3,193,666	-	3,193,666	-
Total noncurrent liabilities	131,988,209	234,224	132,222,433	4,200,000
Total liabilities	137,512,267	1,353,538	138,865,805	11,333,594
Net assets				
Invested in capital assets, net of related debt	3,974,899	22,100,100	26,074,999	24,990,286
Unrestricted	17,283,379	16,428,786	33,712,165	75,325,568
Total net assets	\$ 21,258,278	\$ 38,528,886	\$ 59,787,164	\$ 100,315,854

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CITY OF KNOXVILLE, TENNESSEE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating revenues				
Charges for services	\$ 5,171,109	\$ 4,614,869	\$ 9,785,978	\$ 39,168,972
Total operating revenues	5,171,109	4,614,869	9,785,978	39,168,972
Operating expenses				
Personal services	-	2,053,080	2,053,080	3,423,932
Materials & supplies	-	1,003,492	1,003,492	219,258
Maintenance	973,701	2,721,150	3,694,851	1,437,194
Depreciation & amortization	4,592,049	1,562,418	6,154,467	6,376,222
Other services and charges	9,019,915	2,611,526	11,631,441	26,222,940
Total operating expenses	14,585,665	9,951,666	24,537,331	37,679,546
Operating income (loss)	(9,414,556)	(5,336,797)	(14,751,353)	1,489,426
Nonoperating revenue (expense)				
Interest income	231,562	23,096	254,658	116,828
Intergovernmental revenue	10,547,175	709,752	11,256,927	1,135,966
Other revenues	-	89,457	89,457	81,024
Gain (loss) on disposal of capital assets	-	1,010	1,010	432,205
Interest expense	(4,809,338)	(8,980)	(4,818,318)	-
Total nonoperating revenue (expense)	5,969,399	814,335	6,783,734	1,766,023
Income (loss) before transfers and capital contributions	(3,445,157)	(4,522,462)	(7,967,619)	3,255,449
Other financing sources (uses)				
Transfers in	6,255,744	10,112,309	16,368,053	4,624,626
Transfers out	-	(16,426)	(16,426)	(91,341)
Capital contributions	-	254,782	254,782	357,563
Change in net assets	2,810,587	5,828,203	8,638,790	8,146,297
Total net assets - beginning (as restated)	18,447,691	32,700,683	51,148,374	92,169,557
Total net assets - ending	\$ 21,258,278	\$ 38,528,886	\$ 59,787,164	\$ 100,315,854

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating activities				
Cash received from customers and users	\$ 5,378,929	\$ 4,392,591	\$ 9,771,520	\$ -
Receipts from interfund services provided	-	-	-	38,319,827
Cash paid to suppliers	(10,300,215)	(6,095,760)	(16,395,975)	(12,620,624)
Cash paid to employees	-	(2,034,548)	(2,034,548)	(3,361,991)
Cash paid for interfund services used	(110,600)	(288,550)	(399,150)	(383,708)
Payments of claims and insurance	-	-	-	(15,160,215)
Net cash provided by (used in) operating activities	(5,031,886)	(4,026,267)	(9,058,153)	6,793,289
Noncapital financing activities				
Transfers from other funds	6,255,744	10,341,023	16,596,767	4,490,026
Transfers to other funds	-	(1,167,260)	(1,167,260)	(91,341)
Transfers to component units	(1,944,577)	(1,253,086)	(3,197,663)	-
Tax and intergovernmental revenues	10,547,175	799,209	11,346,384	1,219,096
Net cash provided by (used in) noncapital financing activities	14,858,342	8,719,886	23,578,228	5,617,781
Capital and related financing activities				
Principal paid on general obligation bond maturities	(3,670,847)	(87,037)	(3,757,884)	-
Interest paid	(4,809,338)	(8,980)	(4,818,318)	-
Acquisition and construction of capital assets	(1,117,306)	(1,008,999)	(2,126,305)	(8,024,831)
Capital contributions	-	254,782	254,782	357,563
Net cash provided by (used in) capital and related financing activities	(9,597,491)	(850,234)	(10,447,725)	(7,667,268)
Investing activities				
Sales/(purchases) of investments	(3,155,915)	(1,977,352)	(5,133,267)	(6,816,497)
Investment earnings	231,562	23,096	254,658	116,828
Net change in equity investment in joint venture	23,807	29,877	53,684	(90,785)
Net cash provided by (used in) investing activities	(2,900,546)	(1,924,379)	(4,824,925)	(6,790,454)
Net increase (decrease) in cash and cash equivalents	(2,671,581)	1,919,006	(752,575)	(2,046,652)
Cash and cash equivalents				
Beginning of year (as restated)	2,671,581	589,434	3,261,015	4,714,301
End of year	\$ -	\$ 2,508,440	\$ 2,508,440	\$ 2,667,649

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, 2011

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (9,414,556)	\$ (5,336,797)	\$ (14,751,353)	\$ 1,489,426
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,592,049	1,562,418	6,154,467	6,376,222
Change in assets and liabilities				
(Increase) decrease in receivables	408,306	8,222	416,528	(851,953)
(Increase) decrease in prepayments	39,370	13,383	52,753	-
(Increase) decrease in inventories	(7,107)	(22,958)	(30,065)	(97,187)
Increase (decrease) in accounts payable	(565,585)	(38,567)	(604,152)	(885,160)
Increase (decrease) in accrued expenses	116,123	18,532	134,655	61,941
Increase (decrease) in deferred revenue	(84,216)	(8,791)	(93,007)	-
Increase (decrease) in estimated liability for litigation and claims	-	-	-	700,000
Increase (decrease) in customer deposits	(116,270)	(221,709)	(337,979)	-
Total adjustments	4,382,670	1,310,530	5,693,200	5,303,863
Net cash provided by (used in) operating activities	\$ (5,031,886)	\$ (4,026,267)	\$ (9,058,153)	\$ 6,793,289

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, 2011

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	\$ 1,679	\$ 565,819
Cash equivalents	4,518,296	-
United States government securities	34,351,327	-
State & municipal government securities	4,681,567	37,196
International securities	162,707,947	-
Corporate bonds & debentures	46,643,620	-
Real estate investment trusts	52,087,080	-
Domestic equity securities	152,580,403	-
Pending sales proceeds	11,417,648	-
Other receivables	4,917	12,269
Accrued interest & dividends	1,517,895	-
Equipment, furniture & fixtures	50,674	-
Accumulated depreciation	(39,865)	-
Total assets	<u>470,523,188</u>	<u>\$ 615,284</u>
Liabilities		
Accounts payable	591,370	\$ 2,409
Investment purchases pending	1,105,355	-
Due to other funds	-	47,056
Health care claims liability	-	565,819
Total liabilities	<u>1,696,725</u>	<u>\$ 615,284</u>
Net assets		
Held in Trust for:		
Pension benefits	<u>\$ 468,826,463</u>	

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, 2011

	City Employees' Pension Trust Fund
Additions	
Employee contributions	\$ 3,718,132
Employer contributions	9,506,133
Total contributions	<u>13,224,265</u>
Investment earnings:	
Interest and dividends	8,902,216
Net appreciation/(depreciation) in the fair value of investments	89,659,354
Other income	148,039
Total investment earnings (loss)	<u>98,709,609</u>
Less investment expense	<u>(2,782,898)</u>
Net investment earnings (loss)	<u>95,926,711</u>
Total additions (net)	<u>109,150,976</u>
Deductions	
Benefits paid	38,514,633
Refunds	443,124
Administrative expenses	463,886
Total deductions	<u>39,421,643</u>
Change in net assets	69,729,333
Total net assets - beginning	<u>399,097,130</u>
Total net assets - ending	<u><u>\$ 468,826,463</u></u>

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets - Discretely Presented Component Units
June 30, 2011

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Assets				
Cash & cash equivalents	\$ 124,547,268	\$ 12,219,680	\$ -	\$ 136,766,948
Investments	84,674,755	29,701,396	1,500,272	115,876,423
Receivables (net of allowance for uncollectibles):				
Accounts	76,343,051	1,715,882	6,915,047	84,973,980
TVA conservation program	8,549,048	-	-	8,549,048
Other	61,661	1,002,426	-	1,064,087
Inventories	5,222,294	-	1,243,225	6,465,519
Prepaid items	11,586,722	151,987	-	11,738,709
Deferred charges	4,579,121	893,607	-	5,472,728
Restricted assets:				
Temporarily restricted:				
Bond funds	21,481,119	575,744	-	22,056,863
Unused bond proceeds	47,847,090	-	-	47,847,090
Receivables	-	475,000	-	475,000
Other	128,582	-	-	128,582
Other assets	24,119,368	1,127,973	-	25,247,341
Capital assets:				
Land & site improvements	-	172,788,977	1,854,780	174,643,757
Building & building improvements	-	145,456,395	30,381,959	175,838,354
Utility plant in service	1,772,751,320	-	-	1,772,751,320
Equipment, furniture & fixtures	-	10,050,673	27,582,144	37,632,817
Construction in progress	107,852,362	9,246,329	2,538,045	119,636,736
Less accumulated depreciation	(610,679,323)	(172,712,959)	(20,978,758)	(804,371,040)
Total assets	1,679,064,438	212,693,110	51,036,714	1,942,794,262
Deferred outflow of resources:				
Deferred outflow of resources - interest rate swap	-	6,690,376	-	6,690,376
Total assets and deferred outflows of resources	1,679,064,438	219,383,486	51,036,714	1,949,484,638
Liabilities				
Accounts payable	52,371,630	528,843	587,411	53,487,884
Matured principal & interest on bonds	11,182,299	-	-	11,182,299
Accrued liabilities	30,313,667	1,914,235	45,412	32,273,314
Due to primary government	-	-	6,597,663	6,597,663
Customer deposits, plus accrued interest	13,653,431	-	-	13,653,431
Liabilities payable with restricted assets:				
Long-term debt due within one year	24,427,000	3,575,000	-	28,002,000
Accrued interest	-	99,575	-	99,575
Noncurrent liabilities:				
Long-term debt due in more than one year	722,940,000	85,576,626	-	808,516,626
Derivative instrument - interest rate swap	-	6,690,376	-	6,690,376
Other noncurrent liabilities	15,207,629	-	-	15,207,629
Total liabilities	870,095,656	98,384,655	7,230,486	975,710,797
Net assets				
Invested in capital assets, net of related debt	529,825,848	75,862,832	41,378,170	647,066,850
Restricted for:				
Debt service	10,298,820	-	-	10,298,820
Other	128,583	1,050,744	-	1,179,327
Unrestricted	268,715,531	44,085,255	2,428,058	315,228,844
Total net assets	\$ 808,968,782	\$ 120,998,831	\$ 43,806,228	\$ 973,773,841

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Activities - Discretely Presented Component Units
For the Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Units			
					Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Component units:								
Knoxville Utilities Board	\$ 698,767,346	\$ 722,441,951	\$ -	\$ 2,181,080	\$ 25,855,685	\$ -	\$ -	\$ 25,855,685
Metropolitan Knoxville Airport Authority	34,528,903	27,549,990	-	6,929,117	-	(49,796)	-	(49,796)
Knoxville Area Transit	34,761,485	4,003,616	6,186,942	18,094,048	-	-	(6,476,879)	(6,476,879)
Total component units	<u>\$ 768,057,734</u>	<u>\$ 753,995,557</u>	<u>\$ 6,186,942</u>	<u>\$ 27,204,245</u>	<u>25,855,685</u>	<u>(49,796)</u>	<u>(6,476,879)</u>	<u>19,329,010</u>
General revenues:								
Intergovernmental revenue, unrestricted					-	-	8,972,860	8,972,860
Other unrestricted revenue					-	192,437	374,695	567,132
Unrestricted investment earnings					1,875,952	594,744	3,139	2,473,835
Gain on disposal of capital assets					-	19,825	26,321	46,146
Total general revenues					<u>1,875,952</u>	<u>807,006</u>	<u>9,377,015</u>	<u>12,059,973</u>
Change in net assets					27,731,637	757,210	2,900,136	31,388,983
Net assets - beginning					781,237,145	120,241,621	40,906,092	942,384,858
Net assets - ending					<u>\$ 808,968,782</u>	<u>\$ 120,998,831</u>	<u>\$ 43,806,228</u>	<u>\$ 973,773,841</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

1. Knoxville Utilities Board (KUB) provides electric, gas and water and wastewater services to residents of the City and surrounding areas. KUB may not issue debt without the City's approval, although the City does not have any obligation for KUB debt.
2. Metropolitan Knoxville Airport Authority (MCAA) operates two airport facilities that serve Knoxville and the surrounding area. MCAA 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
www.kub.org

Metropolitan Knoxville Airport Authority
P. O. Box 15600
Knoxville, Tennessee 37901
www.tys.org

Joint Ventures

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

Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA)
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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

Pension Trust Fund - The City Employees' Pension Trust Fund accounts for the assets and the investment activities of the City of Knoxville Pension System which accumulates resources for pension benefit payments to qualified employees.

Agency Funds - The City Choice Plus fund accounts for the flexible spending accounts of the participating employees of the City and any funds not expended by March 31st of the following year revert back to the City. In addition, the Employee Health Reimbursement fund accounts for health reimbursement accounts of the participating employees of the City.

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Assets, Liabilities, and Net Assets or Equity

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

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

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

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

Stabilization Arrangement - The City has a fund balance policy that requires the general fund to maintain a minimum unrestricted fund balance of 20% of ensuing year's appropriated general fund expenditures. For the current fiscal year ending June 30, 2011, the City did meet the minimum general fund balance policy.

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Change - During 2011, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which changes some terminology and definitions within the governmental funds. See Note 11 for additional Information.

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2011.

General Fund	\$ 9,274,845
Special Revenue Funds	16,474,289
Capital Projects Funds	4,537,100

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 20,367,027	\$ 22,205,590	\$ 1,838,563	\$ 20,367,027	\$ 19,395,003	\$ 972,024
Metro Parking	5,888,800	5,984,301	95,501	5,888,800	1,609,626	4,279,174
Public Assembly Facilities	6,018,446	7,737,616	1,719,170	6,018,446	6,556,104	(537,658)
City Golf Courses	1,514,325	2,083,358	569,033	1,514,325	1,811,342	(297,017)
Knoxville Area Transit (Component unit)	21,443,819	37,661,621	16,217,802	21,443,819	34,761,485	(13,317,666)
<i>Internal Service Funds</i>						
Fleet Maintenance	14,583,898	16,754,129	2,170,231	14,583,898	11,778,079	2,805,819
Risk Management	7,508,593	7,243,439	(265,154)	7,508,593	5,353,617	2,154,976
Employee Health Insurance	16,677,293	16,776,203	98,910	16,677,293	15,962,520	714,773
Equipment Replacement	2,475,220	2,700,343	225,123	2,475,220	2,524,568	(49,348)
City Buildings	1,567,944	2,593,536	1,025,592	1,567,944	2,302,569	(734,625)

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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

Investment Policies

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limit investments to terms of no more than two years. As of June 30, 2011, the average weighted maturity of the City's portfolio was 231 days.

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

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

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

Concentration of Credit Risk: The City's Investment Policy imposes several limits on the amount and type of investments in order to avoid having a large percentage of the portfolio in a single issuer. First, the policy states that, with the exception of U.S. treasuries, agency securities, and the state investment pool, no more than thirty-five percent of the portfolio shall be invested in a single security type. The policy further limits, with respect to banker's acceptances and commercial paper, that no more than ten percent of the portfolio, or \$10 million whichever is less, shall be from a single issuer. As of June 30, 2011, the City held securities in various Tennessee municipal bonds of \$79.8 million or approximately 27% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from Ba1 to Baa3 and are part of the permanent fund for Krutch Park.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2011, the City had the following investments and maturities.

Investments:	Fair Value	Less Than 1 Year	1 - 2 Years	2 - 4 Years
Primary Government:				
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	\$ 14,984,777	\$ -	\$ -	\$ 14,984,777
Private Equity Funding Corporation (PEFCO)	3,639,608	2,093,460	-	1,546,148
Federal Farm Credit Bureau (FFCB)	12,226,940	-	-	12,226,940
Bankers Acceptance	4,052,909	4,052,909	-	-
Other Governmental Bonds	79,775,963	42,435,935	24,302,915	13,037,113
Corporate Equities	168,913	168,913	-	-
Tennessee Local Government Investment Pool	175,933,525	175,933,525	-	-
	<u>\$ 290,782,635</u>	<u>\$ 224,684,742</u>	<u>\$ 24,302,915</u>	<u>\$ 41,794,978</u>
Fiduciary Activities:				
Tennessee Local Government Investment Pool	\$ 37,196	\$ 37,196	\$ -	\$ -

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".

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

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	\$ 210,220,995	\$ 13,072,919	\$ -	\$ 1,679
Carrying amounts:				
Deposits (outstanding checks) in financial institutions	\$ 121,471,115	\$ 12,795,424	\$ -	\$ 1,679
Certificates of deposit	83,659,990	-	-	-
Total deposits - carrying value	\$ 205,131,105	\$ 12,795,424	\$ -	\$ 1,679

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	\$ -	\$ -	\$ -	\$ 4,518,296	\$ 4,518,296	\$ 4,518,296
United States government securities	69,358,417	-	-	31,581,311	100,939,728	100,939,728
Domestic Equity securities	-	-	-	133,839,451	133,839,451	133,839,451
Corporate bonds	-	-	-	39,408,204	39,408,204	39,408,204
State and municipal government securities	-	-	-	4,681,567	4,681,567	4,681,567
Real Estate Investment Trusts	-	-	-	52,087,080	52,087,080	52,087,080
International securities	-	-	-	162,707,947	162,707,947	162,707,947
Total classified investments	69,358,417	-	-	428,823,856	498,182,273	498,182,273
Investments not categorized:						
Investments held by broker-dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States government securities	-	-	-	2,770,016	2,770,016	2,770,016
Domestic equity securities	-	-	-	18,709,844	18,709,844	18,709,844
Corporate bonds	-	-	-	7,235,416	7,235,416	7,235,416
Third parties holding cash collateral:						
Domestic equity securities	-	-	-	31,108	31,108	31,108
Investments in state treasurer's						
Investment pool	3,872,953	29,701,396	1,500,272	-	35,074,621	35,074,621
Total investments	\$ 73,231,370	\$ 29,701,396	\$ 1,500,272	\$ 457,570,240	\$ 562,003,278	\$ 562,003,278
Total deposits and investments	\$ 278,362,475	\$ 42,496,820	\$ 1,500,272	\$ 457,571,919		

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

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	\$ 124,547,268	\$ 12,219,680	\$ -	\$ 1,679
Investments	84,674,755	29,701,396	1,500,272	457,570,240
Unused bond proceeds	47,847,090	-	-	-
Bond funds	21,481,119	575,744	-	-
Other temporarily restricted assets	128,582	-	-	-
	<u>278,678,814</u>	<u>42,496,820</u>	<u>1,500,272</u>	<u>457,571,919</u>
Less accrued interest	(316,339)	-	-	-
Total deposits and investments	<u>\$ 278,362,475</u>	<u>\$ 42,496,820</u>	<u>\$ 1,500,272</u>	<u>\$ 457,571,919</u>

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 \$29,168,969 held by broker dealers. The contract with the Pension Trust Fund's custodian requires it to indemnify the Pension Trust Fund if the borrowers fail to return the borrowed securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan. Because collateral exceeds the fair value of securities lent, there is no credit risk exposure to the borrowers at June 30, 2011.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2011, 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	\$ 985,051	\$ 317	\$ 1,323,842	\$ -	\$ -	\$ -	\$ 2,309,210
Debt service fund	-	2,014	-	-	197,062	-	199,076
Capital projects fund	2,408	11,514	1,001,419	-	-	-	1,015,341
Special Revenue Funds:							
Miscellaneous Community							
Development Funds	-	-	396,075	-	-	-	396,075
Other governmental funds	876,463	679	4,177,178	-	-	-	5,054,320
Knoxville Convention Center	-	-	-	-	2,081,734	-	2,081,734
Other enterprise funds	-	-	-	267,111	-	-	267,111
Internal service funds	-	-	789,977	149,646	-	-	939,623
Total primary government	<u>1,863,922</u>	<u>14,524</u>	<u>7,688,491</u>	<u>416,757</u>	<u>2,278,796</u>	<u>-</u>	<u>12,262,490</u>
Component units:							
Knoxville Utilities Board	8,549,048	-	-	69,346,969	8,164,231	(1,106,488)	84,953,760
Metropolitan Knoxville							
Airport Authority	-	264,708	1,070,079	645,803	737,718	-	2,718,308
Knoxville Area Transit	-	-	6,915,047	-	-	-	6,915,047
Total reporting entity	<u>\$ 10,412,970</u>	<u>\$ 279,232</u>	<u>\$ 15,673,617</u>	<u>\$ 70,409,529</u>	<u>\$ 11,180,745</u>	<u>\$ (1,106,488)</u>	<u>\$ 106,849,605</u>
Fiduciary Activities:							
City Employees' Pension Trust Fund	\$ -	\$ 1,517,895	\$ -	\$ -	\$ 4,917	\$ -	\$ 1,522,812

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 6 - NOTES AND LEASES RECEIVABLE

Notes and leases receivable consisted of the following:

Governmental Funds:

Notes Receivable	
Debt Service Fund	\$ 1,595,500
Special Revenue fund - Miscellaneous Community Development Funds	16,963,923
Other Governmental Funds - Community Development Block Grant Funds	3,725,069
Total Notes Receivable	<u>22,284,492</u>

Proprietary Funds:

Lease Receivable - Public Assembly Facilities Fund	716,035
Total Notes and Lease Receivable	<u>\$ 23,000,527</u>

The \$1,595,500 due the Debt Service Fund is related to the Knoxville Community Development Corporation's ("KCDC") participation in the City's 2000A bond issue in the original amount of \$15,860,000. This bond issue was refunded and is now listed as the 2005A General Obligation Bond issue. \$2,540,000 of the bond issue was set aside for KCDC to use in a HOPE 6 project that needed additional funding. KCDC makes annual amortizing payments to the City which offset the net amount due by the City on the bonds.

The \$16,963,923 due the Miscellaneous Community Development Funds and the \$3,725,069 due the Community Development Block Grant Funds are notes due the City that were funded by Federal Community Development grant programs. The combined amount of \$20,688,992 is fully reserved as deferred revenue.

The Public Assembly Facilities Fund leases a portion of the exhibition center to an adjoining hotel. Components of the Public Assembly Facilities investment in the capitalized lease at June 30, 2011, are as follows:

Total minimum lease payments receivable	\$ 1,175,275
Less unearned income	(459,240)
Net investment in lease receivable	<u>\$ 716,035</u>

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

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2036. As of June 30, 2011, minimum future base rentals to be received on noncancellable leases are as follows:

Years ended June 30:	
2012	\$ 8,364,841
2013	8,218,119
2014	4,956,061
2015	2,091,626
2016	1,916,010
Thereafter	10,176,014
	<u>\$ 35,722,671</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 6 - NOTES AND LEASES RECEIVABLE (Continued)

Under the terms of one of the Metropolitan Knoxville Airport Authority leases, payments in future years increase significantly. The Authority recognizes income from this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately \$857,000 are included in other assets in the accompanying statement of net assets as of June 30, 2011. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$2,027,269 for the year ended June 30, 2011.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Primary Government				
Governmental activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 48,295,074	\$ 4,180,308	\$ (746,207)	\$ 51,729,175
Construction in progress	8,233,072	22,435,692	(24,421,473)	6,247,291
Total nondepreciable capital assets	<u>56,528,146</u>	<u>26,616,000</u>	<u>(25,167,680)</u>	<u>57,976,466</u>
<i>Depreciable:</i>				
Buildings and building improvements	56,997,744	903,266	(7,531)	57,893,479
Equipment, furniture and fixtures	70,735,380	8,615,250	(4,072,381)	75,278,249
Infrastructure	278,578,961	17,894,921	(79,787)	296,394,095
Total depreciable capital assets	<u>406,312,085</u>	<u>27,413,437</u>	<u>(4,159,699)</u>	<u>429,565,823</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(25,783,350)	(1,707,668)	7,531	(27,483,487)
Equipment, furniture and fixtures	(46,234,107)	(6,981,179)	3,787,485	(49,427,801)
Infrastructure	(122,515,147)	(10,977,504)	-	(133,492,651)
Total accumulated depreciation	<u>(194,532,604)</u>	<u>(19,666,351)</u>	<u>3,795,016</u>	<u>(210,403,939)</u>
Total depreciable capital assets, net	211,779,481	7,747,086	(364,683)	219,161,884
Governmental activities capital assets, net	<u>\$ 268,307,627</u>	<u>\$ 34,363,086</u>	<u>\$ (25,532,363)</u>	<u>\$ 277,138,350</u>
Business-type activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 6,866,363	\$ 405,283	\$ -	\$ 7,271,646
Artwork	764,875	-	-	764,875
Construction in progress	349,858	2,069,986	(1,422,091)	997,753
Total nondepreciable capital assets	<u>7,981,096</u>	<u>2,475,269</u>	<u>(1,422,091)</u>	<u>9,034,274</u>
<i>Depreciable:</i>				
Buildings and building improvements	222,315,167	653,020	-	222,968,187
Equipment, furniture and fixtures	4,661,158	421,616	(499)	5,082,275
Total depreciable capital assets	<u>226,976,325</u>	<u>1,074,636</u>	<u>(499)</u>	<u>228,050,462</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(68,893,938)	(5,545,235)	-	(74,439,173)
Equipment, furniture and fixtures	(3,074,196)	(609,232)	-	(3,683,428)
Total accumulated depreciation	<u>(71,968,134)</u>	<u>(6,154,467)</u>	<u>-</u>	<u>(78,122,601)</u>
Total depreciable capital assets, net	155,008,191	(5,079,831)	(499)	149,927,861
Business-type activities capital assets, net	<u>\$ 162,989,287</u>	<u>\$ (2,604,562)</u>	<u>\$ (1,422,590)</u>	<u>\$ 158,962,135</u>
Fiduciary activities:				
Knoxville Employees' Pension Plan				
<i>Depreciable: Equipment, furniture and fixtures</i>	\$ 41,772	\$ 8,902	\$ -	\$ 50,674
<i>Accumulated Depreciation</i>	(37,456)	(2,409)	-	(39,865)
Total Knoxville Employees' Pension Plan	<u>\$ 4,316</u>	<u>\$ 6,493</u>	<u>\$ -</u>	<u>\$ 10,809</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 7 - CAPITAL ASSETS (Continued)

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

<u>Governmental Activities</u>	
General Government	\$ 1,671,873
Public Safety	4,107,761
Physical Environment	10,939,180
Economic Development	153,606
Parks & Recreation	2,718,685
Health & Sanitation	75,246
	<u>\$ 19,666,351</u>
 <u>Business-type Activities</u>	
Knoxville Convention Center	\$ 4,592,049
Metro Parking	689,819
Public Assembly Facilities	713,109
Municipal Golf Courses	159,490
	<u>\$ 6,154,467</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for component units for the year ended June 30, 2011 was as follows:

Component Units	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Knoxville Utilities Board:				
<i>Nondepreciable: Construction in Progress</i>	\$ 112,485,827	\$ 103,052,892	\$ (107,686,357)	\$ 107,852,362
<i>Depreciable:</i>				
Pumping and treatment plant	192,390,322	18,537,804	(462,033)	210,466,093
Distribution & collection plant	1,359,134,257	86,261,234	(5,257,607)	1,440,137,884
General plant	116,733,640	5,886,626	(472,923)	122,147,343
Total depreciable assets	1,668,258,219	110,685,664	(6,192,563)	1,772,751,320
Accumulated depreciation	(571,228,037)	(45,187,309)	5,736,023	(610,679,323)
Total depreciable capital assets, net	1,097,030,182	65,498,355	(456,540)	1,162,071,997
Total Knoxville Utilities Board	\$ 1,209,516,009	\$ 168,551,247	\$ (108,142,897)	\$ 1,269,924,359
Metropolitan Knoxville Airport Authority:				
<i>Nondepreciable:</i>				
Land	\$ 22,755,147	\$ 8,279,408	\$ -	\$ 31,034,555
Construction in progress	29,460,082	7,467,151	(27,680,904)	9,246,329
Total nondepreciable capital assets	52,215,229	15,746,559	(27,680,904)	40,280,884
<i>Depreciable:</i>				
Land improvements	127,240,326	14,514,096	-	141,754,422
Buildings and building improvements	141,028,284	4,428,111	-	145,456,395
Equipment, furniture and fixtures	9,767,332	716,434	(433,093)	10,050,673
Total depreciable assets	278,035,942	19,658,641	(433,093)	297,261,490
<i>Accumulated depreciation:</i>				
Land improvements	(93,075,642)	(5,926,637)	-	(99,002,279)
Buildings and building improvements	(60,102,332)	(5,910,138)	-	(66,012,470)
Equipment, furniture and fixtures	(7,259,162)	(836,937)	397,889	(7,698,210)
Total accumulated depreciation	(160,437,136)	(12,673,712)	397,889	(172,712,959)
Total depreciable capital assets, net	117,598,806	6,984,929	(35,204)	124,548,531
Total Metropolitan Knoxville Airport Authority	\$ 169,814,035	\$ 22,731,488	\$ (27,716,108)	\$ 164,829,415
Knoxville Area Transit:				
<i>Nondepreciable:</i>				
Land	\$ 1,854,780	\$ -	\$ -	\$ 1,854,780
Artwork	-	14,000	-	14,000
Construction in progress	24,788,595	5,882,177	(28,132,727)	2,538,045
Total nondepreciable capital assets	26,643,375	5,896,177	(28,132,727)	4,406,825
<i>Depreciable:</i>				
Buildings and building improvements	5,227,767	25,154,192	-	30,381,959
Equipment, vehicles, furniture and fixtures	25,841,854	2,964,535	(1,238,245)	27,568,144
Total depreciable assets	31,069,621	28,118,727	(1,238,245)	57,950,103
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(2,820,647)	(898,947)	-	(3,719,594)
Equipment, vehicles, furniture and fixtures	(16,306,858)	(2,180,804)	1,228,498	(17,259,164)
Total accumulated depreciation	(19,127,505)	(3,079,751)	1,228,498	(20,978,758)
Total depreciable capital assets, net	11,942,116	25,038,976	(9,747)	36,971,345
Total Knoxville Area Transit	\$ 38,585,491	\$ 30,935,153	\$ (28,142,474)	\$ 41,378,170

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

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, 2011 is as follows:

	Due From Other Funds	Due to Other Funds	Internal Balances	Due From Component Units	Due to Primary Government
Governmental activities					
<i>General Fund</i>	\$ 141,702	\$ 3,809,402	\$ (3,667,700)	\$ -	\$ -
<i>Special Revenue Fund:</i>					
Abandoned Vehicle	-	294	(294)	-	-
Miscellaneous Special Revenue	-	40,034	(40,034)	-	-
Animal Control	-	461,402	(461,402)	-	-
Community Development Block Grants	1,861	2,255,297	(2,253,436)	-	-
City Inspections	-	22,401	(22,401)	-	-
City Court	554,131	-	554,131	-	-
Miscellaneous Grants	-	1,793,361	(1,793,361)	-	-
Solid Waste	-	674,989	(674,989)	-	-
Miscellaneous Community Development Funds	509,244	58,907	450,337	-	-
<i>Debt Service Fund</i>	-	126,444	(126,444)	-	-
<i>Capital Projects Fund</i>	7,230,876	-	7,230,876	-	-
Total governmental activities	<u>8,437,814</u>	<u>9,242,531</u>	<u>(804,717)</u>	<u>-</u>	<u>-</u>
Business-type activities					
Knoxville Convention Center	-	-	-	5,344,577	-
Public Assembly Facilities	1,150,127	-	1,150,127	998,915	-
Metro Parking	-	203,708	(203,708)	159,160	-
City Golf Courses	3,739	280,041	(276,302)	95,011	-
<i>Internal Service Funds:</i>					
Fleet Management	134,891	-	134,891	-	-
Risk Management	-	291	(291)	-	-
Total business-type activities	<u>1,288,757</u>	<u>484,040</u>	<u>804,717</u>	<u>6,597,663</u>	<u>-</u>
Component Units:					
Knoxville Area Transit	-	-	-	-	6,597,663
	<u>\$ 9,726,571</u>	<u>\$ 9,726,571</u>	<u>\$ -</u>	<u>\$ 6,597,663</u>	<u>\$ 6,597,663</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT

Bonds at June 30, 2011, are comprised of the following issues:

Primary Government	General Obligation Bonds		
	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%	\$ 24,555,000	\$ -	\$ 24,555,000
General Obligation Refunding Bonds, Series 2004B maturing through 2017 at varying rates of interest ranging from 4.0% to 5.5%	11,435,000	-	11,435,000
General Obligation Bonds Series 2009 - VI-L-1 through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	-	27,070,000	27,070,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2002A maturing through 2024 at varying rates of interest ranging from 3.5% to 5.0%	-	46,455,000	46,455,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	10,685,000	-	10,685,000
Total Primary Government	<u>\$ 46,675,000</u>	<u>\$ 133,495,000</u>	<u>\$ 180,170,000</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units:	Revenue Bonds
<i>Knoxville Utilities Board:</i>	
Electric Revenue Bonds Series T to Z, maturing through 2032 at varying rates of interest ranging from 1.45% to 6.35%	\$ 168,265,000
Water Revenue Bonds Series Q to V maturing through 2045 at varying rates of interest ranging from 2.0% to 5.5%	83,295,000
Gas Revenue Bonds Series K to P, maturing through 2045 at varying rates of interest ranging from 2.0% to 6.2%	92,725,000
Waste Water Revenue Bonds Series 2004A, 2005 A&B, 2007, 2008, 2010, 2010B, 2010C maturing through 2045 at varying rates of interest ranging from 1.18% to 6.1%	398,405,000
	<u>\$ 742,690,000</u>
<i>Metropolitan Knoxville Airport Authority:</i>	
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. The remaining principal bears interest at a synthetic rate of 5.29%	\$ 13,855,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. \$37,010,000 bears interest at a synthetic rate of 3.331%. The remaining principal bears interest at a variable rate (0.19% at June 30, 2011).	76,580,000
	<u>\$ 90,435,000</u>

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, 2011, these requirements had been satisfied.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

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

	Primary Government		General Obligation Bonds			
			Governmental		Business-type	
			Activities		Activities	
			Principal	Interest	Principal	Interest
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			4,850,000	1,543,690	4,255,000	5,842,990
2015			4,935,000	1,372,070	4,450,000	5,651,510
2016			5,050,000	1,163,470	4,655,000	5,449,670
2017-2021			15,555,000	3,278,730	26,745,000	23,814,100
2022-2026			6,855,000	565,370	33,960,000	16,628,780
2027-2031			-	-	42,020,000	7,943,420
2032-2033			-	-	9,435,000	424,580
			<u>46,675,000</u>	<u>\$ 11,554,700</u>	<u>133,495,000</u>	<u>\$ 77,976,110</u>
Unamortized premium			1,073,070		-	
Unamortized discounts			-		(864,610)	
Total	\$		<u>47,748,070</u>		<u>132,630,390</u>	

	Component Units		Revenue Bonds and Local Govt Public Improvement Bonds	
			Principal	Interest
2012		\$	23,325,000	\$ 35,495,277
2013			24,480,000	34,606,633
2014			25,290,000	33,791,643
2015			26,340,000	32,957,510
2016			27,530,000	31,995,156
2017-2021			154,700,000	143,490,671
2022-2026			184,550,000	109,504,032
2027-2031			150,360,000	73,745,779
2032-3036			83,925,000	46,260,189
3037-2041			86,625,000	25,533,875
2042-2045			46,000,000	6,470,000
			<u>833,125,000</u>	<u>\$ 573,850,765</u>
Unamortized deferred loss on refunding				(1,283,374)
Total		\$	<u>831,841,626</u>	

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

Interest Swap Agreements

Primary Government

On May 15, 2002, the City entered into a \$45,000,000 interest rate swap agreement with Wachovia First Union Bank. The intention of the agreement was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F bonds to a synthetic fixed rate. Principal payments on this agreement run through June 1, 2020. On December 16, 2009, the City refinanced the Series III-F loan as Series VI L-1 while maintaining the original III-F amortization schedule. The refinancing was done to achieve lower rates on the bonds by reissuing them without an insurance provision. The principal outstanding on these notes, subject to the swap agreement, as of June 30, 2011, is \$27,070,000.

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

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

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2011, were as follows:

<u>Associated Debt Issue</u>	<u>Outstanding Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Estimated Fair Value</u>	<u>Swap Term Date</u>	<u>Counter- party Credit Rating</u>
Business Type Activities							
General Obligation Bonds							
Series VI-L-1 through Public				70% of 1			
Building Authority of				Month			
Sevier County	\$45,000,000	12/16/2009	3.955%	LIBOR	(\$3,193,666)	6/1/2020	A+

Fair Value - As of June 30, 2011, the swap had a negative fair value of \$3,193,666. 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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

The current notional and fair value amounts of the outstanding swap as of June 30, 2011, were as follows.

Associated Debt Issue	Changes in Fair Value		Fair Value at June 30, 2011		June 30, 2011
	Classification	Amount	Classification	Amount	Notional Amount
Business-Type Activities					
Hedging Derivative					
Loan Payable to the Public	Deferred				
Building Authority of Sevier	Outflow of				
County - Series VI-L1	Resources	\$ 535,831	Debt	\$ 3,193,666	\$ 45,000,000

Credit Risk - As of June 30, 2011, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the derivative's fair value. During fiscal year 2009, Wells Fargo acquired Wachovia/First Union, thus assuming the swap agreement. This acquisition resulted in an improvement of the overall credit quality of the counterparty. As of June 30, 2011, the senior debt of Wells Fargo was rated A1 by Moody's Investor Services.

Basis Risk - The City is subject to basis risk as the variable interest payment the City receives from the counterparty is based upon LIBOR whereas the variable rate interest paid on the outstanding bonds is based upon BMA. This mismatch exposes the City to basis risk when the SIFMA increases to above 70% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the SIFMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. Normally the two indices track on a close basis. During the last half of the 2008 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 were insured by AMBAC and the financial uncertainty surrounding AMBAC. The City refinanced the Series III-F bonds on December 16, 2009, thereby removing the credit enhancement from the bonds and eliminating much of the basis risk.

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

For the year ending June 30,	Principal	Interest	Net Interest Rate Swap Payment	Total
2012	\$ 2,500,000	\$ 1,070,600	\$ (86,600)	\$ 3,484,000
2013	2,610,000	971,700	(78,600)	3,503,100
2014	2,730,000	868,500	(70,300)	3,528,200
2015	2,855,000	760,500	(61,500)	3,554,000
2016	2,990,000	647,600	(52,400)	3,585,200
2017-2020	13,385,000	1,353,100	(109,400)	14,628,700
	<u>\$ 27,070,000</u>	<u>\$ 5,672,000</u>	<u>\$ (458,800)</u>	<u>\$ 32,283,200</u>

Swap Payments and Associated Debt - As of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments for their terms are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Component units

Metropolitan Knoxville Airport Authority

The Authority recorded the fair value liability of its interest rate swaps which were \$6,690,376, along with a related deferred outflows asset. The fair values were determined by an independent third-party advisory firm from a model that measures the statistical relationship between the fair value or cash flows of the potential hedging derivative and the hedgeable item.

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

The terms and fair values of the outstanding swaps as of June 30, 2010, are as follows:

Associated Bond Issues	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Estimated Fair Value	Swap Term Date
				SIFMA Municipal Swap Index		
Series II-D-1	\$13,855,000	9/8/2000	5.29%		(\$2,864,555)	6/1/2026
				62.5% of 5 Year LIBOR		
Series V-A-1	\$37,010,000	6/28/2001	4.36%		(\$3,825,821)	6/1/2021
	<u>\$50,865,000</u>				<u>(\$6,690,376)</u>	

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

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

Credit Risk - As of June 30, 2011, the Authority is not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. For the swap associated with Series II-D-1 bonds, the swap counterparty was unrated at the time of the swap. In order to mitigate the potential for credit risk, the Authority received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service at the time the interest rate swap agreement was entered. As of June 30, 2011, Ambac's credit rating has been severely downgraded and has been withdrawn by the rating agencies. For the swap associated with Series V-A-1 bonds, the swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2011, with its Credit Support Provider, Deutsche Bank, rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Both counterparties have posted all collateral requirements with third-party custodians.

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

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

Swap payments and associated debt - As of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2012	\$ 3,575,000	\$ 1,076,033	\$ 951,940	\$ 5,602,973
2013	3,755,000	1,028,308	867,776	5,651,084
2014	3,950,000	977,911	779,546	5,707,457
2015	4,155,000	924,484	687,022	5,766,506
2016	4,365,000	867,715	590,114	5,822,829
2017-2021	25,435,000	3,359,078	1,329,174	30,123,252
2022-2026	32,520,000	1,321,476	(226,661)	33,614,815
2027-2029	12,680,000	34,047	0	12,714,047
Total	\$ 90,435,000	\$ 9,589,052	\$ 4,978,911	\$ 105,002,963

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

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

Advance and Current Refundings

Component units

Knoxville Utilities Board

KUB's Electric Division issued Series T 2001 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on 1993 Series Q Revenue bonds and 1995 Series R Revenue bonds, as such amounts mature. In fiscal year 2001, KUB's Electric Division issued Series U 2001 bonds to fund electric system capital improvements. During fiscal year 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series S 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 revenue bonds. During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. During fiscal year 2011, KUB's Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. The outstanding principal balances on defeased bond issues were \$70.3 million at June 30, 2011.

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 2010, Series I 2001 was defeased with the issuance of Series O 2010 bonds. During fiscal year 2002, 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. During fiscal year 2010, KUB issued Series O 2010 bonds to retire Series I 2001 bonds. During fiscal year 2011, KUB issued Series P 2010 bonds to fund gas system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. The outstanding principal balances on defeased bond issues were \$54.2 million at June 30, 2011.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

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 2010, Series O 2001 was defeased with the issuance of Series V 2010 bonds. 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. During fiscal year 2010, KUB issued Series U 2009 bonds to fund water system capital improvements. KUB's Water Division also issued Series V 2010 bonds to retire Series O 2001 bonds. The outstanding principal balances on defeased bond issues were \$15.6 million at June 30, 2011.

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. During fiscal year 2010, Series 2001 was defeased with the issuance of Series 2010B. 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. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued line of credit, and to fund Wastewater capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, the Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. During fiscal year 2011, the Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. The outstanding principal balances on defeased bond issues were \$27 million at June 30, 2011.

Metropolitan Knoxville Airport Authority

During 2009 the Authority issued Series V-A-1 bonds. Proceeds totaling \$83,880,000 were used to refund the remaining balance of the Series III-A bonds, resulting in a loss of \$1,214,365 on the refunding, which has been deferred and is being amortized over the remaining lives of the respective refunded bonds. The remaining proceeds were used to pay bond issue costs of \$765,000, which are being amortized over the life of the bonds. In connection with the Series V-A-1 bonds, the Authority has entered into a Reimbursement Agreement with Branch Banking and Trust Company who has issued an irrevocable letter of credit in an amount not to exceed \$85,758,140 set to expire March 2013.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

Other Agreements

Primary Government

In fiscal year 2008, the City purchased land for the municipal golf course. Three annual 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.

2012	\$	12,500
2013		65,000
	\$	<u>77,500</u>

Capital Leases

Primary Government

In fiscal year 2009, the City entered into a lease agreement as lessee for financing the acquisition of grounds equipment for the municipal golf course. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The assets acquired through the capital lease have a net book value of \$165,431.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2011 were as follows:

2012	\$	83,517
2013		83,517
2014		20,879
Total minimum future lease payments		<u>187,913</u>
Less: amount representing interest		(8,667)
Present value of minimum lease payments	\$	<u>179,246</u>

In fiscal year 2010, the City entered into a 15 year lease purchase agreement for energy efficiency upgrades and equipment for the majority of the City owned facilities. The terms of the agreement require total lease payments of \$19,082,061 including interest at 3.97%. Title to the upgrades and equipment transfers to the City immediately upon acceptance of each upgrade or item of equipment. The entire amount of the lease purchase agreement was placed in escrow. Invoices are submitted for payment and once approved and accepted by the City the invoice is paid from the escrow funds. The balance in the escrow account as of June 30, 2011 was \$4,107,889 which is included in cash in the capital projects fund. Interest accrues upon signing of the lease, but payments do not begin until January 30, 2012. The City capitalized \$483,297 as construction in progress for the initial upgrades that will meet the City's capital assets threshold.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2011 were as follows:

2012	\$ 576,774
2013	1,176,774
2014	1,224,156
2015	1,273,434
2016	1,324,680
2017-2021	7,445,454
2022-2025	6,060,789
Total minimum future lease payments	<u>19,082,061</u>
Less: amount representing interest	(5,611,452)
Present value of minimum lease payments	<u>\$ 13,470,609</u>

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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

The following schedule is a summary of the changes in long-term debt (including current amounts) for the year ended June 30, 2011:

	Balance June 30, 2010	Additions and Transfers	Reductions and Transfers	Balance June 30, 2011	Due Within One Year
Primary Government					
Government Activities:					
General obligation bonds	\$ 51,235,000	\$ -	\$ 4,560,000	\$ 46,675,000	\$ 4,660,000
Debt participation agreement	1,017,290	-	1,017,290	-	-
Capital lease	13,470,609	-	-	13,470,609	3,583
	<u>65,722,899</u>	<u>-</u>	<u>5,577,290</u>	<u>60,145,609</u>	<u>4,663,583</u>
Add deferred amounts for issuance premiums	1,178,448	-	105,378	1,073,070	105,378
	<u>66,901,347</u>	<u>-</u>	<u>5,682,668</u>	<u>61,218,679</u>	<u>4,768,961</u>
Compensated absences payable	7,755,837	7,195,964	6,730,761	8,221,040	6,645,293
Total governmental activities long-term liabilities	<u>\$ 74,657,184</u>	<u>\$ 7,195,964</u>	<u>\$ 12,413,429</u>	<u>\$ 69,439,719</u>	<u>\$ 11,414,254</u>
Business-type Activities					
General obligation bonds	\$ 137,230,000	\$ -	\$ 3,735,000	\$ 133,495,000	\$ 3,900,000
Less deferred amounts for issuance discounts	(928,763)	-	(64,153)	(864,610)	(64,153)
	<u>136,301,237</u>	<u>-</u>	<u>3,670,847</u>	<u>132,630,390</u>	<u>3,835,847</u>
Note payable	90,000	-	12,500	77,500	12,500
Capital lease	253,783	-	74,537	179,246	77,637
Compensated absences payable	142,279	85,040	79,704	147,615	80,000
Total business-type activities long-term liabilities	<u>\$ 136,787,299</u>	<u>\$ 85,040</u>	<u>\$ 3,837,588</u>	<u>\$ 133,034,751</u>	<u>\$ 4,005,984</u>

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$145,293 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

All bonds and loans are backed by the full faith and credit of the City. In addition to the primary pledge of property taxes, the City has pledged convention center revenues net of operating expenses (if any) as a secondary pledge to repay the \$59.97 million TN Series A-4-A long-term debt issue used to construct the center. For the year ended June 30, 2011, principal and interest payments on all debt issues were approximately 16 percent of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately \$270.8 million, based on market interest rates effective on June 30, 2011.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Knoxville Utilities Board:					
Revenue bonds	\$ 647,060,000	\$ 112,000,000	\$ 16,370,000	\$ 742,690,000	\$ 19,750,000
TVA conservation program	6,431,866	4,018,839	2,251,646	8,199,059	1,500,000
Accrued compensated absences	8,627,975	14,770,859	15,179,151	8,219,683	2,600,000
Customer advances for construction	1,088,805	835,540	472,475	1,451,870	151,000
Supplemental environmental project	300,000	-	150,000	150,000	150,000
Other	2,340,373	444,980	921,336	1,864,017	276,000
Total Knoxville Utilities Board	<u>665,849,019</u>	<u>132,070,218</u>	<u>35,344,608</u>	<u>762,574,629</u>	<u>24,427,000</u>
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	93,835,000	-	3,400,000	90,435,000	3,575,000
Less deferred amounts for loss on refunding	<u>(1,420,048)</u>	<u>-</u>	<u>(136,674)</u>	<u>(1,283,374)</u>	<u>-</u>
Total Metropolitan Knoxville Airport Authority	<u>92,414,952</u>	<u>-</u>	<u>3,263,326</u>	<u>89,151,626</u>	<u>3,575,000</u>
Total component units	<u>\$ 758,263,971</u>	<u>\$ 132,070,218</u>	<u>\$ 38,607,934</u>	<u>\$ 851,726,255</u>	<u>\$ 28,002,000</u>

Conduit Debt

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

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

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Northwest's parent company, Northwest Airlines Corporation, are the only security for the bondholders. The entire amount of the bonds was outstanding at June 30, 2011.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

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, 2011 were \$2,129,922.

Component Units

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

	Operating Leases
2012	\$ 40,790
2013	19,658
2014	17,033
2015	14,557
Total	<u>\$ 92,038</u>

NOTE 11 - FUND BALANCES AND PRIOR PERIOD ADJUSTMENT AND RECLASSIFICATION DUE TO ADOPTION OF NEW ACCOUNTING STANDARD

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* changes the terminology of fund balance descriptions and the definitions within governmental funds. In addition, GASB statement No. 54 also changes the criteria for the creation and financial reporting of individual special revenue funds. As a result, certain funds or portions of special revenues funds were reclassified to either the general fund or the public assembly facilities fund as of July 1, 2010. The beginning of year fund balances as of July 1, 2010 of the following major and non-major governmental and enterprise funds were restated as shown below:

	Fund Balance/Net Assets Beginning of Year as Originally Reported	Effect of New Accounting Standard	Fund Balance/Net Assets Beginning of Year, as Restated
Major Funds:			
General Fund	\$ 60,663,692	\$ 217,869	\$ 60,881,561
Nonmajor Funds:			
Special Revenue Funds:			
Miscellaneous Special Revenue Funds	10,726,826	(432,390)	10,294,436
Enterprise Fund:			
Public Assembly Facilities	15,717,384	214,521	15,931,905

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 11 - FUND BALANCES AND PRIOR PERIOD ADJUSTMENT AND RECLASSIFICATION DUE TO ADOPTION OF NEW ACCOUNTING STANDARD – Continued

Detail fund balances are as follows:

	Special Revenue Funds					
	Miscellaneous					
	Community					
	Development					
	General	Debt	Capital		Other Funds	Total
	Fund	Service	Projects	Fund		
Fund Balances:		Fund	Fund			
Nonspendable:						
Inventory	\$ 346,784	\$ -	\$ -	\$ 212,632	\$ 31,586	\$ 591,002
Prepays	78,502	-	-	-	-	78,502
Permanent Fund Principal	-	-	-	-	624,065	624,065
Restricted for:						
Revenue Reserve	1,725,000	-	-	-	-	1,725,000
Debt Service Reserves	-	42,531,990	-	-	-	42,531,990
Building Improvements	-	-	3,279,424	-	-	3,279,424
Street Improvements	-	-	-	-	3,046,481	3,046,481
Community Development	-	-	-	1,538,535	94,636	1,633,171
Emergency Preparedness	-	-	-	-	123,275	123,275
Finance & Accountability	109,913	-	-	-	-	109,913
Fire & Safety	22,745	-	-	-	-	22,745
Law Enforcement	38,355	-	-	-	8,866,560	8,904,915
Traffic Safety	-	-	-	-	421,094	421,094
Parks & Recreation	5,273	-	-	-	-	5,273
Public Works	67,112	-	-	-	3,131	70,243
Law Department	20,833	-	-	-	-	20,833
Solid Waste Operations	-	-	-	-	4,818,392	4,818,392
Krutch Park	-	-	-	-	242,858	242,858
Committed to:						
Economic Stabilization	34,435,594	-	-	-	-	34,435,594
Other Capital Projects	-	-	65,118,140	-	-	65,118,140
Abandoned Vehicle Operations	-	-	-	-	1,970,659	1,970,659
City Inspections Operations	-	-	-	-	247,930	247,930
City Court Operations	-	-	-	-	1,093,424	1,093,424
Animal Control Operations	-	-	-	-	461,869	461,869
Beer Board	-	-	-	-	117,417	117,417
Finance & Accountability	105,256	-	-	-	-	105,256
Fire & Safety	14,877	-	-	-	7,709	22,586
Law Enforcement	35,310	-	-	-	65,869	101,179
Safety City	-	-	-	-	1,551,307	1,551,307
Parks & Recreation	17,421	-	-	-	125,162	142,583
Public Works	20,359	-	-	-	-	20,359
Law Department	1,384	-	-	-	-	1,384
Storm Water Operations	-	-	-	-	661,083	661,083
Community Development	-	-	-	1,631	2,588,832	2,590,463
Assigned to:						
Administration	10,543	-	-	-	-	10,543
Community Development	87,227	-	-	-	-	87,227
Parks & Recreation	133,195	-	-	-	-	133,195
Unassigned:	27,987,982	-	-	-	-	27,987,982
Total Fund Balances	\$ 65,263,665	\$ 42,531,990	\$ 68,397,564	\$ 1,752,798	\$ 27,163,339	\$ 205,109,356

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 12 - RISK MANAGEMENT

Primary Government

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

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

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

Health Insurance Fund

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

	2011	2010
Claims liability, beginning of year	\$ 1,000,000	\$ 1,000,000
Provision for incurred claims	10,847,331	10,564,686
Payments made on claims	(10,847,331)	(10,564,686)
Claims liability, end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund, to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of \$9,200,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities as of June 30, 2011.

An analysis of claims activity for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Claims liability, beginning of year	\$ 8,500,000	\$ 8,500,000
Provision for incurred claims	4,174,655	3,760,464
Payments made on claims	(3,474,655)	(3,760,464)
Claims liability, end of year	<u>\$ 9,200,000</u>	<u>\$ 8,500,000</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 12 - RISK MANAGEMENT (Continued)

Additionally, the City's attorney believes that there is a possible liability to the City of approximately \$2,270,500 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, 2011, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10. The current portion of the claims liability is estimated to be \$5 million.

Component units

Knoxville Utilities Board

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

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

On December 9, 2009, a home explosion accident occurred that resulted in the death of one person, bodily injury to others and damage to one or more homes in the area. The maximum potential exposure to KUB for the claims arising out of this accident was \$700,000, the amount of KUB's self-insured retention under its excess liability insurance policy. This amount was fully recognized as of June 30, 2010. All claims related to the incident were settled in fiscal year 2011.

At June 30, 2011, the amount of these liabilities was \$2,175,294. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Claims liability, beginning of year	\$ 2,185,831	\$ 2,072,942
Provision for incurred claims	22,721,716	23,906,167
Payments made on claims	(22,732,253)	(23,793,278)
Claims liability, end of year	<u>\$ 2,175,294</u>	<u>\$ 2,185,831</u>

Metropolitan Knoxville Airport Authority

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 13 - JOINT VENTURES

Public Building Authority

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

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

Knoxville, Knox County, KUB Geographic Information Systems

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

Knoxville-Knox County Animal Center

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

NOTE 14 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Knoxville Zoo - The City entered into a new agreement on July 1, 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 \$900,000 by August 1 each year through 2011.

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 14 - MANAGEMENT AGREEMENTS (Continued)

Parking Garages - The City entered into an agreement with the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) on August 11, 2005 to manage and operate the State Street, Main Avenue, and Market Square Parking Garages and the Jackson Avenue Parking Lot. The terms of the agreement shall continue until terminated by either party. The terms call for the City and PBA to agree upon an annual budget for the management of the above, said budget to cover direct and indirect costs of PBA relating to the management of the facilities. The amount of this budget in fiscal year 2011 is \$1,966,070.

IJAMS Nature Park - The City has entered into various agreements with the IJAMS Nature Park over the years whereby IJAMS will provide management and operation of a nature park. The current three year agreement commenced September 1, 2007 and calls for an annual management fee of \$109,250 to be paid to IJAMS.

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal Financial Assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2011 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, 2011:

	Spent to Date	Contractual Commitment Remaining at June 30, 2011
Bridge Maintenance Program	\$ 1,843,572	\$ 651,855
Drainage Improvements	1,644,435	184,158
Information Systems Upgrades	588,591	544,578
Miscellaneous Equipment Acquisition	308,063	91,646
Parks Improvements	1,863,519	416,377
Paving Program	5,186,881	1,983,197
Redevelopment Program	861,462	61,109
Roadway Improvements	4,558,027	2,171,759
South Knoxville Waterfront	1,894,704	250,237
Total	<u>\$ 18,749,254</u>	<u>\$ 6,354,916</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Knoxville Utilities Board

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

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of over-recovered costs was \$1,067,074 at June 30, 2011.

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.

TVA implemented a fuel cost adjustment (FCA) 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 for each quarterly adjustment in fiscal year 2009. TVA's quarterly fuel cost adjustment became a monthly fuel cost adjustment effective October 2009. KUB flowed FCA changes to wholesale power rates directly through to its retail electric rates via its purchased power adjustment in July 2009 and each remaining month of the fiscal year beginning October 2009.

In, October 2009, TVA increased its wholesale power rates by eight percent to recover expenses from the Kingston Fossil Plant coal ash spill in December 2008. TVA reduced the monthly fuel cost adjustment in October 2009, thereby reducing the impact of the base rate increase. KUB passed these rate changes to its retail electric rates via the purchased power adjustment.

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

Natural Gas Supply Contract Commitments - For the year ended June 30, 2011, the Gas Division of the Knoxville Utilities Board locked the price on 61% of its total gas purchases via gas supply contracts. As of June 30, 2011, the Gas Division had hedged the price on approximately 14% of its anticipated gas purchases for fiscal year 2012.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

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:

	2012	2013	2014	2015	2016
Demand:					
Transportation	\$ 19,768,339	\$ 19,277,929	\$ 19,277,929	\$ 19,277,929	\$ 19,277,929
Storage	4,498,544	4,498,544	3,517,644	3,517,644	2,952,584
Demand total	<u>\$ 24,266,883</u>	<u>\$ 23,776,473</u>	<u>\$ 22,795,573</u>	<u>\$ 22,795,573</u>	<u>\$ 22,230,513</u>
Commodity:					
Baseload	<u>\$ 11,740,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for BP Energy, Conoco, and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the Equitable contract is based upon firm supply obligations at locked prices and the applicable four month New York Mercantile Exchange ("NYMEX") strip prices at August 4, 2011.

Other Commitments and Contingencies

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

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

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

During fiscal year 2006, KUB launched the Private Lateral Program (PLP), as required by the Consent Decree, under which KUB tests private collection system laterals on its wastewater system over a ten-year period. Defective laterals and improper connections can introduce rainwater overloading the wastewater system and add pollution to area waterways. If a private lateral fails the respective inspection test, then the customer is required to have the lateral repaired/replaced within a specified time period. The \$2 million SEP provides funding for lateral repairs/replacements for eligible low-income customers. A \$1.7 million liability was accrued in May 2006 for the SEP. During 2011, KUB funded \$1.5 million, thereby reducing the liability to \$200 thousand.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

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

NOTE 16 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on three major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for \$3,414,440 in aviation area revenue during 2011. In addition, a significant portion of terminal area revenue is directly and indirectly generated from this airline's passengers, which accounted for approximately 84% of total passengers during 2011. As of June 30, 2011, 27% of trade accounts receivable are due from these major airlines.

NOTE 17 - TRANSFERS

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2011

NOTE 17 - TRANSFERS (Continued)

A detailed reconciliation of operating transfers at June 30, 2011 is as follows:

Transfers To:	Transfers From:										Business Type Activities	Internal Service Funds	Total
	Governmental Activities												
	General Fund	Debt Service	Capital Projects	State Street Aid	Abandoned Vehicles	City Court	Misc. Spec. Rev. Grants	Stormwater	Misc. Grants	Public Assembly Facilities			
Primary Government:													
Governmental Activities:													
General Fund	\$ -	\$ -	\$ 1,301,212	\$ -	\$ -	\$ 3,727,320	\$ -	\$ -	\$ 406	\$ -	\$ -	\$ -	\$ 5,028,938
Debt Service Fund	3,500,000	-	-	-	-	-	-	-	-	-	-	-	3,500,000
Capital Projects Fund	200,000	17,518,520	-	596,000	59,080	-	716,480	-	-	-	-	90,000	19,180,080
Abandoned Vehicles	4,510	-	-	-	-	-	-	-	-	-	-	-	4,510
Animal Control	-	-	6,631	-	-	-	-	-	-	-	-	-	6,631
City Inspections	830,830	-	-	-	-	-	-	-	-	-	-	-	830,830
Miscellaneous Special Revenue	-	-	8,336	-	-	-	-	-	-	-	-	-	8,336
Miscellaneous Grants	67,730	-	-	-	-	-	-	-	-	-	-	-	67,730
Storm Water	2,321,050	-	-	-	-	-	-	-	-	-	-	-	2,321,050
Solid Waste	8,779,380	-	-	-	-	-	-	-	-	-	-	-	8,779,380
Business-type Activities:													
Metro Parking	3,500,000	-	910,803	-	-	-	-	-	-	-	-	-	4,410,803
Convention Center	3,679,614	535,650	2,040,480	-	-	-	-	-	-	-	-	-	6,255,744
Public Assembly Facilities	2,417,300	870,000	1,870,442	-	-	-	-	-	-	-	-	-	5,157,742
City Golf Courses	145,535	-	398,229	-	-	-	-	-	-	-	-	-	543,764
Internal Service Funds:													
Fleet Maintenance	1,234,780	883,000	-	-	-	-	-	-	-	16,426	-	-	2,134,206
Risk Management	426,020	-	-	-	-	-	-	-	-	-	-	-	426,020
Health Insurance	896,090	-	501	-	-	-	-	-	-	-	-	-	896,591
Equipment Replacement	29,541	-	191,683	-	2,342	-	11,710	1,400	-	-	1,341	-	238,017
City Buildings	-	-	929,792	-	-	-	-	-	-	-	-	-	929,792
	\$ 28,032,380	\$ 19,807,170	\$ 7,658,109	\$ 596,000	\$ 61,422	\$ 3,727,320	\$ 728,190	\$ 1,400	\$ 406	\$ 16,426	\$ 1,341	\$ 90,000	\$ 60,720,164

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 18 - RETIREMENT AND DISABILITY PLANS

Defined Benefit Pension Plans

City of Knoxville Pension System

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

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Board of Education Division - The City of Knoxville School System was abolished effective July 1, 1987 and absorbed into the operations of the Knox County School System. A court ruling has held and the Tennessee Court of Appeals has affirmed that the City is liable for the accrued pension liability, through June 30, 1987, for those former City School employees who remain in the City of Knoxville Pension System. Because of the abolition of the City School System, the Board of Education Division of the City of Knoxville Pension System has, in substance, been terminated. The City is responsible for any unfunded pension liability for the benefits that former City School employees would be entitled to if their earned benefits were frozen at July 1, 1987. A contribution was made for this department of \$259,822 for 2011.

At July 1, 2010, the Plan had 2,159 retirees and beneficiaries currently receiving benefits and 30 employees currently participating in the Delayed Retirement Option Program (DROP) and 95 deferred vested participants. Of the approximately 1,468 active employees in the Plan, 1,103 were fully vested at July 1, 2010. 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, 2011 and 2010 (without Board of Education amounts) amounted to approximately \$64,309,770 and \$63,977,132 respectively.

Employer contributions, excluding Board of Education contributions, and percentages of employer-covered payroll for the years ended June 30, 2011 and 2010 were as follows:

	2011		2010	
	Amount	Rate - %	Amount	Rate - %
Uniformed Police and Fire	\$ 5,955,571	18.43%	\$ 5,020,898	15.61%
General Government Contribution	3,024,382	9.51%	2,336,728	7.38%
Division G Matching Contribution	266,358	0.84%	265,418	0.84%
Board of Education	259,822	N/A	0	N/A
Total	<u>\$ 9,506,133</u>		<u>\$ 7,623,044</u>	

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Funded Status

The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of July 1, 2011, the most recent actuarial valuation date, the plan was 86.1% funded. The actuarial accrued liability for benefits was \$595.6 million, and the actuarial value of assets was \$512.8 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$82.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$64.3 million, and the ratio of the UAAL to the covered payroll was 128.7%.

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, 2011, 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, 2011 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.

Fiscal Year Ending	Annual Pension Percentage of APC		Net Pension Obligation
	Cost (APC)	Contributed	
June 30, 2011	\$ 9,291,361	99%	\$ (2,889,856)
June 30, 2010	7,385,670	100%	(2,941,343)
June 30, 2009	6,935,152	100%	(2,968,521)

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:

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Net Pension Obligation

The calculation of the net pension obligation is as follows for June 30, 2011:

⁽¹⁾ Determination of Annual Pension Cost / Net Pension Obligation for 2011

Annual required contribution (with interest to middle of year)	\$ 5,973,303
Interest on net pension obligation	(235,307)
Adjustment to annual required contribution	269,062
Annual pension cost	<u>6,007,058</u>
Contributions made	<u>(5,955,571)</u>
Increase in net pension obligation	51,487
Net pension obligation beginning of year	(2,941,343)
Net pension obligation end of year	<u>\$ (2,889,856)</u>

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

Component Units

Knoxville Utilities Board Pension Plan

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

At December 31, 2010, the Plan had 659 retirees and beneficiaries currently receiving benefits and 53 terminated employees entitled to benefits but not yet receiving them. Of the approximately 916 current employees in the Plan, 711 were fully vested at December 31, 2010. 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.

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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

Knoxville Utilities Board Pension Plan (Continued)

Plan A

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

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

Plan B

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

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

Funding Policy and Annual Pension Costs

The Plan has adopted the use of the individual entry age normal method effective with the December 2007 valuation. As of December 31, 2010, the most recent actuarial valuation date, the plan was 104.5% funded. The actuarial accrued liability for benefits was \$187.3 million, and the actuarial value of assets was \$195.7 million, resulting in an overfunded actuarial accrued asset (UAAL) of \$8.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$47.4 million, and the ratio of the UAAL to the covered payroll was -17.8 %.

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

For the plan year ended December 31, 2010 the actuarial-accrued liability for the Plan was less than the actuarial value of assets; however, a contribution of \$3,244,057 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, 2011. The annual required contribution was determined as part of the January 1, 2008 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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Benefit Pension Plans (Continued)

Knoxville Utilities Board Pension Plan (Continued)

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8%, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58% to 7.92%, and (d) cost of living adjustment of 4% in 2001 and 3% annually for years 2002 through 2009, and 2.8% for 2010. 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.

KUB has closed its Defined Benefit Pension Plan to all employees hired on or after January 1, 2011.

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, 2010	\$ 3,244,057	100%
December 31, 2009	5,540,720	100%
December 31, 2008	194,031	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, 2011, 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.

To partially offset the closure of the Defined Benefit Pension Plan to all employees hired on or after January 1, 2011, KUB implemented enhancements to its Defined Contribution (401-k) Plan, also effective January 1, 2011.

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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 18 - RETIREMENT AND DISABILITY PLANS (Continued)

Defined Contribution Plans (Continued)

Metropolitan Knoxville Airport Authority (Continued)

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled \$752,741 in 2011. There were no employee contributions in 2011.

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 \$379,329 in 2011. Employee contributions totaled \$501,738 in 2011.

Deferred Compensation Plans

Primary Government

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

Component Unit

Metropolitan Knoxville Airport Authority

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The Plan, available to all Authority employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were \$109,572 in 2011.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

NOTE 19 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

Primary government

Plan Description

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

Funding Policies

The contribution requirements of the Plan members and City are established and may be amended by the Health Insurance Fund. The required contribution is based on projected pay-as-you-go financing requirements whereby contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. The City contributes 40% of the premium payments and the retirees contribute 60%. For the fiscal year ended June 30, 2011, the City and the retirees contributed \$475,180 and \$842,699, respectively.

Annual OPEB Cost and Net OPEB Obligation

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

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

For the City for June 30, 2011 the City's annual OPEB cost of \$1,317,879 was equal to the required contribution. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 1,317,879	100.00%	\$ -
June 30, 2010	1,413,425	100.00%	-
June 30, 2009	1,582,758	100.00%	-

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

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

Primary government (Continued)

Funded Status and Funding Progress

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

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

Actuarial Valuations, Methods and Assumptions

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

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

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

Component Units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 639 former employees and 666 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2011, 492 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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2011

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

Component Units (Continued)

Knoxville Utilities Board (Continued)

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

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

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

An actuarial study was completed in 2010 to determine KUB's actuarial accrued liability for post-employment health care benefits. The present value of the unfunded actuarial accrued OPEB liability is \$58 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 2011 was \$9.7 million.

As of January 1, 2010, the most recent actuarial valuation date, the plan was 36% funded. The actuarial accrued liability for benefits was \$58.5 million, and the actuarial value of assets was \$21.3 million, resulting in an underfunded actuarial accrued asset (UAAL) of \$37.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$30.1 million, and the ratio of the UAAL to the covered payroll was 123.7 %.

Actual contributions for FY 2011 totaled \$6.7 million, including \$0.2 million in deposits to the Trust for future claims and \$6.5 million in actual claim payments. As a result, KUB's unfunded liability as of June 30, 2011 was \$5.4 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 20 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	\$ 11,678,173
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	12,899,181
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	1,217,819
Subsidies paid by the City to Knoxville Area Transit	9,492,925

CITY OF KNOXVILLE
Required Supplementary Information
June 30, 2011

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, 2011 \$	512,823,411	\$ 595,595,409	\$ 82,771,998	86.1%	\$ 64,309,770	128.7%
July 1, 2010	512,943,851	578,180,826	65,236,975	88.7%	63,977,132	102.0%
July 1, 2009	523,121,786	561,660,015	38,538,229	93.1%	60,585,868	63.6%
July 1, 2008	524,596,859	544,826,299	20,229,440	96.3%	58,226,253	34.7%
July 1, 2007	509,837,414	528,228,802	18,391,388	96.5%	56,599,723	32.5%

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

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

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

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011 \$	0	\$ 13,192,062	\$ 13,192,062	0.0%	\$ 66,027,397	20.0%
July 1, 2010	0	12,968,732	12,968,732	0.0%	63,402,532	20.5%
July 1, 2009	0	15,445,521	15,445,521	0.0%	58,946,845	26.2%
July 1, 2008	0	15,524,797	15,524,797	0.0%	58,215,528	26.7%
July 1, 2007	0	17,704,000	17,704,000	0.0%	55,396,816	32.0%

CITY OF KNOXVILLE
Required Supplementary Information
June 30, 2011

Schedule of Funding Progress - Knoxville Utilities Board Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2010	\$ 195,692,781	\$ 187,257,434	\$ (8,435,347)	104.5%	\$ 47,405,874	-17.8%
December 31, 2009	203,704,898	190,679,453	(13,025,445)	106.8%	48,228,428	-27.0%
December 31, 2008	183,447,296	194,366,597	10,919,301	94.4%	49,602,223	22.0%
December 31, 2007	236,826,472	194,079,348	(42,747,124)	122.0%	46,314,258	-92.3%
December 31, 2006	229,076,421	192,542,020	(36,534,401)	119.0%	43,054,244	-84.9%
December 31, 2005	232,628,277	200,317,475	(32,310,802)	116.1%	43,064,519	-75.0%

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

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2010	\$ 21,275,643	\$ 58,475,364	\$ 37,199,721	36.4%	\$ 30,069,028	123.7%
January 1, 2009	14,593,487	100,726,738	86,133,251	14.5%	31,846,091	270.5%
January 1, 2008	-	108,329,141	108,329,141	0.0%	31,234,509	346.8%

Nonmajor Governmental Funds

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

Special Revenue Funds

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

Permanent Fund

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

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Assets						
Cash & cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 9,617	\$ 971,869
Investments	2,510,460	-	2,029,732	374,484	584,319	-
Accounts receivable	829,407	2,640,485	697	7,801	30,946	1,469,817
Notes receivable	-	3,725,069	-	-	-	-
Due from other funds	-	1,861	-	-	554,131	-
Inventories	-	31,586	-	-	-	-
Total assets	\$ 3,339,867	\$ 6,399,001	\$ 2,030,429	\$ 382,285	\$ 1,179,013	\$ 2,441,686
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 293,386	\$ 316,867	\$ 38,917	\$ 3,334	\$ 47,991	\$ 241,767
Accrued liabilities	-	44,664	20,559	108,620	37,598	42,903
Customer deposits	-	25,518	-	-	-	-
Due to other funds	-	2,255,297	294	22,401	-	1,793,361
Due to other governmental agencies	-	-	-	-	-	-
Deferred revenue	-	3,725,069	-	-	-	30,459
Total liabilities	293,386	6,367,415	59,770	134,355	85,589	2,108,490
Fund balances:						
Nonspendable	-	31,586	-	-	-	-
Restricted	3,046,481	-	-	-	-	333,196
Committed	-	-	1,970,659	247,930	1,093,424	-
Total fund balances	3,046,481	31,586	1,970,659	247,930	1,093,424	333,196
Total liabilities and fund balances	\$ 3,339,867	\$ 6,399,001	\$ 2,030,429	\$ 382,285	\$ 1,179,013	\$ 2,441,686

Special Revenue Funds (continued)					Permanent Fund		
Animal Control	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ 215,517	\$ 46,573	\$ -	\$ -	\$ 1,243,576	\$ 215,190	\$ 1,458,766
923,110	11,321,985	721,079	6,041,085	2,588,832	27,095,086	603,998	27,699,084
161	13,199	613	13,459	-	5,006,585	47,735	5,054,320
-	-	-	-	-	3,725,069	-	3,725,069
-	-	-	-	-	555,992	-	555,992
-	-	-	-	-	31,586	-	31,586
<u>\$ 923,271</u>	<u>\$ 11,550,701</u>	<u>\$ 768,265</u>	<u>\$ 6,054,544</u>	<u>\$ 2,588,832</u>	<u>\$ 37,657,894</u>	<u>\$ 866,923</u>	<u>\$ 38,524,817</u>
\$ -	\$ 45,034	\$ 9,840	\$ 529,544	\$ -	\$ 1,526,680	\$ -	\$ 1,526,680
-	12,628	97,342	31,619	-	395,933	-	395,933
-	406,190	-	-	-	431,708	-	431,708
461,402	40,034	-	674,989	-	5,247,778	-	5,247,778
-	3,851	-	-	-	3,851	-	3,851
-	-	-	-	-	3,755,528	-	3,755,528
<u>461,402</u>	<u>507,737</u>	<u>107,182</u>	<u>1,236,152</u>	<u>-</u>	<u>11,361,478</u>	<u>-</u>	<u>11,361,478</u>
-	-	-	-	-	31,586	624,065	655,651
-	9,273,725	-	4,818,392	-	17,471,794	242,858	17,714,652
461,869	1,769,239	661,083	-	2,588,832	8,793,036	-	8,793,036
<u>461,869</u>	<u>11,042,964</u>	<u>661,083</u>	<u>4,818,392</u>	<u>2,588,832</u>	<u>26,296,416</u>	<u>866,923</u>	<u>27,163,339</u>
<u>\$ 923,271</u>	<u>\$ 11,550,701</u>	<u>\$ 768,265</u>	<u>\$ 6,054,544</u>	<u>\$ 2,588,832</u>	<u>\$ 37,657,894</u>	<u>\$ 866,923</u>	<u>\$ 38,524,817</u>

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Revenues						
Taxes, assessments, interest & penalties	\$ 4,734,156	\$ -	\$ -	\$ -	\$ 755,948	\$ -
Licenses, permits & inspection charges	-	-	-	1,369,547	-	-
Intergovernmental	-	4,318,720	-	-	-	4,787,049
Charges for services	-	-	428,963	-	2,466,292	-
Fines & forfeitures	-	-	-	-	1,376,091	-
Other	4,713	162,243	529,577	475	12,232	27,333
Total revenues	4,738,869	4,480,963	958,540	1,370,022	4,610,563	4,814,382
Expenditures						
Current:						
Administration	-	-	-	-	-	1,410,141
Finance & accountability	-	-	-	-	-	-
Operations & engineering	3,686,995	-	823,930	-	-	838,355
Community & neighborhood services	-	4,533,150	-	2,177,422	-	588,605
Law	-	-	-	-	883,195	-
Police	-	-	-	-	-	2,088,894
Fire	-	-	-	-	-	-
Total expenditures	3,686,995	4,533,150	823,930	2,177,422	883,195	4,925,995
Excess (deficiency) of revenues over (under) expenditures	1,051,874	(52,187)	134,610	(807,400)	3,727,368	(111,613)
Other financing sources (uses)						
Transfers in	-	-	4,510	830,830	-	67,730
Transfers out	(596,000)	-	(61,422)	-	(3,727,320)	(406)
Total other financing sources (uses)	(596,000)	-	(56,912)	830,830	(3,727,320)	67,324
Net change in fund balances	455,874	(52,187)	77,698	23,430	48	(44,289)
Fund balance - beginning (as restated)	2,590,607	83,773	1,892,961	224,500	1,093,376	377,485
Fund balance - ending	\$ 3,046,481	\$ 31,586	\$ 1,970,659	\$ 247,930	\$ 1,093,424	\$ 333,196

Special Revenue Funds (continued)						Permanent Fund	
Animal Control	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,490,104	\$ -	\$ 5,490,104
-	-	-	-	-	1,369,547	-	1,369,547
-	22,888	-	-	-	9,128,657	-	9,128,657
49,264	370,812	71,221	868,410	99,999	4,354,961	-	4,354,961
-	2,034,252	-	-	-	3,410,343	-	3,410,343
912	207,159	1,356	481,174	5,331	1,432,505	61,907	1,494,412
50,176	2,635,111	72,577	1,349,584	105,330	25,186,117	61,907	25,248,024
-	-	-	-	-	1,410,141	-	1,410,141
-	-	-	-	99,999	99,999	-	99,999
-	-	2,390,904	-	-	7,740,184	-	7,740,184
23,641	52,295	-	10,121,176	-	17,496,289	-	17,496,289
-	-	-	-	-	883,195	-	883,195
-	1,109,033	-	-	-	3,197,927	-	3,197,927
-	5,401	-	-	-	5,401	-	5,401
23,641	1,166,729	2,390,904	10,121,176	99,999	30,833,136	-	30,833,136
26,535	1,468,382	(2,318,327)	(8,771,592)	5,331	(5,647,019)	61,907	(5,585,112)
6,631	8,336	2,321,050	8,779,380	-	12,018,467	-	12,018,467
-	(728,190)	(1,400)	-	-	(5,114,738)	-	(5,114,738)
6,631	(719,854)	2,319,650	8,779,380	-	6,903,729	-	6,903,729
33,166	748,528	1,323	7,788	5,331	1,256,710	61,907	1,318,617
428,703	10,294,436	659,760	4,810,604	2,583,501	25,039,706	805,016	25,844,722
\$ 461,869	\$ 11,042,964	\$ 661,083	\$ 4,818,392	\$ 2,588,832	\$ 26,296,416	\$ 866,923	\$ 27,163,339

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, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes, assessments, interest & penalties	\$ 4,475,000	\$ 4,475,000	\$ 4,734,156	\$ 259,156
Other	6,000	6,000	4,713	(1,287)
Total revenues	<u>4,481,000</u>	<u>4,481,000</u>	<u>4,738,869</u>	<u>257,869</u>
Expenditures				
Current:				
Operations & engineering	3,885,000	3,885,000	3,686,995	198,005
Total expenditures	<u>3,885,000</u>	<u>3,885,000</u>	<u>3,686,995</u>	<u>198,005</u>
Excess (deficiency) of revenues over (under) expenditures	<u>596,000</u>	<u>596,000</u>	<u>1,051,874</u>	<u>455,874</u>
Other financing sources (uses)				
Transfers out	(596,000)	(596,000)	(596,000)	-
Total other financing sources (uses)	<u>(596,000)</u>	<u>(596,000)</u>	<u>(596,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	455,874	<u>\$ 455,874</u>
Fund balance - beginning			<u>2,590,607</u>	
Fund balance - ending			<u>\$ 3,046,481</u>	

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, 2011

	Budget			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Intergovernmental	\$ 2,032,570	\$ 4,444,306	\$ 4,318,720	\$ (125,586)
Other	230,000	230,000	162,243	(67,757)
Total revenues	<u>2,262,570</u>	<u>4,674,306</u>	<u>4,480,963</u>	<u>(193,343)</u>
Expenditures				
Current:				
Community & neighborhood services	<u>2,262,570</u>	<u>4,674,306</u>	<u>4,533,150</u>	<u>141,156</u>
Total expenditures	<u>2,262,570</u>	<u>4,674,306</u>	<u>4,533,150</u>	<u>141,156</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(52,187)</u>	<u>(52,187)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(52,187)</u>	<u>\$ (52,187)</u>
Fund balance - beginning			<u>83,773</u>	
Fund balance - ending			<u>\$ 31,586</u>	

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, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 440,000	\$ 440,000	\$ 428,963	\$ (11,037)
Other	417,440	442,572	529,577	87,005
Total revenues	<u>857,440</u>	<u>882,572</u>	<u>958,540</u>	<u>75,968</u>
Expenditures				
Current:				
Operations & engineering	798,360	825,552	823,930	1,622
Total expenditures	<u>798,360</u>	<u>825,552</u>	<u>823,930</u>	<u>1,622</u>
Excess (deficiency) of revenues over (under) expenditures	<u>59,080</u>	<u>57,020</u>	<u>134,610</u>	<u>77,590</u>
Other financing sources (uses)				
Transfers in	-	4,510	4,510	-
Transfers out	(59,080)	(61,530)	(61,422)	108
Total other financing sources (uses)	<u>(59,080)</u>	<u>(57,020)</u>	<u>(56,912)</u>	<u>108</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	77,698	<u>\$ 77,698</u>
Fund balance - beginning			<u>1,892,961</u>	
Fund balance - ending			<u>\$ 1,970,659</u>	

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, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Licenses, permits & inspection charges	\$ 1,425,480	\$ 1,425,568	\$ 1,369,547	\$ (56,021)
Other	2,700	2,700	475	(2,225)
Total revenues	<u>1,428,180</u>	<u>1,428,268</u>	<u>1,370,022</u>	<u>(58,246)</u>
Expenditures				
Current:				
Community & neighborhood services	2,254,750	2,259,098	2,177,422	81,676
Total expenditures	<u>2,254,750</u>	<u>2,259,098</u>	<u>2,177,422</u>	<u>81,676</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(826,570)</u>	<u>(830,830)</u>	<u>(807,400)</u>	<u>23,430</u>
Other financing sources (uses)				
Transfers in	826,570	830,830	830,830	-
Total other financing sources (uses)	<u>826,570</u>	<u>830,830</u>	<u>830,830</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	23,430	<u>\$ 23,430</u>
Fund balance - beginning			<u>224,500</u>	
Fund balance - ending			<u>\$ 247,930</u>	

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, 2011

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes, assessments, interest & penalties	\$ 839,500	\$ 839,500	\$ 755,948	\$ (83,552)
Charges for services	2,759,900	2,759,900	2,466,292	(293,608)
Fines & forfeitures	1,536,700	1,536,700	1,376,091	(160,609)
Other	12,100	42,112	12,232	(29,880)
Total revenues	<u>5,148,200</u>	<u>5,178,212</u>	<u>4,610,563</u>	<u>(567,649)</u>
Expenditures				
Current:				
Law	849,100	889,892	883,195	6,697
Total expenditures	<u>849,100</u>	<u>889,892</u>	<u>883,195</u>	<u>6,697</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,299,100</u>	<u>4,288,320</u>	<u>3,727,368</u>	<u>(560,952)</u>
Other financing sources (uses)				
Transfers out	<u>(4,299,100)</u>	<u>(4,288,320)</u>	<u>(3,727,320)</u>	<u>561,000</u>
Total other financing sources (uses)	<u>(4,299,100)</u>	<u>(4,288,320)</u>	<u>(3,727,320)</u>	<u>561,000</u>
 Net change in fund balances	 <u>\$ -</u>	 <u>\$ -</u>	 48	 <u>\$ 48</u>
Fund balance - beginning			<u>1,093,376</u>	
Fund balance - ending			<u>\$ 1,093,424</u>	

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, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 330,000	\$ 330,000	\$ 22,888	\$ (307,112)
Charges for services	501,500	366,500	370,812	4,312
Fines & forfeitures	1,811,940	1,811,940	2,034,252	222,312
Other	269,770	254,927	207,159	(47,768)
Total revenues	<u>2,913,210</u>	<u>2,763,367</u>	<u>2,635,111</u>	<u>(128,256)</u>
Expenditures				
Current:				
Community & neighborhood services	4,000	86,969	52,295	34,674
Police	2,048,480	1,936,348	1,109,033	827,315
Fire	-	5,500	5,401	99
Total expenditures	<u>2,052,480</u>	<u>2,028,817</u>	<u>1,166,729</u>	<u>862,088</u>
Excess (deficiency) of revenues over (under) expenditures	<u>860,730</u>	<u>734,550</u>	<u>1,468,382</u>	<u>733,832</u>
Other financing sources (uses)				
Transfers in	-	-	8,336	8,336
Transfers out	(860,730)	(734,550)	(728,190)	6,360
Total other financing sources (uses)	<u>(860,730)</u>	<u>(734,550)</u>	<u>(719,854)</u>	<u>14,696</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>748,528</u>	<u>\$ 748,528</u>
Fund balance - beginning (as restated)			<u>10,294,436</u>	
Fund balance - ending			<u>\$ 11,042,964</u>	

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, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 130,200	\$ 130,200	\$ 71,221	\$ (58,979)
Other	15,000	137,958	1,356	(136,602)
Total revenues	<u>145,200</u>	<u>268,158</u>	<u>72,577</u>	<u>(195,581)</u>
Expenditures				
Current:				
Operations & engineering	2,541,520	2,587,808	2,390,904	196,904
Total expenditures	<u>2,541,520</u>	<u>2,587,808</u>	<u>2,390,904</u>	<u>196,904</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,396,320)</u>	<u>(2,319,650)</u>	<u>(2,318,327)</u>	<u>1,323</u>
Other financing sources (uses)				
Transfers in	2,396,320	2,321,050	2,321,050	-
Transfers out	-	(1,400)	(1,400)	-
Total other financing sources (uses)	<u>2,396,320</u>	<u>2,319,650</u>	<u>2,319,650</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	1,323	<u>\$ 1,323</u>
Fund balance - beginning			<u>659,760</u>	
Fund balance - ending			<u>\$ 661,083</u>	

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, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 1,061,800	\$ 1,061,800	\$ 868,410	\$ (193,390)
Other	230,000	749,566	481,174	(268,392)
Total revenues	<u>1,291,800</u>	<u>1,811,366</u>	<u>1,349,584</u>	<u>(461,782)</u>
Expenditures				
Current:				
Community & neighborhood services	<u>10,684,540</u>	<u>10,590,746</u>	<u>10,121,176</u>	<u>469,570</u>
Total expenditures	<u>10,684,540</u>	<u>10,590,746</u>	<u>10,121,176</u>	<u>469,570</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,392,740)</u>	<u>(8,779,380)</u>	<u>(8,771,592)</u>	<u>7,788</u>
Other financing sources (uses)				
Transfers in	<u>9,392,740</u>	<u>8,779,380</u>	<u>8,779,380</u>	<u>-</u>
Total other financing sources (uses)	<u>9,392,740</u>	<u>8,779,380</u>	<u>8,779,380</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	7,788	<u>\$ 7,788</u>
Fund balance - beginning			<u>4,810,604</u>	
Fund balance - ending			<u>\$ 4,818,392</u>	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet
Debt Service Funds
June 30, 2011

Assets

Investments	\$ 40,598,959
Accounts receivable	199,076
Taxes receivable	29,698,545
Notes receivable	1,595,500
Total assets	<u>\$ 72,092,080</u>

Liabilities and fund balances

Liabilities:

Due to other funds	\$ 126,444
Deferred revenue	29,433,646
Total liabilities	<u>29,560,090</u>

Fund balances:

Restricted	<u>42,531,990</u>
Total fund balances	<u>42,531,990</u>

Total liabilities and fund balances	<u>\$ 72,092,080</u>
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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, 2011

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes, assessments, interest & penalties	\$ 26,532,600	\$ 26,532,600	\$ 27,007,206	\$ 474,606
Other	1,063,790	1,063,790	952,681	(111,109)
Total revenues	<u>27,596,390</u>	<u>27,596,390</u>	<u>27,959,887</u>	<u>363,497</u>
Expenditures				
Current:				
Debt service:				
Principal retirement	5,583,480	7,083,480	5,577,290	1,506,190
Interest payments on bonds & notes	2,955,740	4,205,740	2,187,572	2,018,168
Other services & charges	50,000	-	-	-
Total expenditures	<u>8,589,220</u>	<u>11,289,220</u>	<u>7,764,862</u>	<u>3,524,358</u>
Excess (deficiency) of revenues over (under) expenditures	<u>19,007,170</u>	<u>16,307,170</u>	<u>20,195,025</u>	<u>3,887,855</u>
Other financing sources (uses)				
Transfers in	-	3,500,000	3,500,000	-
Transfers out	<u>(19,007,170)</u>	<u>(19,807,170)</u>	<u>(19,807,170)</u>	<u>-</u>
Total other financing sources (uses)	<u>(19,007,170)</u>	<u>(16,307,170)</u>	<u>(16,307,170)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	3,887,855	<u>\$ 3,887,855</u>
Fund balance - beginning			<u>38,644,135</u>	
Fund balance - ending			<u>\$ 42,531,990</u>	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet Capital Projects Fund June 30, 2011

Assets

Cash & cash equivalents	\$ 72,782
Investments	67,042,898
Accounts receivable	1,015,341
Due from other funds	7,230,876
Total assets	<u>\$ 75,361,897</u>

Liabilities and fund balances

Liabilities:

Accounts payable	\$ 2,995,282
Accrued liabilities	1,036,933
Due to other governmental agencies	8,824
Deferred revenue	2,923,294
Total liabilities	<u>6,964,333</u>

Fund balances:

Restricted	3,279,424
Committed	65,118,140
Total fund balances	<u>68,397,564</u>

Total liabilities and fund balances	<u>\$ 75,361,897</u>
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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, 2011

	Actual				Actual
	Prior Years	Current Year	Total to Date	Project Authorization	Over (Under) Final Budget
Revenues					
Intergovernmental	\$ 3,880,375	\$ 1,290,743	\$ 5,171,118	\$ 18,603,658	\$ (13,432,540)
Other	4,579,580	2,085,611	6,665,191	8,631,782	(1,966,591)
Total revenues	8,459,955	3,376,354	11,836,309	27,235,440	(15,399,131)
Expenditures					
Current:					
Capital & grant projects	60,082,621	19,155,022	79,237,643	152,055,317	(72,817,674)
Total expenditures	60,082,621	19,155,022	79,237,643	152,055,317	(72,817,674)
Excess (deficiency) of revenues over (under) expenditures	(51,622,666)	(15,778,668)	(67,401,334)	(124,819,877)	57,418,543
Other financing sources (uses)					
Issuance of debt	13,470,609	-	13,470,609	13,470,609	-
Transfers in	50,888,950	19,180,080	70,069,030	122,909,314	(52,840,284)
Transfers out	-	(7,658,109)	(7,658,109)	(11,560,046)	3,901,937
Total other financing sources (uses)	64,359,559	11,521,971	75,881,530	124,819,877	(48,938,347)
Net change in fund balances	\$ 12,736,893	(4,256,697)	\$ 8,480,196	\$ -	\$ 8,480,196
Fund balance - beginning		72,654,261			
Fund balance - ending		\$ 68,397,564			

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Nonmajor Enterprise Funds

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

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2011

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Assets				
Current assets				
Cash & temporary investments	\$ 2,426,920	\$ -	\$ 81,520	\$ 2,508,440
Investments	3,059,343	7,745,871	-	10,805,214
Accounts receivable	264,027	-	3,084	267,111
Leases receivable	-	716,035	-	716,035
Due from other funds	1,150,127	-	3,739	1,153,866
Due from component units	998,915	159,160	95,011	1,253,086
Inventories	-	-	36,086	36,086
Prepaid items	-	-	21,794	21,794
Total current assets	7,899,332	8,621,066	241,234	16,761,632
Noncurrent assets				
Land & site improvements	2,079,796	1,766,711	473,119	4,319,626
Building & building improvements	21,594,627	20,795,777	11,011	42,401,415
Equipment	4,450	1,911,336	839,751	2,755,537
Construction in progress	-	164,605	-	164,605
Less: accumulated depreciation	(11,289,015)	(15,537,054)	(458,268)	(27,284,337)
Total capital assets (net of accumulated depreciation)	12,389,858	9,101,375	865,613	22,356,846
Equity interest in joint venture	763,946	-	-	763,946
Total noncurrent assets	13,153,804	9,101,375	865,613	23,120,792
Total assets	21,053,136	17,722,441	1,106,847	39,882,424
Liabilities				
Current liabilities				
Accounts payable	99,900	71,416	60,241	231,557
Accrued liabilities	-	93,468	-	93,468
Customer deposits	3,536	92,817	-	96,353
Due to other funds	-	203,708	280,041	483,749
Deferred revenue	41,603	-	2,447	44,050
Compensated absences	-	80,000	-	80,000
Long-term debt due within one year	-	-	90,137	90,137
Total current liabilities	145,039	541,409	432,866	1,119,314
Noncurrent liabilities				
Long-term debt due in more than one year	-	67,615	166,609	234,224
Total noncurrent liabilities	-	67,615	166,609	234,224
Total liabilities	145,039	609,024	599,475	1,353,538
Net assets				
Invested in capital assets, net of related debt	12,389,858	9,101,375	608,867	22,100,100
Unrestricted	8,518,239	8,012,042	(101,495)	16,428,786
Total net assets	\$ 20,908,097	\$ 17,113,417	\$ 507,372	\$ 38,528,886

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2011

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	\$ 1,565,048	\$ 1,854,466	\$ 1,195,355	\$ 4,614,869
Total operating revenues	1,565,048	1,854,466	1,195,355	4,614,869
Operating expenses				
Personal services	-	2,053,080	-	2,053,080
Materials & supplies	-	614,110	389,382	1,003,492
Maintenance	210,803	2,501,500	8,847	2,721,150
Depreciation & amortization	689,819	713,109	159,490	1,562,418
Other services and charges	709,004	657,879	1,244,643	2,611,526
Total operating expenses	1,609,626	6,539,678	1,802,362	9,951,666
Operating income (loss)	(44,578)	(4,685,212)	(607,007)	(5,336,797)
Nonoperating revenue (expense)				
Interest income	8,450	14,646	-	23,096
Intergovernmental revenue	-	709,752	-	709,752
Other revenues	-	-	89,457	89,457
Gain (loss) on disposal of capital assets	-	1,010	-	1,010
Interest expense	-	-	(8,980)	(8,980)
Total nonoperating revenue (expense)	8,450	725,408	80,477	814,335
Income (loss) before transfers and capital contributions	(36,128)	(3,959,804)	(526,530)	(4,522,462)
Transfers:				
Transfers in	4,410,803	5,157,742	543,764	10,112,309
Transfers out	-	(16,426)	-	(16,426)
Capital contributions	-	-	254,782	254,782
Change in net assets	4,374,675	1,181,512	272,016	5,828,203
Total net assets - beginning (as restated)	16,533,422	15,931,905	235,356	32,700,683
Total net assets - ending	\$ 20,908,097	\$ 17,113,417	\$ 507,372	\$ 38,528,886

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2011

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating activities				
Cash received from customers and users	\$ 1,538,151	\$ 1,669,775	\$ 1,184,665	\$ 4,392,591
Cash paid to suppliers	(911,627)	(3,514,318)	(1,669,815)	(6,095,760)
Cash paid to employees	-	(2,034,548)	-	(2,034,548)
Cash paid for interfund services used	(8,180)	(280,180)	(190)	(288,550)
Net cash provided by (used in) operating activities	618,344	(4,159,271)	(485,340)	(4,026,267)
Noncapital financing activities				
Transfers from other funds	4,410,803	5,294,343	635,877	10,341,023
Transfers to other funds	(1,150,834)	(16,426)	-	(1,167,260)
Transfers to component units	(998,915)	(159,160)	(95,011)	(1,253,086)
Tax and intergovernmental revenues	-	709,752	89,457	799,209
Net cash provided by (used in) noncapital financing activities	2,261,054	5,828,509	630,323	8,719,886
Capital and related financing activities				
Principal paid on general obligation bond maturities	-	-	(87,037)	(87,037)
Interest paid	-	-	(8,980)	(8,980)
Acquisition and construction of capital assets	-	(617,544)	(391,455)	(1,008,999)
Capital contributions	-	-	254,782	254,782
Net cash provided by (used in) capital and related financing activities	-	(617,544)	(232,690)	(850,234)
Investing activities				
Sales/(purchases) of investments	(899,931)	(1,077,421)	-	(1,977,352)
Investment earnings	8,450	14,646	-	23,096
Net change in equity investment in joint venture	29,877	-	-	29,877
Net cash provided by (used in) investing activities	(861,604)	(1,062,775)	-	(1,924,379)
Net increase (decrease) in cash and cash equivalents	2,017,794	(11,081)	(87,707)	1,919,006
Cash and cash equivalents				
Beginning of year (as restated)	409,126	11,081	169,227	589,434
End of year	\$ 2,426,920	\$ -	\$ 81,520	\$ 2,508,440

Continued:

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2011

	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)	\$ (44,578)	\$ (4,685,212)	\$ (607,007)	\$ (5,336,797)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	689,819	713,109	159,490	1,562,418
Change in assets and liabilities				
(Increase) decrease in receivables	(26,897)	37,018	(1,899)	8,222
(Increase) decrease in prepayments	-	-	13,383	13,383
(Increase) decrease in inventories	-	-	(22,958)	(22,958)
Increase (decrease) in accounts payable	-	(21,009)	(17,558)	(38,567)
Increase (decrease) in accrued expenses	-	18,532	-	18,532
Increase (decrease) in deferred revenue	-	-	(8,791)	(8,791)
Increase (decrease) in customer deposits	-	(221,709)	-	(221,709)
Total adjustments	662,922	525,941	121,667	1,310,530
Net cash provided by (used in) operating activities	<u>\$ 618,344</u>	<u>\$ (4,159,271)</u>	<u>\$ (485,340)</u>	<u>\$ (4,026,267)</u>

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Internal Service Funds

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

Fleet Maintenance Fund

To supply city departments with quality, cost effective rolling stock that is in continuous state of good repair and capable of efficient performance in the service for which it is assigned.

Risk Management Fund

To account for the cost of insurance and claims against City employees or injury to citizens while on City property.

Health Insurance Fund

To account for the City's comprehensive health and medical coverage plan for its employees and their families.

Equipment Replacement Fund

To account for the planned and systematic replacement of City departments' operating equipment.

City Buildings Fund

To account for the cost of building rentals and maintenance costs.

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets
Internal Service Funds
June 30, 2011

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Assets						
Current assets						
Cash & temporary investments	\$ 2,562,917	\$ -	\$ 56,270	\$ 5,273	\$ 43,189	\$ 2,667,649
Investments	25,560,483	25,858,178	13,009,372	13,332,156	535,720	78,295,909
Accounts receivable	62,063	8,264	865,523	3,773	-	939,623
Due from other funds	134,891	-	-	-	-	134,891
Inventories	778,957	-	-	-	-	778,957
Total current assets	29,099,311	25,866,442	13,931,165	13,341,202	578,909	82,817,029
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	49,848,335	13,400	14,794	19,071,986	-	68,948,515
Construction in progress	1,419,567	-	-	26,560	-	1,446,127
Less: accumulated depreciation	(31,835,287)	(13,400)	(329)	(13,812,731)	-	(45,661,747)
Total capital assets (net of accumulated depreciation)	19,690,006	-	14,465	5,285,815	-	24,990,286
Equity interest in joint venture	-	-	-	-	3,842,133	3,842,133
Total noncurrent assets	19,690,006	-	14,465	5,285,815	3,842,133	28,832,419
Total assets	48,789,317	25,866,442	13,945,630	18,627,017	4,421,042	111,649,448
Liabilities						
Current liabilities						
Accounts payable	246,986	146,096	418,387	11,360	3,965	826,794
Accrued liabilities	95,986	14,962	1,048,162	-	-	1,159,110
Due to other funds	-	291	-	-	-	291
Deferred revenue	2,106	-	-	-	-	2,106
Compensated absences	113,681	18,453	13,159	-	-	145,293
Long-term debt due within one year	-	5,000,000	-	-	-	5,000,000
Total current liabilities	458,759	5,179,802	1,479,708	11,360	3,965	7,133,594
Noncurrent liabilities						
Estimated litigation liability	-	4,200,000	-	-	-	4,200,000
Total noncurrent liabilities	-	4,200,000	-	-	-	4,200,000
Total liabilities	458,759	9,379,802	1,479,708	11,360	3,965	11,333,594
Net assets						
Invested in capital assets, net of related debt	19,690,006	-	14,465	5,285,815	-	24,990,286
Unrestricted	28,640,552	16,486,640	12,451,457	13,329,842	4,417,077	75,325,568
Total net assets	\$ 48,330,558	\$ 16,486,640	\$ 12,465,922	\$ 18,615,657	\$ 4,417,077	\$ 100,315,854

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2011

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating revenues						
Charges for services	\$ 13,954,747	\$ 6,755,051	\$ 14,717,629	\$ 2,078,740	\$ 1,662,805	\$ 39,168,972
Total operating revenues	13,954,747	6,755,051	14,717,629	2,078,740	1,662,805	39,168,972
Operating expenses						
Personal services	2,098,279	1,108,413	217,240	-	-	3,423,932
Materials & supplies	213,599	5,385	92	182	-	219,258
Maintenance	398,516	16,858	15,595	-	1,006,225	1,437,194
Depreciation & amortization	4,091,973	-	329	2,283,920	-	6,376,222
Other services and charges	4,974,371	4,222,961	15,729,264	-	1,296,344	26,222,940
Total operating expenses	11,776,738	5,353,617	15,962,520	2,284,102	2,302,569	37,679,546
Operating income (loss)	2,178,009	1,401,434	(1,244,891)	(205,362)	(639,764)	1,489,426
Nonoperating revenue (expense)						
Interest income	52,971	-	28,189	34,729	939	116,828
Intergovernmental revenue	-	-	789,977	345,989	-	1,135,966
Other revenues	994	62,368	14,794	2,868	-	81,024
Gain (loss) on disposal of capital assets	253,648	-	329,023	(150,466)	-	432,205
Total nonoperating revenue (expense)	307,613	62,368	1,161,983	233,120	939	1,766,023
Income (loss) before transfers and capital contributions	2,485,622	1,463,802	(82,908)	27,758	(638,825)	3,255,449
Transfers:						
Transfers in	2,134,206	426,020	896,591	238,017	929,792	4,624,626
Transfers out	(1,341)	-	-	(90,000)	-	(91,341)
Capital contributions	357,563	-	-	-	-	357,563
Change in net assets	4,976,050	1,889,822	813,683	175,775	290,967	8,146,297
Total net assets - beginning	43,354,508	14,596,818	11,652,239	18,439,882	4,126,110	92,169,557
Total net assets - ending	\$ 48,330,558	\$ 16,486,640	\$ 12,465,922	\$ 18,615,657	\$ 4,417,077	\$ 100,315,854

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating activities						
Receipts from interfund services provided	\$ 13,892,684	\$ 6,755,051	\$ 13,930,286	\$ 2,079,001	\$ 1,662,805	\$ 38,319,827
Cash paid to suppliers	(6,194,465)	(170,970)	(3,762,975)	(182)	(2,492,032)	(12,620,624)
Cash paid to employees	(2,081,049)	(1,105,303)	(175,639)	-	-	(3,361,991)
Cash paid for interfund services used	(362,310)	(18,408)	(2,990)	-	-	(383,708)
Payments of claims and insurance	-	(3,259,661)	(11,900,554)	-	-	(15,160,215)
Net cash provided by (used in) operating activities	5,254,860	2,200,709	(1,911,872)	2,078,819	(829,227)	6,793,289
Noncapital financing activities						
Transfers from other funds	1,999,315	426,311	896,591	238,017	929,792	4,490,026
Transfers to other funds	(1,341)	-	-	(90,000)	-	(91,341)
Tax and intergovernmental revenues	3,100	62,368	804,771	348,857	-	1,219,096
Net cash provided by (used in) noncapital financing activities	2,001,074	488,679	1,701,362	496,874	929,792	5,617,781
Capital and related financing activities						
Acquisition and construction of capital assets	(6,257,447)	-	314,229	(2,081,613)	-	(8,024,831)
Capital contributions	357,563	-	-	-	-	357,563
Net cash provided by (used in) capital and related financing activities	(5,899,884)	-	314,229	(2,081,613)	-	(7,667,268)
Investing activities						
Sales/(purchases) of investments	(1,641,734)	(3,266,185)	(877,270)	(960,507)	(70,801)	(6,816,497)
Investment earnings	52,971	-	28,189	34,729	939	116,828
Net change in equity investment in joint venture	-	-	-	-	(90,785)	(90,785)
Net cash provided by (used in) investing activities	(1,588,763)	(3,266,185)	(849,081)	(925,778)	(160,647)	(6,790,454)
Net increase (decrease) in cash and cash equivalents	(232,713)	(576,797)	(745,362)	(431,698)	(60,082)	(2,046,652)
Cash and cash equivalents						
Beginning of year	2,795,630	576,797	801,632	436,971	103,271	4,714,301
End of year	\$ 2,562,917	\$ -	\$ 56,270	\$ 5,273	\$ 43,189	\$ 2,667,649

Continued:

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011

	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)	\$ 2,178,009	\$ 1,401,434	\$ (1,244,891)	\$ (205,362)	\$ (639,764)	\$ 1,489,426
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	4,091,973	-	329	2,283,920	-	6,376,222
Change in assets and liabilities						
(Increase) decrease in receivables	(62,063)	-	(787,343)	(2,547)	-	(851,953)
(Increase) decrease in inventories	(97,187)	-	-	-	-	(97,187)
Increase (decrease) in accounts payable	(873,102)	96,165	78,432	2,808	(189,463)	(885,160)
Increase (decrease) in accrued expenses	17,230	3,110	41,601	-	-	61,941
Increase (decrease) in estimated liability for litigation and claims	-	700,000	-	-	-	700,000
Total adjustments	3,076,851	799,275	(666,981)	2,284,181	(189,463)	5,303,863
Net cash provided by (used in) operating activities	\$ 5,254,860	\$ 2,200,709	\$ (1,911,872)	\$ 2,078,819	\$ (829,227)	\$ 6,793,289

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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, 2011

	City Choice Plus	Employee Health Savings Fund	Totals
Assets			
Cash	\$ -	\$ 565,819	\$ 565,819
State & municipal government securities	37,196	-	37,196
Other receivables	12,269	-	12,269
Total assets	<u>\$ 49,465</u>	<u>\$ 565,819</u>	<u>\$ 615,284</u>
Liabilities			
Accounts payable	\$ 2,409	\$ -	\$ 2,409
Due to other funds	47,056	-	47,056
Health care claims liability	-	565,819	565,819
Total liabilities	<u>\$ 49,465</u>	<u>\$ 565,819</u>	<u>\$ 615,284</u>

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2011

	July 1, 2010	Additions	Deductions	June 30, 2011
<u>City Choice Fund</u>				
Assets				
Cash	\$ -	\$ 538,314	\$ 538,314	\$ -
State & municipal government securities	-	37,196	-	37,196
Other receivables	249,550	481,130	718,411	12,269
Total assets	<u>\$ 249,550</u>	<u>\$ 1,056,640</u>	<u>\$ 1,256,725</u>	<u>\$ 49,465</u>
Liabilities				
Accounts payable	\$ 59,805	\$ 480,918	\$ 538,314	\$ 2,409
Due to other funds	189,745	47,056	189,745	47,056
Total liabilities	<u>\$ 249,550</u>	<u>\$ 527,974</u>	<u>\$ 728,059</u>	<u>\$ 49,465</u>
<u>Employee Health Savings Fund</u>				
Assets				
Cash	\$ 273,797	\$ 565,819	\$ 273,797	\$ 565,819
Due from other funds	189,745	-	189,745	-
Total assets	<u>\$ 463,542</u>	<u>\$ 565,819</u>	<u>\$ 463,542</u>	<u>\$ 565,819</u>
Liabilities				
Health care claims liability	\$ 463,542	\$ 565,819	\$ 463,542	\$ 565,819
Total liabilities	<u>\$ 463,542</u>	<u>\$ 565,819</u>	<u>\$ 463,542</u>	<u>\$ 565,819</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 273,797	\$ 1,104,133	\$ 812,111	\$ 565,819
State & municipal government securities	-	37,196	-	37,196
Other receivables	249,550	481,130	718,411	12,269
Due from other funds	189,745	-	189,745	-
Total assets	<u>\$ 713,092</u>	<u>\$ 1,622,459</u>	<u>\$ 1,720,267</u>	<u>\$ 615,284</u>
Liabilities				
Accounts payable	\$ 59,805	\$ 480,918	\$ 538,314	\$ 2,409
Due to other funds	189,745	47,056	189,745	47,056
Health care claims liability	463,542	565,819	463,542	565,819
Total liabilities	<u>\$ 713,092</u>	<u>\$ 1,093,793</u>	<u>\$ 1,191,601</u>	<u>\$ 615,284</u>

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COMPONENT UNIT

CITY OF KNOXVILLE, TENNESSEE
Statement of Net Assets
Knoxville Area Transit - Component Unit
June 30, 2011

Assets

Current assets:

Investments	\$ 1,500,272
Accounts receivable	6,915,047
Inventories	1,243,225
Total current assets	<u>9,658,544</u>

Noncurrent assets:

Land & site improvements	1,854,780
Building & building improvements	30,381,959
Equipment	27,582,144
Construction in progress	2,538,045
Less: accumulated depreciation	<u>(20,978,758)</u>
Total noncurrent assets	<u>41,378,170</u>
Total assets	<u>51,036,714</u>

Liabilities:

Current liabilities:

Accounts payable	587,411
Accrued liabilities	45,412
Due to primary government	6,597,663
Total current liabilities	<u>7,230,486</u>
Total liabilities	<u>7,230,486</u>

Net assets:

Invested in capital assets, net of related debt	41,378,170
Unrestricted	2,428,058
Total net assets	<u><u>\$ 43,806,228</u></u>

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, 2011

Operating revenues	
Charges for services	\$ 4,003,616
Total operating revenues	<u>4,003,616</u>
Operating expenses	
Personal services	14,061,352
Materials & supplies	2,146,688
Maintenance	3,991,317
Depreciation & amortization	3,079,751
Other services and charges	11,482,377
Total operating expenses	<u>34,761,485</u>
Operating income (loss)	<u>(30,757,869)</u>
Nonoperating revenue (expense)	
Interest income	3,139
Intergovernmental revenue	33,253,850
Other revenues	374,695
Gain (loss) on disposal of capital assets	26,321
Total nonoperating revenue (expense)	<u>33,658,005</u>
Income (loss) before transfers	<u>2,900,136</u>
Change in net assets	2,900,136
Total net assets - beginning	<u>40,906,092</u>
Total net assets - ending	<u><u>\$ 43,806,228</u></u>

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, 2011

Operating activities	
Cash received from customers and users	\$ 3,852,256
Cash paid to suppliers	(20,222,315)
Cash paid to employees	(14,061,874)
Net cash used in operating activities	<u>(30,431,933)</u>
Noncapital financing activities	
Transfers from other funds	(1,953,030)
Tax and intergovernmental revenues	37,544,133
Net cash provided by noncapital financing activities	<u>35,591,103</u>
Capital and related financing activities	
Acquisition and construction of capital assets	<u>(5,846,109)</u>
Net cash used in capital and related financing activities	<u>(5,846,109)</u>
Investing activities	
Sales/(purchases) of investments	675,253
Investment earnings	3,139
Net cash provided by investing activities	<u>678,392</u>
Net decrease in cash and cash equivalents	<u>(8,547)</u>
Cash and cash equivalents	
Beginning of year	<u>8,547</u>
End of year	<u>\$ -</u>

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, 2011

Reconciliation of operating income (loss)	
to net cash provided by	
(used in) operating activities	
Operating income (loss)	<u>\$ (30,757,869)</u>
Adjustments to reconcile operating income (loss)	
to net cash provided by (used in) operating	
activities:	
Depreciation	3,079,751
Change in assets and liabilities	
(Increase) decrease in prepayments	233,885
(Increase) decrease in inventories	(248,646)
Increase (decrease) in accounts payable	(2,587,172)
Increase (decrease) in accrued expenses	(522)
Increase (decrease) in deferred revenue	(151,360)
Total adjustments	<u>325,936</u>
Net cash used in operating activities	<u><u>\$ (30,431,933)</u></u>

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

STATISTICAL SECTION

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

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Financial Trends

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

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Revenue Capacity

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

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Debt Capacity

These schedules present information to help the reader assess the affordability of the city's current level of outstanding debt and the government's ability to issue additional debt in the future.

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Demographic and Economic Information

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

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Operating Information

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

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

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities										
Invested in capital assets, net of related debt	\$ 111,609	\$ 155,214	\$ 157,139	\$ 137,765	\$ 139,547	\$ 162,108	\$ 186,466	\$ 205,877	\$ 213,568	\$ 220,028
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487	38,911	39,449	43,399
Unrestricted	109,435	140,737	67,800	101,204	114,881	157,067	179,868	192,241	217,962	233,442
Total Governmental Activities Net Assets	<u>\$ 245,222</u>	<u>\$ 312,950</u>	<u>\$ 251,740</u>	<u>\$ 270,088</u>	<u>\$ 287,275</u>	<u>\$ 354,954</u>	<u>\$ 403,821</u>	<u>\$ 437,029</u>	<u>\$ 470,979</u>	<u>\$ 496,869</u>
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	\$ 28,212	\$ 26,344	\$ 26,075
Unrestricted	1,235	(26,531)	6,226	8,838	9,350	12,266	16,682	17,782	24,804	33,712
Total Business-type Activities Net Assets	<u>\$ 23,647</u>	<u>\$ 26,290</u>	<u>\$ 27,296</u>	<u>\$ 27,550</u>	<u>\$ 41,567</u>	<u>\$ 43,812</u>	<u>\$ 46,950</u>	<u>\$ 45,994</u>	<u>\$ 51,148</u>	<u>\$ 59,787</u>
Primary Government										
Invested in capital assets, net of related debt	\$ 134,021	\$ 208,035	\$ 178,209	\$ 156,477	\$ 171,764	\$ 193,654	\$ 216,734	\$ 234,089	\$ 239,912	\$ 246,103
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487	38,911	39,449	43,399
Unrestricted	110,670	114,206	74,026	110,042	124,231	169,333	196,550	210,023	242,766	267,154
Total Primary Government Net Assets	<u>\$ 268,869</u>	<u>\$ 339,240</u>	<u>\$ 279,036</u>	<u>\$ 297,638</u>	<u>\$ 328,842</u>	<u>\$ 398,766</u>	<u>\$ 450,771</u>	<u>\$ 483,023</u>	<u>\$ 522,127</u>	<u>\$ 556,656</u>

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
Governmental Activities:										
General government	\$ 11,657	\$ 10,331	\$ 13,200	\$ 12,218	\$ 15,015	\$ 11,671	\$ 9,630	\$ 8,833	\$ 13,348	\$ 13,495
Public safety	62,146	67,423	66,325	65,384	69,949	60,882	78,172	80,936	78,697	83,059
Physical environment	29,135	28,920	27,910	49,678	70,289	40,686	42,048	44,421	45,244	46,977
Transportation	24,149	6,273	5,791	6,844	5,728	7,783	9,614	12,131	9,647	10,467
Economic Development	6,937	7,872	6,924	12,428	8,070	8,314	8,732	10,686	16,441	11,878
Parks & Recreation	7,075	4,217	6,542	10,484	10,760	10,068	11,634	11,893	12,858	12,308
Health & Sanitation	8,446	9,729	9,209	9,696	9,740	9,498	9,833	10,094	10,430	10,361
Interest on long-term debt	5,269	4,706	3,199	4,754	4,005	3,585	3,138	2,754	2,398	2,152
Other	10,574	13,721	13,412	1,830	1,683	-	-	-	-	-
Total governmental activities expenses	<u>165,388</u>	<u>153,192</u>	<u>152,512</u>	<u>173,316</u>	<u>195,239</u>	<u>152,487</u>	<u>172,801</u>	<u>181,748</u>	<u>189,063</u>	<u>190,697</u>
Business-type Activities:										
Metro parking	893	928	740	857	819	1,264	1,464	1,565	1,364	1,610
Public assembly facilities	3,296	3,778	3,696	3,974	3,718	3,902	4,174	4,356	4,847	6,539
Knoxville Convention Center	5,363	20,328	18,573	19,562	20,848	20,734	21,246	20,452	19,393	19,395
Municipal Golf Courses	-	-	-	-	-	306	886	1,390	1,368	1,811
Total business-type activities	<u>9,552</u>	<u>25,034</u>	<u>23,009</u>	<u>24,393</u>	<u>25,385</u>	<u>26,206</u>	<u>27,770</u>	<u>27,763</u>	<u>26,972</u>	<u>29,355</u>
Total primary government	<u>\$ 174,940</u>	<u>\$ 178,226</u>	<u>\$ 175,521</u>	<u>\$ 197,709</u>	<u>\$ 220,624</u>	<u>\$ 178,693</u>	<u>\$ 200,571</u>	<u>\$ 209,511</u>	<u>\$ 216,035</u>	<u>\$ 220,052</u>
Program Revenues										
Governmental Activities:										
Charges for Services:										
General government	\$ 2,204	\$ 2,424	\$ 6,506	\$ 480	\$ 519	\$ 697	\$ 629	\$ 540	\$ 651	\$ 757
Public safety	1,059	912	1,191	6,995	7,473	9,016	9,233	9,191	9,436	8,945
Physical environment	565	594	772	815	856	924	1,135	717	1,026	985
Transportation	188	2,219	114	674	665	830	857	688	760	955
Economic Development	1,318	1,636	1,946	-	-	78	-	-	955	665
Parks & recreation	160	289	217	408	634	666	801	694	689	537
Health & sanitation	657	916	682	26	30	48	43	47	54	49
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	10,387	15,758	14,811
Capital grants and contributions	350	1,574	890	4,064	9,693	4,558	5,753	5,161	4,724	3,777
Total governmental activities program revenues	<u>19,225</u>	<u>22,550</u>	<u>27,085</u>	<u>29,531</u>	<u>33,532</u>	<u>26,473</u>	<u>28,255</u>	<u>27,425</u>	<u>34,053</u>	<u>31,481</u>
Business-type Activities:										
Charges for Services:										
Metro parking	742	967	999	1,397	698	1,308	1,716	2,188	1,690	1,565
Public assembly facilities	1,555	1,923	1,810	1,725	1,994	2,210	2,863	1,812	1,400	1,855
Knoxville Convention Center	609	4,111	3,748	5,048	4,814	5,975	6,409	5,396	5,797	5,171
Municipal Golf Courses	-	-	-	-	-	211	776	1,105	1,121	1,195
Operating grants and contributions	-	-	-	-	-	-	-	1,430	1,435	1,500
Capital grants and contributions	-	11,998	-	-	-	80	-	-	-	-
Total business-type activities program revenues	<u>2,906</u>	<u>18,999</u>	<u>6,557</u>	<u>8,170</u>	<u>7,506</u>	<u>9,784</u>	<u>11,764</u>	<u>11,931</u>	<u>11,443</u>	<u>11,286</u>
Total primary government program revenues	<u>\$ 22,131</u>	<u>\$ 41,549</u>	<u>\$ 33,642</u>	<u>\$ 37,701</u>	<u>\$ 41,038</u>	<u>\$ 36,257</u>	<u>\$ 40,019</u>	<u>\$ 39,356</u>	<u>\$ 45,496</u>	<u>\$ 42,767</u>
Net expense:										
Governmental Activities	\$ 146,163	\$ 130,642	\$ 125,427	\$ 143,785	\$ 161,707	\$ 126,014	\$ 144,546	\$ 154,323	\$ 155,010	\$ 159,216
Business-type Activities	6,646	6,035	16,452	16,223	17,879	16,422	16,006	15,832	15,529	18,069
Total primary government net expense	<u>\$ 152,809</u>	<u>\$ 136,677</u>	<u>\$ 141,879</u>	<u>\$ 160,008</u>	<u>\$ 179,586</u>	<u>\$ 142,436</u>	<u>\$ 160,552</u>	<u>\$ 170,155</u>	<u>\$ 170,539</u>	<u>\$ 177,285</u>

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 113,846	\$ 117,760	\$ 118,043
Intergovernmental revenues	45,801	45,957	47,215	61,816	56,902	64,449	65,482	58,776	61,625	61,221
Other taxes	13,496	14,907	10,052	6,962	16,392	17,259	17,883	17,908	17,955	18,525
Other revenue	11,260	8,431	3,104	5,113	10,845	11,454	10,670	6,562	2,733	3,669
Transfers	(12,957)	(8,356)	(11,040)	(11,032)	(9,535)	(10,261)	(11,010)	(9,561)	(10,900)	(16,352)
Total governmental activities	157,757	154,930	144,288	162,133	178,894	190,802	192,644	187,531	189,173	185,106
Business-type Activities:										
Other taxes	-	-	4,975	3,978	7,085	6,517	6,820	6,418	5,047	4,539
Intergovernmental revenues	-	-	1,382	1,367	155	1,296	671	375	4,283	5,218
Grants & contributions	113	-	-	-	-	-	-	-	-	-
Other revenue	4	322	61	100	15,120	594	643	676	240	599
Transfers	8,135	8,356	11,040	11,032	9,535	10,261	11,010	9,561	10,900	16,352
Total business-type activities	8,252	8,678	17,458	16,477	31,895	18,668	19,144	17,030	20,470	26,708
Total primary government	\$ 166,009	163,608	161,746	178,610	210,789	209,470	211,788	204,561	209,643	211,814
Changes in Net Assets										
Governmental activities	\$ 11,594	\$ 24,288	\$ 18,861	\$ 18,348	\$ 17,187	\$ 64,788	\$ 48,098	\$ 33,208	\$ 34,163	\$ 25,890
Business-type activities	1,606	2,643	1,006	254	14,016	2,246	3,138	1,198	4,941	8,639
Prior period adjustment	-	43,440	(80,072)	-	-	-	-	-	-	-
Total primary government	\$ 13,200	\$ 70,371	\$ (60,205)	\$ 18,602	\$ 31,203	\$ 67,034	\$ 51,236	\$ 34,406	\$ 39,104	\$ 34,529

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
General Fund										
Reserved	\$ 3,146	\$ 1,802	\$ 1,953	\$ 1,298	\$ 248	\$ 1,366	\$ 1,333	\$ 1,303	\$ 960	\$ -
Unreserved	24,851	16,696	18,239	23,748	34,501	45,200	48,223	51,036	59,704	-
Nonspendable	-	-	-	-	-	-	-	-	-	425
Restricted	-	-	-	-	-	-	-	-	-	1,989
Committed	-	-	-	-	-	-	-	-	-	34,631
Assigned	-	-	-	-	-	-	-	-	-	231
Unassigned	-	-	-	-	-	-	-	-	-	27,987
Total general fund	<u>\$ 27,997</u>	<u>\$ 18,498</u>	<u>\$ 20,192</u>	<u>\$ 25,046</u>	<u>\$ 34,749</u>	<u>\$ 46,566</u>	<u>\$ 49,556</u>	<u>\$ 52,339</u>	<u>\$ 60,664</u>	<u>\$ 65,263</u>
All other governmental funds										
Reserve/Designated	\$ 36,192	\$ 44,038	\$ 62,791	\$ 35,609	\$ 13,132	\$ 15,017	\$ 7,082	\$ 5,312	\$ 3,428	\$ -
Unreserved, reported in:										
Special Revenue funds	5,671	5,645	7,664	(2,284)	8,583	11,527	22,903	24,138	26,055	-
Debt Service funds	-	-	-	28,722	30,571	32,941	34,623	36,259	36,907	-
Capital Projects funds	1,885	783	8,831	17,499	28,008	44,688	53,084	55,248	72,654	-
Nonspendable	-	-	-	-	-	-	-	-	-	656
Restricted	-	-	-	-	-	-	-	-	-	65,277
Committed	-	-	-	-	-	-	-	-	-	73,913
Total all other governmental funds	<u>\$ 43,748</u>	<u>\$ 50,466</u>	<u>\$ 79,286</u>	<u>\$ 79,546</u>	<u>\$ 80,294</u>	<u>\$ 104,173</u>	<u>\$ 117,692</u>	<u>\$ 120,957</u>	<u>\$ 139,044</u>	<u>\$ 139,846</u>

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

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes, assessments, interest & penalties	\$ 131,697	\$ 133,667	\$ 135,130	\$ 153,817	\$ 160,146	\$ 168,434	\$ 169,632	\$ 169,521	\$ 168,880	\$ 173,425
Licenses, permits & inspection charges	1,551	1,838	2,110	2,312	2,342	2,565	2,281	1,973	1,726	1,708
Intergovernmental revenue	35,977	31,210	30,995	31,632	36,907	34,185	34,986	31,540	40,729	37,081
Charges for services	3,664	4,240	4,906	5,547	5,405	6,030	6,323	6,021	6,997	6,859
Fines & forfeitures	2,665	2,315	3,302	1,536	3,127	4,231	4,953	5,397	5,924	5,536
Other	38,571	9,187	5,276	8,714	12,727	9,303	10,711	8,800	7,568	6,207
Total revenues	<u>214,125</u>	<u>182,457</u>	<u>181,719</u>	<u>203,558</u>	<u>220,654</u>	<u>224,748</u>	<u>228,886</u>	<u>223,252</u>	<u>231,824</u>	<u>230,816</u>
Expenditures										
Current										
General government	13,405	12,742	12,039	11,715	12,974	12,461	16,914	14,310	13,958	15,510
Public safety	60,925	64,328	63,888	64,643	68,447	70,466	75,821	77,449	79,071	81,613
Physical environment	27,870	30,470	29,321	21,377	22,742	25,441	21,696	24,435	21,487	22,937
Solid waste	8,440	9,675	9,193	9,369	-	-	-	-	-	-
Parks & recreation	6,634	6,867	6,832	6,567	738	908	910	907	906	907
Economic development	8,750	10,426	8,658	26,423	41,325	41,810	48,007	51,701	60,222	56,429
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	24,440	20,864	19,155
Debt Service										
Principal	11,837	12,158	19,304	10,973	10,646	9,773	8,540	7,408	5,396	5,577
Interest	5,398	4,796	2,973	4,592	4,004	3,585	3,138	2,754	2,439	2,188
Total expenditures	<u>181,634</u>	<u>175,788</u>	<u>181,008</u>	<u>183,623</u>	<u>188,988</u>	<u>176,948</u>	<u>197,710</u>	<u>203,404</u>	<u>204,343</u>	<u>204,316</u>
Excess of revenues over expenditures	32,491	6,669	711	19,935	31,666	47,800	31,176	19,848	27,481	26,500
Other Financing Sources (Uses)										
Proceeds from issuance of debt	1,521	1,929	42,967	256	-	-	-	-	13,471	-
Transfers in	32,085	39,995	29,637	40,566	29,474	47,722	45,175	40,845	42,809	39,727
Transfers out	(41,662)	(51,374)	(42,801)	(55,642)	(50,689)	(59,826)	(60,611)	(54,645)	(57,350)	(60,612)
Total other financing sources (uses)	<u>(8,056)</u>	<u>(9,450)</u>	<u>29,803</u>	<u>(14,820)</u>	<u>(21,215)</u>	<u>(12,104)</u>	<u>(15,436)</u>	<u>(13,800)</u>	<u>(1,070)</u>	<u>(20,885)</u>
Net changes in fund balances	<u>\$ 24,435</u>	<u>\$ (2,781)</u>	<u>\$ 30,514</u>	<u>\$ 5,115</u>	<u>\$ 10,451</u>	<u>\$ 35,696</u>	<u>\$ 15,740</u>	<u>\$ 6,048</u>	<u>\$ 26,411</u>	<u>\$ 5,615</u>
Debt service as a percentage of noncapital expenditures	11.4%	10.9%	14.1%	10.0%	9.1%	8.1%	6.7%	5.7%	4.3%	4.2%

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

Fiscal Year	Real Property (1)					Personal Property (1)			Public Utilities (2)			Totals			Assessed Value as a Percentage of Actual Value
	Estimated Actual Value:					Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value			
	Commercial	Industrial	Residential & Farm	Exempt Properties	Totals										
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	2,860,135	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	2,917,243	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	2,918,266	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	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	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	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	3,502,857	2.81	31%
2009	4,256,046	189,664	5,511,802	261,830	10,219,342	3,156,234	1,016,750	305,026	270,210	148,615	11,506,302	3,609,875	3,609,875	2.81	31%
2010	4,887,267	204,716	6,601,700	358,028	12,051,711	3,687,218	1,115,939	334,782	304,404	167,422	13,472,054	4,189,422	4,189,422	2.46	31%
2011	4,923,683	188,715	6,676,669	359,976	12,149,043	3,714,127	1,055,236	316,571	268,712	147,792	13,472,991	4,178,490	4,178,490	2.46	31%

Note:

- (1) Assessed by the Knox County Property Assessor's Office
(2) Assessed by the Division of State Assessed Properties, State Comptroller's Office
(3) Assessment Ratios:

- a) Real property:
Commercial at 40%
Industrial at 40%
Residential and Farm at 25%
b) Personal property at 30%
c) Public utilities at 55%
N/A - Not Available

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

Fiscal Year	City of Knoxville Tax Rate Distribution					Overlapping Knox County Tax Rate Distribution				Total Direct & Overlapping Rates
	General Operations	Debt Service	City County Building Lease	Street Paving	Total	General Operations	Debt Service	School Construction	Total	
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
2009	2.06	0.75	-	-	2.81	1.10	0.36	1.23	2.69	5.50
2010	1.80	0.66	-	-	2.46	0.97	0.31	1.08	2.36	4.82
2011	1.80	0.66	-	-	2.46	0.97	0.31	1.08	2.36	4.82

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

Taxpayer	Type of Business	2011			2002		
		Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value ⁽¹⁾	Rank	Percentage of Total Taxable Assessed Value
Bellsouth*	Communications	\$ 89,011	1	2.13%			
West Town Mall	Retail	83,974	2	2.01%	\$ 54,828	2	1.87%
Fort Sanders Regional Medical Ce	Medical services	81,047	3	1.94%			
Scripps Howard Broadcasting	Media	68,920	4	1.65%			
Parkside Dr LLC	Property Management	63,689	5	1.52%			
First American National	Financial Services	56,224	6	1.35%			
Tennessee Holdings LLC	Property Management	52,884	7	1.27%			
Rohm & Haas	Manufacturing	47,515	8	1.14%			
Knoxville Center	Retail	46,605	9	1.12%	66,232	1	2.26%
Behringer Harvard Riverview LLC	Property Management	39,947	10	0.96%			
First American National Bank	Financial Services				49,501	3	1.69%
Parkway Property	Property Management				32,583	4	1.11%
Center at Deanne Hill	Property Management				25,558	5	0.87%
Wal-Mart Corporation	Retail				24,525	6	0.84%
Goody's Family Clothing	Retail				23,150	7	0.79%
Lawler Family Properties	Property Management				22,710	8	0.78%
Talisman Knoxville, LLC	Property Management				21,920	9	0.75%
AT&T Telecommunications	Communications				21,778	10	0.74%
		<u>\$ 629,816</u>		<u>15.09%</u>	<u>\$ 342,785</u>		<u>11.70%</u>

⁽¹⁾Data Source: City property tax office

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

Fiscal Year Ended June 30,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2002	77,513	73,595	94.95%	3,654	77,249	99.66%
2003	79,041	74,363	94.08%	4,365	78,728	99.60%
2004	79,603	75,122	94.37%	4,182	79,304	99.62%
2005	91,075	85,989	94.42%	4,676	90,665	99.55%
2006	93,804	90,406	96.38%	2,961	93,367	99.53%
2007	95,423	91,412	95.80%	3,396	94,808	99.36%
2008	98,233	93,938	95.63%	3,521	97,459	99.21%
2009	101,436	96,102	94.74%	3,684	99,786	98.37%
2010	102,836	96,600	93.94%	3,265	99,865	97.11%
2011	103,350	96,738	93.60%	-	96,738	93.60%

CITY OF KNOXVILLE, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN YEARS

(unaudited - amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities				Business Type Activities		% of Personal Income ⁽²⁾	Per Capita ⁽²⁾
	General Obligation Bonds	Notes Payable	Lease Purchase Agreement	Debt Participation Agreement	General Obligation Bonds	Total Primary Government ⁽¹⁾		
2002	\$ 91,696	\$ -	\$ -	\$ 1,521	\$ 164,384	\$ 257,601	8.99%	\$ 1,456.39
2003	79,595	1,929	-	1,464	162,855	245,843	8.39%	1,384.29
2004	103,106	-	-	1,406	158,184	262,696	8.64%	1,474.84
2005	92,595	-	-	1,346	154,890	248,831	7.94%	1,394.79
2006	82,080	-	-	1,285	151,475	234,840	7.13%	1,315.63
2007	72,370	-	-	1,222	147,910	221,502	6.48%	1,240.21
2008	63,900	-	-	1,156	144,240	209,296	6.00%	1,171.21
2009	56,560	-	-	1,088	140,810	198,458	5.85%	1,109.94
2010	51,235	-	13,470	1,017	137,230	202,952	5.93%	1,134.61
2011	46,675	-	13,470	-	133,495	193,640	5.65%	1,082.55

Note:

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

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

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

Fiscal Year	General Obligation Bonds	Less: Amounts Available in		Percentage of Estimated Taxable Value of Property	Per Capita
		Debt Service Fund	Total		
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%	358.03
2006	82,080	30,572	51,508	1.54%	288.56
2007	72,370	32,941	39,429	1.16%	220.77
2008	63,900	34,623	29,277	0.84%	163.83
2009	56,560	36,259	20,301	0.56%	113.54
2010	51,235	36,397	14,838	0.35%	82.95
2011	46,675	42,532	4,143	0.10%	23.16

CITY OF KNOXVILLE, TENNESSEE
LEGAL DEBT MARGIN INFORMATION

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

**CITY OF KNOXVILLE, TENNESSEE
PLEDGED-REVENUE COVERAGE
PRIMARY GOVERNMENT**

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

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

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
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
2009	751,042	640,292	110,750	44,117	2.51
2010	672,927	573,375	99,552	45,681	2.18
2011	724,318	620,009	104,309	47,009	2.22

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

<u>Fiscal Year</u>	<u>Gross Revenue (net of grant receipts)</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
2002	18,769	11,485	7,284	4,582	1.59
2003	18,693	11,630	7,063	4,676	1.51
2004	19,614	11,843	7,771	4,649	1.67
2005	22,746	12,643	10,103	4,806	2.10
2006	25,743	13,615	12,128	7,345	1.65
2007	27,768	15,274	12,494	7,770	1.61
2008	30,148	16,100	14,048	8,810	1.59
2009	28,369	16,934	11,435	7,905	1.45
2010	26,889	16,500	10,389	6,394	1.62
2011	28,357	17,672	10,685	6,924	1.54

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2011
(unaudited - amounts expressed in thousands)

Governmental Unit	Net Direct Outstanding Debt ⁽¹⁾	Percentage Applicable to Knoxville ⁽²⁾	Amount Applicable to Knoxville
Direct Debt:			
City of Knoxville	\$ 60,145	100.00%	\$ 60,145
Overlapping Debt:			
Knox County	404,761	41.41%	167,612
Knox County Schools	286,425	41.41%	118,609
Total Overlapping Debt	691,186		286,221
 Total Direct and Overlapping Debt	 \$ 751,331		 \$ 346,366

Note:

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

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

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

		Education Level - Population 25 & Over ⁽¹⁾							Knoxville, Metropolitan Area	
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⁾
2002	176,876	17,654,927	27,931	-	-	-	-	-	52,391	4.0%
2003	177,595	18,384,062	28,703	38.2	-	-	-	-	56,935	4.3%
2004	178,118	19,544,768	30,209	-	-	-	-	-	55,720	4.2%
2005	178,400	20,266,000	30,899	-	-	-	-	-	53,130	4.5%
2006	178,500	21,643,000	32,430	35.2	28.8%	31.1%	18.9%	12.6%	56,851	4.1%
2007	178,600	23,316,000	34,180	35.1	33.0%	25.5%	17.0%	11.0%	56,535	3.8%
2008	178,700	24,017,000	34,696	35.5	33.1%	23.9%	18.2%	11.8%	54,896	5.4%
2009	178,800	23,801,000	34,038	35.3	30.2%	26.3%	18.3%	11.5%	55,171	8.7%
2010	178,874	(5)	(5)	35.4	29.9%	26.0%	18.6%	(5)	56,516	8.2%
2011	178,874	(5)	(5)	38.9	28.8%	25.5%	19.5%	(5)	56,817	8.3%

Data sources

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

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

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

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

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

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

Employer's Name	2011			2002		
	Employees	Rank	Percentage of Total Area Employment ⁽¹⁾	Employees	Rank	Percentage of Total Area Employment ⁽²⁾
University of Tennessee, Knoxville	8,161	1	3.66%			
Knox County Public Schools	8,104	2	3.63%			
Covenant Health	9,000	3	4.03%			
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%			
State of Tennessee, Regional Offices	2,401	8	1.08%			
ALCOA	2,300	9	1.03%			
Wal-Mart Stores	2,091	10	0.94%			
Sea Ray Boats, Inc.				1,450	1	0.76%
DeRoyal Industries				1,250	2	0.66%
CTI Molecular Imaging, Inc.				720	3	0.38%
The IJ Company				700	4	0.37%
Knoxville News-Sentinel Company				620	5	0.33%
Matsushita Electronic Components				606	6	0.32%
Atlantic Research Corp. (ARC Automotive)				600	7	0.32%
Breed Technologies				530	8	0.28%
PBR Knoxville, LLC				500	9	0.26%
Phillips & Jordan				500	10	0.26%

Note:

(1) Source: Tennessee Department of Labor and Workforce Development

Employment Statistics include the Knoxville area MSA as reliable statistics for the City are not available

(2) Estimated - Reliable data no longer available

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

Department	Full-time Equivalent Employees as of June 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Administration	23.0	23.0	21.5	19.5	24.5	24.5	25.0	26.5	26.5	26.0
Finance and Accountability										
Finance	54.0	54.0	48.0	55.5	56.5	54.5	52.5	52.5	51.0	51.0
Information Systems	30.0	30.0	28.0	29.0	29.0	30.0	30.0	30.0	30.0	30.0
Subtotal	84.0	84.0	76.0	84.5	85.5	84.5	82.5	82.5	81.0	81.0
Operations & Engineering										
Engineering	88.5	89.5	86.0	88.0	88.0	90.0	89.5	89.5	88.5	88.5
Fleet Services	67.0	67.0	58.0	58.0	57.0	57.0	56.0	56.0	55.0	55.0
Inspections	31.0	31.0	30.0	30.0	31.0	31.0	31.0	31.0	29.0	29.0
Subtotal	186.5	187.5	174.0	176.0	176.0	178.0	176.5	176.5	172.5	172.5
Community and Neighborhood Services										
Public Services	335.0	338.0	315.0	308.0	309.0	307.0	307.0	305.0	305.0	305.0
Development Services	5.0	5.0	5.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0
Community Development	20.0	20.0	21.5	20.5	18.5	19.5	21.5	21.5	21.5	19.5
Recreation	63.5	62.5	58.5	60.5	60.5	59.0	58.0	57.5	55.0	55.0
Subtotal	423.5	425.5	400.0	392.0	391.0	389.5	390.5	388.0	385.5	383.5
Law	26.5	25.5	25.5	13.0	13.0	13.0	13.0	14.0	13.0	13.0
Police										
Sworn	446.0	456.0	421.0	414.0	414.0	414.0	416.0	416.0	416.0	416.0
Civilian	133.0	133.0	121.0	120.5	120.5	120.5	121.0	121.0	120.0	120.0
Emergency Management	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Subtotal	583.0	593.0	546.0	537.5	537.5	537.5	540.0	540.0	539.0	539.0
Fire										
Sworn	358.0	358.0	328.0	328.0	328.0	328.0	328.0	328.0	327.0	327.0
Civilian	12.0	12.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0	10.0
Subtotal	370.0	370.0	339.0	339.0	339.0	338.0	338.0	338.0	337.0	337.0
Board Administered/Other Departments										
Legislative	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
City Court	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Civil Service	15.0	15.0	14.0	14.0	14.0	14.5	13.0	13.0	12.0	12.0
Public Assembly Facilities	47.0	37.0	36.0	36.0	36.0	35.5	35.5	35.5	36.0	35.5
Subtotal	83.0	73.0	71.0	71.0	71.0	71.0	69.5	69.5	69.0	68.5
GRAND TOTAL	1,779.5	1,781.5	1,653.0	1,632.5	1,637.5	1,636.0	1,635.0	1,635.0	1,623.5	1,620.5

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

Department	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Public Safety										
Police										
Arrests	14,181	13,435	14,101	14,706	16,656	15,176	20,492	24,008	16,702	16,648
Citations	36,809	87,387	96,509	84,428	64,705	64,683	95,121	131,619	156,053	135,680
Fire										
Fire Inspections	3,166	3,604	4,600	4,298	4,057	4,957	3,742	4,051	3,481	3,692
Alarms Attended	19,940	17,876	17,836	17,639	18,603	19,432	20,174	21,131	20,214	20,463
First Responder Calls	10,515	11,236	9,234	9,654	9,869	9,146	10,272	11,349	10,032	10,442
Engineering										
Miles of Streets Resurfaced	51	44	37	50	42	9	84	44	38	42
Parks & Recreation										
Recreation Center Participants	328,139	198,684	158,941	309,913	314,836	338,510	372,110	537,486	596,748	620,469
Service										
Pothole Repairs (by tons of asphalt)	776	680	607	483	515	414	349	383	496	561

Sources: Various city departments

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

Department	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Public Safety										
Safety Building - Police	1	1	1	1	1	1	1	1	1	1
Fire Halls	18	18	18	18	18	18	18	18	18	18
Operations & Engineering										
Street Lights	28,170	28,545	28,545	28,983	29,436	29,440	29,506	29,801	31,205	31,500
Miles of Streets maintained	968	1,253	1,257	1,264	1,264	1,264	1,274	1,274	1,277	1,277
Parks & Recreation										
Recreation Centers	15	14	13	14	14	14	13	13	13	12
Parks	78	78	79	79	79	79	81	81	80	81
Park Acreage	1,741	1,741	1,856	1,856	1,856	1,857	1,858	1,858	1,963	1,963
Swimming Pools	4	4	4	5	5	5	5	5	5	5
Tennis Courts	61	61	61	61	61	61	68	68	68	68
Miles of Greenway	28	30	33	38	40	42	42	43	44	66
Stormwater										
Storm Sewers (miles)	367	367	371	371	372	372	372	375	375	375

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, 2011*

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**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2011**

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/10	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/11
U.S. Department of Housing and Urban Development	FEDERAL ASSISTANCE						
<u>Direct assistance</u>							
	Community Development Block Grant	14.218	B-08-MC-47-0005	\$ 832,608	\$ 1,170,857	\$ 338,249	\$ -
	Community Development Block Grant	14.218	B-09-MC-47-0005	-	1,241,320	1,718,299	476,979
	Neighborhood Stabilization Program	14.218	B-08-MN-47-0002	542,837	715,756	1,063,049	890,130
		<u>14.218</u>		<u>1,375,445</u>	<u>3,127,933</u>	<u>3,119,597</u>	<u>1,367,109</u>
	Home Grant 2006	14.239	M06-MC-47-0201	-	29,246	29,246	-
	Home Grant 2007	14.239	M07-MC-47-0201	24	499,118	499,094	-
	Home Grant 2008	14.239	M08-MC-47-0201	31,944	538,120	510,139	3,963
	Home Grant 2009	14.239	M09-MC-47-0201	525,981	525,981	-	-
	Home Grant 2010	14.239	M10-MC-47-0201	-	585,859	745,243	159,384
		<u>14.239</u>		<u>557,949</u>	<u>2,178,324</u>	<u>1,783,722</u>	<u>163,347</u>
	Empowerment Zone	14.244	EZ-99-TN-0012	621,674	2,511,189	1,889,515	-
	ARRA Community Development Block Grant	14.253	B-09-MY-47-0005	12,943	110,460	215,320	117,803
	Fair Housing 2008	14.400	FF204K084012	(2,547)	-	2,547	-
	Fair Housing 2009	14.400	FF204K094012	(34,045)	-	21,851	(12,194)
	Fair Housing 2010	14.400	FF204K104012	(8,500)	14,090	-	(22,590)
		<u>14.400</u>		<u>(45,092)</u>	<u>14,090</u>	<u>24,398</u>	<u>(34,784)</u>
	Sustainable Communities Regional Planning Grant	14.703	TNRIP0033-10	-	-	118,716	118,716
<u>Passed through from</u>							
Tennessee Housing Development Agency	Neighborhood Stabilization Program (THDA)	14.228	B-08-MN-47-0002	9,257	-	1,146,317	1,155,574
Tennessee Department of Human Services	Emergency Shelter	14.231	S-09-MC-47-005	40,028	60,077	20,049	-
	Emergency Shelter	14.231	S-10-MC-47-005	-	29,392	61,193	31,801
		<u>14.231</u>		<u>40,028</u>	<u>89,469</u>	<u>81,242</u>	<u>31,801</u>
	Homeless Prevention & Rapid Re-Housing Program	14.257	S-09-MY-47-0005	65,622	345,307	361,895	82,210
Total U.S. Department of Housing and Urban Development				<u>2,637,826</u>	<u>8,376,772</u>	<u>8,740,722</u>	<u>3,001,776</u>
U.S. Department of Justice							
<u>Direct assistance</u>							
	Healing the Heartland	16.590	2006-WE-AX-0073	48,325	123,599	123,814	48,540
	2007 Project Safe Neighborhoods	16.609	2007-GP-CX-0044	13,360	56,299	42,939	-
	2008 Project Safe Neighborhoods	16.609	2008-GP-CX-0069	28,825	41,034	12,631	422
	2009 Project Safe Neighborhoods	16.609	2009-GP-BX-0070	10,994	28,973	17,979	-
	2010 Project Safe Neighborhoods	16.609	2010-GP-BX-0026	-	-	35,199	35,199
		<u>16.609</u>		<u>53,179</u>	<u>126,306</u>	<u>108,748</u>	<u>35,621</u>
	LEIC - Regional Community Policing Institutes	16.710	2005-HS-WX-K022	63,780	63,780	-	-
Office of Violence Against Children	Transitional Housing Assistance	16.736	2007-WH-AX-0009	50,630	57,662	7,032	-
	2007 Anti-Gang	16.744	2007-PG-BX-0069	28,043	76,254	102,557	54,346
	Justice and Mental Health Collaboration	16.745	2010-MO-BX-0022	-	4,360	5,054	694
<u>Passed through from</u>							
Department of Finance and Administration:							
Office of Juvenile Justice and Delinquency Prevention	2007 Internet Crimes Against Children	16.543	2007-MC-CX-K008	120,325	421,705	436,111	134,731
	2010 ICAC Continuation Program	16.543	2010-MC-CX-K016	27,535	54,144	54,144	26,609
		<u>16.543</u>		<u>120,325</u>	<u>449,240</u>	<u>490,255</u>	<u>161,340</u>
Criminal Justice Program	2007 Byrne/Justice Assistance Grant Program	16.579	Z-06-027520-00	22,649	75,719	74,139	21,069
	2010 Byrne/Justice Assistance Grant Program	16.579	2010-DJ-BX-0769	-	-	111,145	111,145
	2007 Byrne/Justice Assistance Grant Program through Knox County	16.579	2007 F2598-TN-DJ	29,298	27,383	(1,915)	-
	2009 Byrne/Justice Assistance Grant Program through Knox County	16.579	2009-H0724-TN-DJ	7,540	28,485	29,497	8,552
		<u>16.579</u>		<u>59,487</u>	<u>131,587</u>	<u>212,866</u>	<u>140,766</u>
	ARRA 2009 Internet Crimes Against Children	16.800	2009-SN-B9-K052	77,841	208,443	201,584	70,982
	ARRA 2009 Byrne/Justice Assistance Grant	16.803	2009-SU-B9-0002	23,193	60,141	51,632	14,684
Knox County	ARRA 2009 Byrne/Justice Assistance Grant	16.804	2009-SB-B9-2035	53,112	67,176	39,178	25,114
Total U.S. Department of Justice				<u>577,915</u>	<u>1,368,548</u>	<u>1,342,720</u>	<u>552,087</u>

**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2011**

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/10	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/11
U.S. Department of Environmental Protection							
<u>Direct assistance</u>				\$	\$	\$	\$
Total U.S. Department of Environmental Protection	EPA Grant for Brownfields Assessment for the South Waterfront	66.818	BF-95443509-0	33,014	53,599	89,123	68,538
				33,014	53,599	89,123	68,538
U.S. Department of Energy							
<u>Direct assistance</u>							
	Solar America Initiative	81.111	DE-FC36-08G018095	115,781	-	63,424	179,205
	ARRA Energy & Sustainability Block Grant	81.128	DE-EE0000954	56,880	1,276,628	1,274,844	55,096
Total U.S. Department of Energy				<u>172,661</u>	<u>1,276,628</u>	<u>1,338,268</u>	<u>234,301</u>
U.S. Department of Homeland Security							
<u>Passed through from</u>							
Tennessee Emergency Management Agency	DOE 2010 Offsite Emergency Planning and Response	83.552	DE-FG05-960R22522	-	-	16,000	16,000
Tennessee Emergency Management Agency	2010 Emergency Management Performance Grant	97.042	34101-22510	-	150,000	150,000	-
Tennessee Emergency Management Agency	2008 Metropolitan Medical Response System	97.067	2008-GE-T8-0048	6,837	-	113,179	120,016
Tennessee Emergency Management Agency	2009 Metropolitan Medical Response System	97.067	2009-SS-T9-0086	807	-	60,297	61,104
Tennessee Emergency Management Agency	FY2008 Homeland Security Grant Program	97.067	2008-GE-T8-0048	-	25,180	27,000	1,820
Tennessee Emergency Management Agency	FY2009 Homeland Security Grant Program	97.067		-	-	3,430	3,430
		<u>97.067</u>		<u>7,644</u>	<u>25,180</u>	<u>203,906</u>	<u>186,370</u>
Total U.S. Department of Homeland Security				<u>7,644</u>	<u>175,180</u>	<u>369,906</u>	<u>388,740</u>
U.S. Department of Labor							
<u>Passed through from</u>							
Senior Service America, Inc.	Senior Aides (Previous Fiscal Year)	17.235	AD-16177-07-60-A-24	77,409	77,409	-	-
	Senior Aides (Current Fiscal Year)	17.235	AD-16177-07-60-A-24	-	502,353	524,098	21,745
	ARRA Senior Aides	17.235	AD-18413-09-60-A-24	15,284	15,284	-	-
Total U.S. Department of Labor				<u>92,693</u>	<u>595,046</u>	<u>524,098</u>	<u>21,745</u>
U.S. Department of Transportation							
<u>Direct assistance</u>							
	Knoxville Station Transit Center	20.500	TN-04-0022	<u>3,821,296</u>	<u>4,066,161</u>	<u>244,865</u>	<u>-</u>
	2010 STP Funding for the Transit Center	20.507	TN-95-X038	419,350	1,393,074	1,069,584	95,860
	2006 CMAQ Funding	20.507	TN-95-X004	15,802	120,905	111,971	6,868
	CMAQ - Purchase Related Equipment for Buses	20.507	TN-90-X255-E	-	-	9,214	9,214
	2008 Formula Grant	20.507	TN-90-X275	-	2,890	14,254	11,364
	2009 Formula Grant	20.507	TN-90-X300	63,520	91,607	35,630	7,543
	CMAQ - Purchase Buses	20.507	TN-95-X013	-	560,000	560,000	-
	CMAQ Farefree Ride Days	20.507	TN-95-X013B	30,624	40,000	9,376	-
	2009 Surface Transportation Grant	20.507	TN-95-X020	-	1,268,298	1,268,298	-
	Round 2 - FY08 5309 Statewide Bus & Bus Facilities	20.507	TN-04-0044-00	241,637	248,973	7,336	-
	2010 Formula Grant	20.507	TN-90-X316	3,077,127	4,147,592	1,045,091	(25,374)
	2010 CMAQ Funding	20.507	TN-95-X035-00	-	14,324	14,324	-
	2011 Formula Grant	20.507	TN-90-X335	-	-	3,224,600	3,224,600
	ARRA Funding for the LEED Certified Knoxville Transit Center	20.507	TN-96-X003-00	1,937,851	3,917,684	2,537,740	557,907
	ARRA STP Flex Funding for Vehicles	20.507	TN-66-X003-00	-	225,000	225,000	-
	ARRA STP Flex Funding - Round II	<u>20.507</u>	<u>TN-66-X004-00</u>	<u>-</u>	<u>625</u>	<u>365,953</u>	<u>365,328</u>
		<u>20.507</u>		<u>5,785,911</u>	<u>12,030,972</u>	<u>10,498,371</u>	<u>4,253,310</u>

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2011

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/10	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/11
U.S. Department of Transportation							
<u>Passed through from</u>							
Tennessee Department of Transportation	Ten Mile Creek Greenway	20.205	STP-EN-9109(47)	\$ 2,311	\$ -	\$ -	\$ 2,311
Tennessee Department of Transportation	Widening of Pleasant Ridge Rd. to 3 lanes with sidewalks	20.205	STP-M-9109(53)	1,269,569	1,380,400	146,983	36,152
Tennessee Department of Transportation	Safe Routes to School Program (Beaumont School)	20.205	SRTS-9109(128) / State 080047	-	-	246	246
Tennessee Department of Transportation	Jackson Avenue Ramps	20.205	BRZE-9109(103); Pin 106077.00	-	13,819	55,551	41,732
Tennessee Department of Transportation	Cumberland Avenue Streetscapes & Pedestrian Improvements	20.205	STP-M-9109(115); Pin 110692.00	69,423	337,038	523,451	255,836
Tennessee Department of Transportation	Upper Second Creek Greenway	20.205	State 060018; Pin 107380.00	-	-	24,072	24,072
Tennessee Department of Transportation	South Waterfront Pedestrian Bridge to U.T.	20.205	Contract 090266	-	83,569	135,313	51,744
Tennessee Department of Transportation	ARRA Papermill Bluff Greenway	20.205	ARRA-STP-M-9109(132)	662	335,726	584,906	249,842
Tennessee Department of Transportation	Kingston Pike/Northshore Feasibility Study	20.205	STP-M-332(7) State 2001638	-	12,186	12,186	-
Tennessee Department of Transportation	Holbrook Bridge over Fountain Road	20.205	BRZE-9109(122)	7,724	79,607	84,589	12,706
Tennessee Department of Transportation	Pedestrian Linkages to Volunteer Landing	20.205	TCSP(2) PIN#043650	21,772	235,578	216,214	2,408
		<u>20.205</u>		<u>1,371,461</u>	<u>2,477,923</u>	<u>1,783,511</u>	<u>677,049</u>
Governor's Highway Safety	Commercial Vehicle Enforcement Grant	20.218	GG-07-20579-01	633	-	(633)	-
	Federal Motor Carrier Safety Grant	20.218	MH104720000000	-	55,902	100,457	44,555
		<u>20.218</u>		<u>633</u>	<u>55,902</u>	<u>99,824</u>	<u>44,555</u>
Governor's Highway Safety	09/10 Governor's Highway Safety Grant	20.600	Z-10-220019-00	24,468	43,614	20,181	1,035
	10/11 Governor's Highway Safety Grant	20.600	Z-11	-	45,518	69,898	24,380
		<u>20.600</u>		<u>24,468</u>	<u>89,132</u>	<u>90,079</u>	<u>25,415</u>
Total pass through assistance				<u>1,396,562</u>	<u>2,622,957</u>	<u>1,973,414</u>	<u>1,494,038</u>
Total U.S. Department of Transportation				<u>11,003,769</u>	<u>18,720,090</u>	<u>12,716,650</u>	<u>5,000,329</u>
Total Federal Assistance				<u>\$ 14,525,522</u>	<u>\$ 30,565,863</u>	<u>\$ 25,121,487</u>	<u>\$ 9,081,146</u>

**CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2011**

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 06/30/10	Cash Receipts	Expenditures	Receivable (Deferral) 06/30/11
STATE ASSISTANCE							
Tennessee Department of Environment and Conservation	Household Hazardous Waste-Fourth Year Funding		GG-08-23533-00	\$ -	\$ 85,000	\$ 85,000	\$ -
Tennessee Department of Transportation Criminal Justice Program	2010-2011 State Operating Grant		47-UROP-S3-007	-	2,050,754	2,050,754	-
	Internet Crimes Against Children by State Legislation		GG-08-23491-00	116,345	116,345	-	-
	2010-2011 East TN ICAC Program		GG-11-33309-00	-	130,500	240,000	109,500
Tennessee Department of Transportation	Kingston Pike/Northshore Feasibility Study		STP-M-332(7) State 2001638	-	3,046	3,046	-
Tennessee Department of Transportation	FTA-TN-04-0022		GG-08-27785-00	626,338	656,945	30,607	-
Tennessee Department of Transportation	FTA-TN-90-X241		GG-06-12804-00	434	-	(3)	431
Tennessee Department of Transportation	FTA-TN-90-X256		47-CMAQ-S3-004	4,926	31,203	27,993	1,716
Tennessee Department of Transportation	FTA-TN-90-X255-ES		GG-09-26134-00	-	-	1,152	1,152
Tennessee Department of Transportation	FTA-TN-90-X275		GG-09-26971-00	-	197	1,782	1,585
Tennessee Department of Transportation	FTA-TN-90-X300		GG-09-31000-00	7,941	11,448	4,452	945
Tennessee Department of Transportation	FTA-TN-04-044		GG-10-33476-00	30,205	31,122	917	-
Tennessee Department of Transportation	FTA-TN-90-X316		GG-10-34114-00	384,641	518,309	130,636	(3,032)
	FTA-TN-		contract is pending	-	-	403,075	403,075
Total State Assistance				<u>1,170,830</u>	<u>3,634,869</u>	<u>2,979,411</u>	<u>515,372</u>
Total Federal and State Assistance				\$ <u>15,696,352</u>	\$ <u>34,200,732</u>	\$ <u>28,100,898</u>	\$ <u>9,596,518</u>

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CITY OF KNOXVILLE, TENNESSEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2011

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, 2011. These 2011 loan funding balances are also included in the federal expenditures presented in the schedule.

Cluster / Program Title	CFDA Number	FY 11 Loan Funding	Outstanding Balance
Community Development Block Grants	14.218	\$ 237,758	\$ 3,725,069
Empowerment Zone	14.244	1,887,511	4,092,932
HOME Investment Partnerships Program	14.239	1,460,091	10,482,876
Total loans		<u>\$ 3,585,360</u>	<u>\$ 18,300,877</u>

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	Increase (Reductions) to Inventory - other	Total expenditures per Schedule of Federal and State Awards
Community Development Block Grants	\$ 4,533,150	\$ (51,916)	\$ 4,481,234

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

**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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units of the City as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs and referenced as 07-1, 08-2, and 10-1 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-1, 11-2, and 11-3.

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

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 29, 2011

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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

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

Compliance

We have audited the City of Knoxville, Tennessee's ("the City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units, and which received \$7,216,355 in federal awards which is not included in the schedule during the year ended June 30, 2011. Our audit, described below, did not include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority because these component units engaged other auditors to perform an audit in accordance with Circular A-133.

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

In our opinion, the City of Knoxville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-1, 11-2, and 11-3.

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Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-1, 11-2 and 11-3. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 29, 2011

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- | | | | | |
|---|---------------|-----|---------------|----|
| • Material weakness(es) identified? | <u> </u> | yes | <u> X </u> | no |
| • Significant deficiency(ies) identified? | <u> X </u> | yes | <u> </u> | no |

Noncompliance material to financial statements noted?	<u> </u>	yes	<u> X </u>	no
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Federal Awards

Internal control over major federal programs:

- | | | | | |
|---|---------------|-----|---------------|----|
| • Material weakness(es) identified? | <u> </u> | yes | <u> X </u> | no |
| • Significant deficiency(ies) identified? | <u> X </u> | yes | <u> </u> | 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?	<u> </u>	yes	<u> X </u>	no
--	---------------	-----	--------------	----

Major federal programs for the City of Knoxville for the fiscal year ended June 30, 2011 are:

<u>Program Name</u>	<u>CFDA#</u>
Community Development Block Grant	14.218/14.253
Neighborhood Stabilization Program	14.228
Homeless Prevention and Rapid Re-housing	14.257
Internet Crimes against Children Task Force Program	16.800
Senior Community Service Employment Program	17.235
Federal Transit – Capital Investment and Formula Grants	20.500/20.507
Energy Efficiency and Conservation Block Grant Program	81.128
Homeland Security Grant Program	97.067

Dollar threshold used to distinguish between Type A and Type B Programs:	<u>\$753,645</u>
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Auditee qualified as low-risk auditee?	<u> </u>	yes	<u> X </u>	no
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CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2011

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

Unresolved Prior Year Audit Findings:

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:	<p>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.</p> <p>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.</p>
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:	<p>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.</p> <p>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.</p>

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2011

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

Unresolved Prior Year Audit Findings (continued):

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

Management's Response: We continue to appreciate the auditor's recognition of our improvements in the proper recording of City assets. We also recognize that it would expedite the audit process somewhat but the reality is that with our current staffing, we need to allocate our personnel resources where we feel it serves the needs of the department in the most productive manner possible. During the balance of the year, the employee responsible for the year end capitalization of the assets is engaged in verifying the physical presence and condition of the assets and other accounting functions associated with efforts of the department. We will continue to look for ways to expedite the asset recording process but do not anticipate being able to implement the auditor's recommendation in the foreseeable future.

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 in 2008.

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

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

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

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

Current Status: This finding has not been resolved. During the June 30, 2011 audit, we noted that two departments violated the three day deposit rule four times out of the forty items selected for testing. The City has implemented additional procedures in various departments to attempt to limit the possibility of violations occurring, but certain departments continue to violate the rule.

Management's Response: We continue to remind the departments of this provision in Tennessee law and for the most part, we are compliant. Given the diverse geographical locations of our facilities, it is not surprising that an occasional delay in the processing of receipts will occur but we continue to strive for compliance due to the requirements of the law as well as good internal control.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2011

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

Unresolved Prior Year Audit Findings (continued):

Finding 10-1:	Accounts Payable Subsidiary Reconciliation
Criteria:	The City should maintain an accurate accounts payable subsidiary ledger that is properly reconciled to the City's detail financial records.
Condition:	The City implemented an upgrade to their Oracle accounting software that corrupted the detail accounts payable subsidiary ledger. The subsidiary ledger does not agree to the general ledger control account and there does not appear to be any appropriate patch for the issue.
Context:	The accounts payable subsidiary ledger maintains all fund-level records for accounts payable.
Effect:	The accounts payable detail subsidiary ledger could not be reconciled to the general ledger without extensive research.
Cause:	The software upgrade caused the condition, but the software company and the City's Information Systems department cannot determine the cause of the corruption of the module. Therefore, they have not developed a solution to the issue. The finance department was not performing a monthly reconciliation from the accounts payable subsidiary ledger to the general ledger so the condition was not discovered until the audit process began.
Recommendation:	The City reconciles the accounts payable summary subsidiary ledger on a monthly basis to the general ledger, but the detail subsidiary ledger which provides each invoice associated with the balance would be a more meaningful tool to reconcile to in order to determine invoice aging and issues with vendors. We recommend that the City should continue to pursue a solution to the software issue or develop a process for reconciling the detail subsidiary ledger on a monthly basis until a solution is determined.
Current Status:	The detailed subsidiary ledger report still contained errors due to system issues. Management believed that the report problems had been resolved because the reconciliation to the subsidiary report involved the general ledger balances on the report. Instead, the reconciliation should agree with the detailed invoice totals by fund. Management should continue to monitor the detail subsidiary ledger report on a monthly basis to ensure that the detail subsidiary balances by fund agrees to the general ledger balances by fund.
Management's Response:	We concur with the auditor's finding and recommendations. Information Systems is working with our software vendor to correct the report deficiencies.

Current Year Audit Findings:

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

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2011

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

Current Year Audit Findings:

Finding 11-1:	Loan Processing System for the Community Development Department
Program:	Community Development Block Grant ("CDBG") (CFDA# 14.218)
Criteria:	Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency.
Condition:	During our audit, we noted that the Community Development Department had implemented a new loan processing system, but the loans in process at year end were not reported to the City Finance department for proper recording in the financial statement records.
Questioned Cost:	There are no questioned costs identified.
Context:	Total loans recorded for CDBG for fiscal year 2011 totaled \$3,725,069.
Effect:	The loan receivable and deferred revenue accounts are understated by the amount of in process loans.
Cause:	Loan balances were not properly reflected in the financial statements.
Recommendation:	We recommend the Community Development Department track and provide loans in process balances at the end of the fiscal year to properly reflect a more accurate loans receivable balance for reporting purposes.
Management's Response:	At fiscal year end, we will run a report of projects that are in process and book the amount of the applicable receivable. Information systems has been requested to prepare a report.
Finding 11-2:	Capital Assets Records and Reporting
Program:	Metropolitan Medical Response (CFDA# 97.067)
Criteria:	Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency for both financial and capital asset records for reporting and required biannual inventory.
Condition:	During our audit, we noted that the Knoxville Emergency Management Agency ("KEMA") records for reporting to the awarding agency had been maintained on a purchase order basis instead of expended basis and reconciled to the City's financial records in Orbit. In addition, the capital assets records for assets purchased with grant funds maintained by KEMA were not properly maintained in order to perform the required biannual physical inventory for capital assets. Also related to capital asset records, the required Equipment Report which is scheduled to be filed within 60 days of the grant contract end date had not been filed.
Questioned Cost:	There are no questioned costs identified.
Context:	The expenditures for Metropolitan Medical Response for fiscal year 2011 were \$203,906.
Effect:	Required reports were not filed timely and accurately at times. Biannual inventory for equipment was not performed.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2011

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

Current Year Audit Findings (continued):

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

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

Management's Response: During the audit, Finance Staff met with Knoxville Emergency Management Agency (KEMA) personnel to go over the deficiencies noted by the auditors. All aspects of the operation were reviewed and KEMA personnel recognized the issues and have commenced corrective procedures related to the findings and other concerns raised by Finance.

Finding 11-3: Expenditure Reimbursement Requested from Wrong Grant

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

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

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

Questioned Cost: There are no questioned costs identified.

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE

Schedule of Corrected Prior Audit Findings
For the Year Ended June 30, 2011

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.
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:	Loans were recorded properly in total but the old loan accounting system did not provide the information necessary to accurately record loans by fund. The new loan accounting system was supposed to resolve this deficiency during the fiscal year but its completion was delayed for various reasons and it is not expected to be on line until February 2011. In the interim, we downloaded the data base from the old system and using Excel, were able to reconcile all loans by fund and type. This was not completed until September 2010 and the accounting adjustments were made in November. We consider this comment closed.
Current Status:	This finding has been corrected during the 2011 fiscal year.

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Corrective Action Plan

Finding 07-1:	Timely Account Reconciliations and Recording of Capital Assets
Name of contact person:	Jim York, Finance Director
Corrective action:	Timely Account Reconciliations – Previously Resolved Recording of Capital Assets – N/A
Anticipated Completion Date:	N/A – We continue to appreciate the auditor's recognition of our improvements in the proper recording of City assets. We also recognize that it would expedite the audit process somewhat but the reality is that with our current staffing, we need to allocate our personnel resources where we feel it serves the needs of the department in the most productive manner possible. During the balance of the year, the employee responsible for the year end capitalization of the assets is engaged in verifying the physical presence and condition of the assets and other accounting functions associated with efforts of the department. We will continue to look for ways to expedite the asset recording process but do not anticipate being able to implement the auditor's recommendation in the foreseeable future.
Finding 08-2:	Timely Depositing of Funds
Name of contact person:	Jim York, Finance Director
Corrective action:	We continue to remind the departments of this provision in Tennessee law and for the most part, we are compliant. Given the diverse geographical locations of our facilities, it is not surprising that an occasional delay in the processing of receipts will occur but we continue to strive for compliance due to the requirements of the law as well as good internal control.
Anticipated Completion Date:	Continuously
Finding 10-1:	Accounts Payable Subsidiary Reconciliation
Name of contact person:	Jim York, Finance Director
Corrective action:	We concur with the auditor's finding and recommendations. Information Systems is working with our software vendor to correct the report deficiencies.
Anticipated Completion Date:	We estimate that the problems will be corrected by March 31, 2012.

Corrective Action Plan (Continued)

Finding 11-1: Loan Processing System for the Community Development Department

Name of contact person: Becky Wade, Community Development Director

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

Anticipated Completion Date: For all fiscal years ended after June 30, 2012

Finding 11-2: Capital Assets Records and Reporting

Name of contact person: Alan Lawson, Emergency Management Director

Corrective action: During the audit, Finance Staff met with Knoxville Emergency Management Agency (KEMA) personnel to go over the deficiencies noted by the auditors. All aspects of the operation were reviewed and KEMA personnel recognized the issues and have commenced corrective procedures related to the findings and other concerns raised by Finance.

Anticipated Completion Date: November, 2011

Finding 11-3: Expenditure Reimbursement Requested from Wrong Grant

Name of contact person: Various

Corrective action: When the billing mistake was discovered, corrected reports were prepared and filed with the appropriate agencies by the departments responsible for the grants.

Anticipated Completion Date: October, 2011