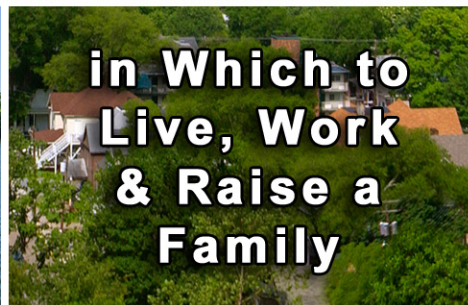




CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2013

KNOXVILLE, TENNESSEE
WWW.CITYOFKNOXVILLE.ORG

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF KNOXVILLE, TENNESSEE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

**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 Year Ended June 30, 2013

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INTRODUCTORY SECTION



December 24, 2013

In compliance with the City of Knoxville Charter requirements, I am submitting the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. 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 63 was adopted in FY2013, which pertains to financial reporting of deferred outflows and deferred inflows. The impact on the financial statements was formatting and presentation only primarily changing the caption "net assets" to "net position". The City also elected early adoption of GASB Statement 65 which pertains to items previously reported as assets and liabilities. As a result, the costs related to issuance of debt, previously deferred, were restated as if they were reported as an outflow of resources when incurred. Both of these changes are discussed further in the footnotes and the Management's Discussion and Analysis.

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

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

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

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

Governmental Structure

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

Local Economic Condition

The City of Knoxville is the third largest City in the State of Tennessee, having a population of 182,200 (2012 Census). Located in East Tennessee at the headwaters of the Tennessee River, the City serves as the economic center of the East Tennessee area, including portions of Kentucky, North Carolina and Virginia. Its trade sector is one of the strongest in the state.

Knoxville has a diversified economy and was ranked in the Top 50 Best Places for Business and Careers, according to Forbes.com, for 2013. This ranking follows a late 2012 designation that the City was only one of three cities in the country to have recovered from the recession (Reuters.com).

With a business-friendly environment, the City opened the Knoxville Entrepreneur Center (KEC) in April as a business accelerator that will help budding entrepreneurs turn ideas into reality. The KEC is a significant component of Knoxville's future economic success, which depends on the City's ability to attract, develop and retain talented people. The center will help business owners collaborate on ideas that will be transformed into jobs and a stronger tax base.

Tourism is an economic generator for Knoxville. According to the Tennessee Department of Tourist Development, Knoxville/Knox County created more than \$20 million in local county tax receipts and more than \$4 million in state tax receipts in 2012. The area also generated \$884.2 million in direct domestic spending, produced \$291.8 million in worker income and paychecks and generated 9,500 jobs.

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

<u>Year</u>	<u>Collections</u>	<u>Change</u>
FY 03/04	\$30,529	5.16%
FY 04/05	\$31,785	4.11%
FY 05/06	\$34,514	8.59%
FY 06/07	\$36,659	6.21%
FY 07/08	\$37,274	1.68%
FY 08/09	\$34,186	(8.28%)
FY 09/10	\$32,654	(4.48%)
FY 10/11	\$33,849	3.66%
FY 11/12	\$36,379	7.47%
FY 12/13	\$35,028	(3.71%)

As shown above, the City, in FY 12/13 experienced a 3.71% decrease in local sales tax. The decrease appears to be a drop in overall collections with the results from FY 11/12 driven by the costs/repairs associated with cleanup from the storms in the spring of 2012.

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. In 2012, the Knoxville MSA had a labor force totaling 429,528 workers with an average unemployment rate of 6.6 representing an improvement from last year's 7.2 percent. Local rates are also lower than the statewide figure of 8.0 percent and the national unemployment average of 8.1 percent for 2012. This decrease continues the trend for Knoxville's lower unemployment rate yet another year. As of September 2013, Knoxville's unemployment rate has increased slightly to 6.8%.

An extensive transportation network connects Knoxville to the U. S. marketplace. Nearly half of the nation's population is within an eight to ten hour drive of Knoxville via I-40, I-75, and I-81 which meet in the metro area. The City is directly linked to the Great Lakes by the Interconnected Inland Water System and to the Gulf of Mexico by the Tennessee-Tombigbee Waterway. Barge shipping is facilitated by three local river terminals. Also serving the area are 125 truck lines, two railroads, and six airlines.

The Knoxville Utility Board (KUB) provides electricity, water and wastewater, and gas to more than 439,000 customers in Knox, Union, Granger, Jefferson and Sevier Counties. It is comprised of 5 major plants, 297 remote facilities, and employs about 930 people. Operating with an \$841 million budget and \$1.5 billion in plant assets, it is the fourth largest customer of the Tennessee Valley Authority.

The McGhee Tyson Airport (MKA) is served by eight major airlines serving 19 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Miami, New York, Chicago, Denver and Washington D.C. Departures and arrivals total 1.7 million passengers annually. The direct and indirect economic impact of the airport is estimated by the Metropolitan Knoxville Airport Authority to be approximately \$1 billion annually. This figure includes payroll, local spending, transportation cost savings, capital spending and other benefits. To build on our economic success, the City of Knoxville became a part of a regional partnership to attract more air carriers to the airport. The Competitive Airfare Partnership is part of an Innovation Valley strategy to encourage more tourists and visitors to the area, and to promote business relocation and industrial development efforts.

Knoxville Area Transit (KAT) provides around 24 public bus routes, operating 100 vehicles and carrying around 3.7 million passengers a year in the City. In Fall of 2010 KAT moved into its new downtown Knoxville Station Transit Center which serves as the major public transportation hub for metropolitan Knoxville. The new facility is the City's first Silver LEED-certified government building.

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

Knox County is the principal Gateway to the Great Smoky Mountains National Park, located 40 miles to the southeast. There are over 500,000 acres that make up the 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, Outdoor Knoxville, Volunteer Landing, Neyland Stadium, home of the University of Tennessee Volunteer football team, and the Knoxville Zoological Gardens.

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

Knoxville consistently receives high honors for quality of life. Forbes magazine recently listed Knoxville among the 25 best places to retire, citing a good economy, low living costs, average home prices and good medical staffing. The American Chamber of Commerce Researchers Association (ACCRA) ranked Knoxville as one of the more affordable southeast urban areas with a cost of living index of 89.3 in 2012. The Cost of Living (COL) Index measures the relative price levels for consumer goods and services in metropolitan and nonmetropolitan areas whose chambers agree to participate. With the average of all participating cities equaling 100.0, Knoxville consistently ranks among the top markets for low cost of living. Not only does Knoxville offer a high quality of life, but it has been recognized as a great place to work. CareerBliss.com recently ranked Knoxville as the second happiest city for workers, based on factors such as compensation, growth opportunities and company culture.

The quality of life, a low cost of living, convenient interstate access as well as other factors make the area an attractive location for many types of operations. Knoxville serves as home to numerous customer service centers, including Jewelry Television by ACN, Cendant Corporation, ClientLogic Corporation, G.C. Services, Kimberly-Clark Corporation, Nova Information Systems, U.S. Cellular and Whirlpool Corporation. The City has worked with these firms, and others, to help foster relocation to Knoxville, or expansion of existing facilities. Other national and global leaders in the area include Home and Garden Television (HGTV), Clayton Homes, DeRoyal Industries, Pilot/Flying J Travel Centers, Regal Entertainment, Brunswick Corporation, and Green Mountain Coffee. Sysco Corporation, one of the largest food service marketers and distributors in North America, also calls the Knoxville area home.

Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's (UTK) main campus which experienced an enrollment of 27,018 students for Fall 2013, including its teaching hospital and veterinary school. U.S. News and World Report ranks UTK in the top third, 46 of 164 national public universities. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are five hospitals including the only two trauma centers for a 27-county area. The presence of the Tennessee Valley Authority, UT-Battelle, and BWXT-Bechtel serve as a magnet for technology-based corporations in the East Tennessee area. The growing trend toward allowing technology transfer to private industry is also benefiting the region.

Relevant Financial Policies/Controls

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

Budgetary Controls

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

Other information

Independent Audit

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee selected Crosslin & Associates, P.C. to perform the fiscal year 2013 audit.

MAJOR INITIATIVES

I. Redevelopment –

Knoxville is the hub of the East Tennessee region. Since its founding in 1791, the best of its Appalachian heritage remains today - a strong work ethic, a family-centered community, and an intense respect for the natural beauty that envelopes the region.

Downtown Knoxville has enjoyed a sustained resurgence in recent decades, with a vibrant music scene and cultural attractions (from the Women's Basketball Hall of Fame to the Knoxville Museum of Art), cinema, shopping, and dining opportunities.

The Office of Redevelopment has capitalized on this resurgence and in 2013 embarked upon several initiatives to bolster downtown Knoxville. One of the keys to its continued success is the adoption of the Downtown Wayfinding Project. Redevelopment staff received Environmental Clearance and submitted Right of Way and Utility Clearance to the Tennessee Department of Transportation for the project. The project is aimed at making it easier for visitors and residents to navigate around downtown Knoxville as well as highlight attractions and offerings in an appealing and informative manner.

Redevelopment also led efforts on a \$165 million project on the former Baptist Hospital site along Knoxville's South Waterfront. The 24-acre site will feature a complex with luxury apartments, a student apartment complex, a hotel and a restaurant. The project is being developed by Blanchard & Calhoun Commercial Corporation of Augusta, Ga., and is part of the Urban Renewal Plan and South Waterfront Redevelopment.

Also along the South Waterfront, the City completed a public improvement project by extending the CityView Riverwalk to one-quarter mile, connecting it to an asphalt greenway. The new extension includes tree planting and landscaping, benches, bike racks, lighting and irrigation. Within the same area is the Sevier Avenue Streetscape project. Approximately \$5.4 million has been designated for its construction and the completion of a park roadway network.

In one of the busiest areas of the downtown corridor is the Cumberland Avenue project, which has seen a number of advancements. A Form-Based Code was adopted and right-of-way acquisitions were finalized for Phase I of the project. More than \$130 million of private investment has been leveraged in the area.

With the support and leadership of Knoxville Mayor Madeline Rogero, the staff collaborated with several departments on a variety of projects including:

- Completion of the a new State Street Garage parking deck and overpass
- Redevelopment of three older buildings – JC Penney, Knoxville Utilities Board, and Medical Arts
- Fort Dickerson Park Roadway alignment project, in conjunction with Engineering and Parks and Recreation
- Completion of Constructability Review of shelved design plans for Suttree Landing Park and Waterfront Drive
- Acquisition of McClung Warehouses, with the Law Department and Knoxville's Community Development Corporation

The staff also held a Downtown Summit, which brought together more than 200 residents for their input in the next stage of downtown development.

The City of Knoxville encourages reinvestment in other parts of the City through the Community Development Department. Initiatives such as owner-occupied rehabilitations, blighted property acquisitions, and a commercial façade program enhance targeted redevelopment areas. The façade program better the appearance of buildings and serves to improve the economic viability of these areas. Better aesthetics are known to increase property values, improve the marketability of space within the buildings and draw businesses and residents to the area.

The Community Development Department also received a \$2.5 million Lead Hazard Control grant from the Department of Housing Development. The competitive grant will enable the City to address lead hazards and other health threats in 250 homes occupied by low-income families.

II. Sustainability

Knoxville has a commitment to energy efficiency and sustainability. The City was designated a Platinum Valley Sustainable Community by the Tennessee Valley Authority (TVA) in September. The Valley Sustainable Community program recognizes the importance of sustainability efforts to economic development, and Knoxville was the first to earn the Platinum distinction. The designation is a magnet for companies looking to expand or relocate in a sustainable community. The Knoxville Chamber works closely with the City to identify potential interest from companies.

The Office of Sustainability worked with the IBM Smarter Cities Challenge team on a report calling for a multi-pronged approach to help low-income residents weatherize their homes and learn more about energy efficiency. The goal is to reduce the need for emergency utility bill assistance. The City is working with partners, including Knoxville Utilities Board, TVA, and the Community Action Committee, toward five goals: Develop one voice around a shared vision; harness the available data; educate the community on weatherization and energy efficiency; identify funding sources to implement improvements; and engage local landlords as part of the discussion.

The City's sustainability efforts extended to a partnership with Zipcar, Inc., to offer a car sharing program. The convenient transportation option is now available in downtown Knoxville and The University of Tennessee campus. The cars help communities cut down on air pollution and are an alternative to the high costs of fuel.

This year's budget has funding for an alternative transportation coordinator in the Engineering Department, with expertise in engineering for pedestrians, cyclists and mass transit. This will help to improve air quality.

In November, Mayor Rogero was selected as one of 26 governmental leaders to serve on a task force to advise President Barack Obama on climate preparedness and resilience-building efforts. The State, Local and Tribal Leaders Task Force on Climate Preparedness and Resilience was formed to develop key actions the Federal government can take to better support state, local and tribal preparedness. The Task Force will make recommendations on removing barriers to resilient investments, modernizing grant and loan programs, and developing information and tools to better serve communities.

III. Livability

Knoxville has received national rankings for its quality of living factors. It was named as one of the Top 10 Best Places to Retire by Livability.com, and CareerBliss ranked it one of the Top 3 places on the list of "Happiest Cities to work in Right Now." Blue Ridge Country's Mountains Readers Poll found Knoxville ranked in the Top 3 Best Big Cities. Knoxville was also named one of the Top 10 Outdoor Adventures via Public Transportation by Outdoor Magazine. One of the reasons for the rankings may be due to Knoxville's high energy for outdoor recreation, its Urban Wilderness, which features 1,000 forested acres that includes 10 parks, and its access to blueways and more than 90 miles of greenways.

The City has more than 2,000 acres of parks with plenty of opportunities for children and families to get out and exercise.

One of the Parks and Recreation Department's biggest initiatives is *Let's Move!* A health campaign spearheaded by First Lady Michelle Obama, *Let's Move!* encourages children to live healthy lifestyles. Knoxville is now an official "*Let's Move! City*" after meeting park availability criteria, along with other requirements. Mayor Rogero recently visited the White House and participated on a panel about *Let's Move!* as a guest of First Lady Michelle Obama's.

The City recognizes the quality of life can depend on its attractions, too. The budget calls for a \$10 million capital project for the Knoxville Zoo, the City's most-visited year-round attraction - with over 400,000 guests last year. The zoo is also a top 20 attraction in the state of Tennessee based on annual attendance. The Knoxville Zoo is a key economic driver with an estimated \$22.8 million in economic impact from the out-of-town tourists who visit each year.

Great quality of life also depends on strong neighborhoods. The City launched an 11-week training program for neighborhood leaders called "Building Strong Neighborhood Organizations" with 18 leaders participating from 17 neighborhoods across Knoxville. Another initiative to strengthen neighborhoods and communities was the Neighborhoods Conference, which drew more than 500 people to learn more about city government and how to make neighborhoods work better.

A vibrant arts and culture scene greatly contributes to the quality of life. The City has provided \$408,000 for 26 arts and cultural organizations, and another \$304,000 is budgeted for grants to 29 nonprofit partners that provide essential social services that address special needs.

IV. Other

Like most cities, Knoxville has a pension system that was found to be unsustainable. The City has dealt with the long-term impact of an unfunded pension system through reform. Employees hired after Jan. 1, 2013, have a hybrid pension plan that will be more sustainable. That plan, a mix of defined contribution/defined benefit, was approved by Council and passed in a referendum by voters – thus, avoiding greater pension shortfalls in the future.

The City is poised to increase its work with small businesses. A Small Business Ordinance was proposed and a Small Program Management Office will be established to promote local small business growth and capacity, increase jobs in the local small business sector and encourage teaming between large prime contractors and small local businesses. The City plans to add a Small Business Program Manager to be responsible for this new office.

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, 2012. This was the twenty-sixth 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.

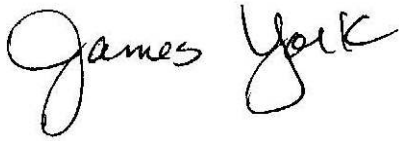
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Knoxville received GFOA's Distinguished Budget Presentation Award for the annual operating budget dated July 1, 2013. This marks the twenty-fifth 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, Crosslin & Associates, P.C., and the City Council audit committee comprised of Nick Della Volpe (Chair), Daniel Brown, Brenda Palmer, Finbarr Saunders and Marshall Stair. The national recognition afforded the City of Knoxville could not have been achieved without the increasing participation and enthusiasm of the citizens of this community. Their exceptional response has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvilleians.

Sincerely,

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

James York
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Knoxville
Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

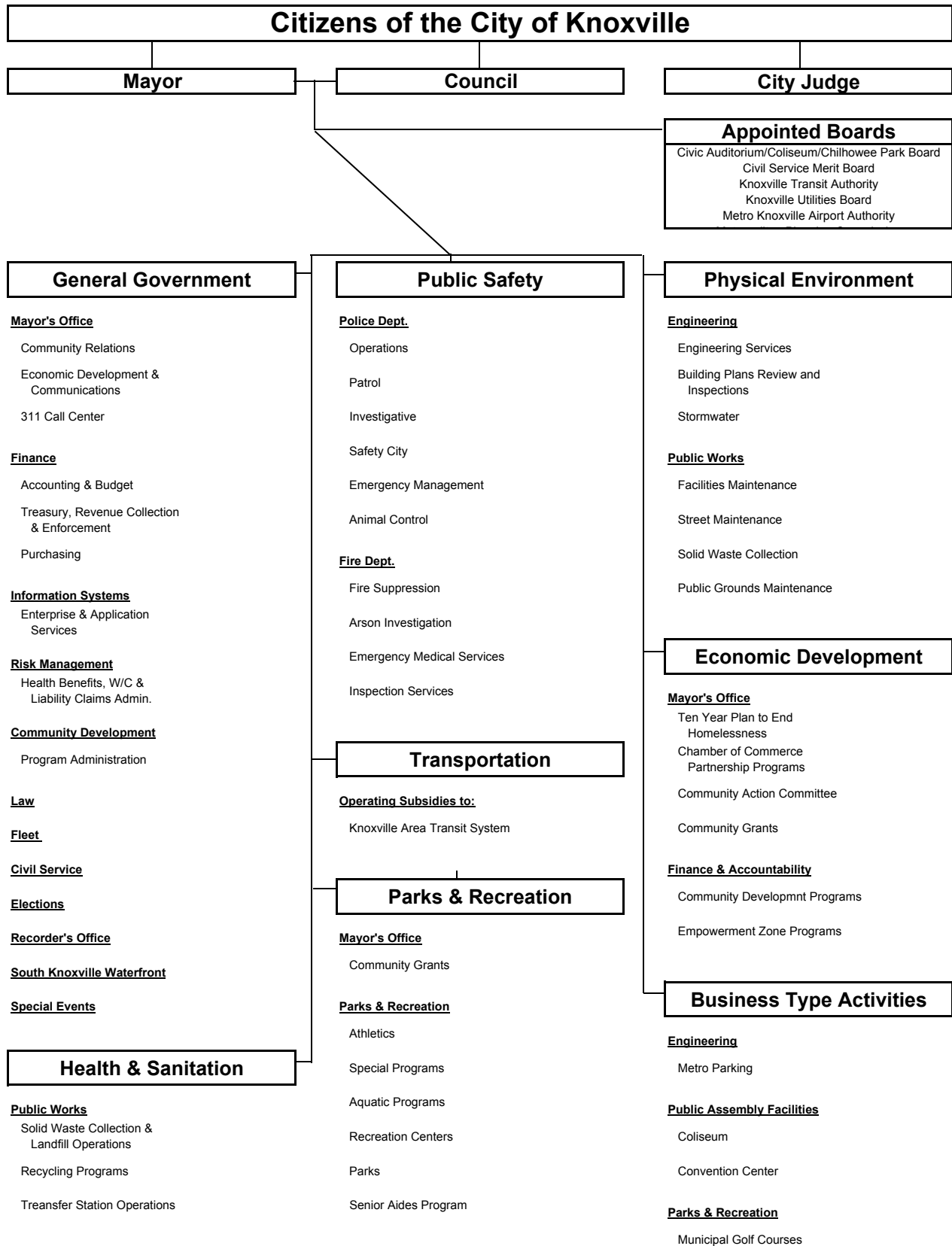
June 30, 2012



Executive Director/CEO

City of Knoxville, Tennessee

Organizational Structure by Function



CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF PRINCIPAL OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR

Madeline Rogero

CITY COUNCIL

**George Wallace
Brenda Palmer
Marshall Stair**

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

FINANCIAL SECTION



Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following discretely presented component units: the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority, which represents 97% of the total assets, 95% of total net position and 96% of the total revenues of the aggregate discretely presented component units of the City. We also did not audit the financial statements of the City Employees' Pension Trust Fund, which represents 99% of the total assets and 100% of total net position of the fiduciary funds of the City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Knoxville, Tennessee, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparisons for the general fund and miscellaneous community development funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 3, in fiscal year 2013, the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 20 and the schedules of funding progress of the pension and other postemployment benefits plans on pages 89 and 90, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules on pages 92 to 126, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Tennessee, and is also not a required part of the basic financial statements.



The combining and individual fund financial statements and schedules and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules and the schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 24, 2013

Management's Discussion and Analysis

This Management Discussion and Analysis (MD & A) seeks to aid the reader in understanding the City of Knoxville Tennessee's basic financial statements and financial position. This section is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page "i" and with the financial statements that follow. All amounts are expressed in dollars, unless otherwise specified, for the results of operations for the Fiscal Year ending June 30, 2013.

Financial Highlights

- The assets and deferred outflows of resources of the City of Knoxville primary government exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$596,958,233 (*net position*). Of this amount, \$282,690,226 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net position increased by \$29,785,062, a change of 5.25% when compared to fiscal year 2011/12. This gain stems from effective budgetary controls and involvement of all employees in controlling expenses.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$221,910,259, an increase of \$17,304,730 over the prior year. Of this total, \$190,437,012 or 85.8% is either restricted, committed, or assigned. A balance of 30,435,768 is available for spending at the City's discretion.
- The ending Fund Balance in the City's General Fund increased by \$10,430,467, or 17.5%. Tax collections, particularly the state shared Halls Income Tax, were much higher than anticipated, and when augmented by efficient use of resources contributed significantly to the budgetary surplus for the year. Consistent with new fund balance standards, a total of \$300,189 is considered non-spendable and \$39,419,002 is assigned or committed. This leaves a balance of \$30,435,768 available for spending at the City's discretion.
- The City's total debt for the primary government decreased by \$9,495,000 (5.3%) to \$168,895,000 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 POSITION

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

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

STATEMENT OF ACTIVITIES

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

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

Funds Financial Statements

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

Governmental Funds

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

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

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

Major Governmental Funds

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

Non-Major Governmental Funds/Special Revenue Funds

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

Permanent Fund

Krutch Park Trust

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

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

The Balance Sheet provides a picture of the financial (but not capital) assets associated with governmental activities, liabilities payable from current financial resources, deferred inflows 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 Position reports all assets and deferred inflows, and liabilities and deferred inflows, including capital assets and long-term liabilities. Proprietary funds reflect their net position according to their availability for use in operations.

The Statement of Revenues, Expense, and Changes in Fund Net Position isolate operating revenues and expenses from other changes in net position 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 position based on their availability for use in operations.

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

Notes to the Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

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

Statement of Net Position at June 30, 2013

A condensed version of the Statement of Net Position follows:

Condensed Financial Information						
Statement of Net Position						
Primary Government						
For Fiscal Year Ending June 30						
(In \$1,000's)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Assets						
Cash and investments	\$ 294,782	\$ 278,947	\$ 36,879	\$ 32,286	\$ 331,661	\$ 311,233
Other assets	175,696	168,033	7,452	8,622	183,148	176,655
Capital assets	274,600	277,366	153,873	153,845	428,473	431,211
Total assets	745,078	724,346	198,204	194,753	943,282	919,099
Deferred Outflow s	-	-	2,638	3,693	2,638	3,693
Liabilities						
Other liabilities	14,304	31,500	4,827	6,254	19,131	37,754
Noncurrent liabilities	72,292	63,187	128,198	128,583	200,490	191,770
Total liabilities	86,596	94,687	133,025	134,837	219,621	229,524
Deferred Inflow s	129,341	125,311	-	-	129,341	125,311
Net position						
Net investment in capital assets	223,777	220,585	28,494	24,881	252,271	245,466
Restricted	61,997	46,675	-	-	61,997	46,675
Unrestricted	243,367	237,088	39,323	38,728	282,690	275,816
Total net position	\$ 529,141	\$ 504,348	\$ 67,817	\$ 63,609	\$ 596,958	\$ 567,957

Governmental Activities

Assets have increased by 2.9% and liabilities have decreased by 8.5% when compared to 2012 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. Deferred inflows primarily representing the ensuing fiscal year tax levy increased by 3.2% as a result of the county-wide reappraisal and the resultant changes in assessed valuation. The impact of the latter is minimized in future years due to an equalization (lowering) of the tax rate to offset growth through reappraisal. The net result of these changes is an increase of 4.9% in total net position. 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.

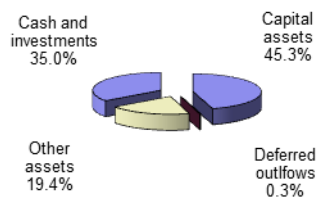
Business-Type Activities

Assets have grown by 1.8% and liabilities have declined by 1.3% from 2012 levels, resulting in an increase of 6.6% in total net position. 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.

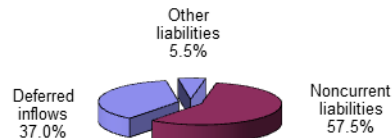
Total Primary Government

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 45.3% of \$943.3 million in total assets. Taxes and governmental receivables constitute 19.4%. Deferred outflows representing interest rate swaps account for 0.3% and current liquidity, as shown by cash and investments, composes the remaining 35.0% of total assets.

**Primary Government
Assets & Deferred Outflows**



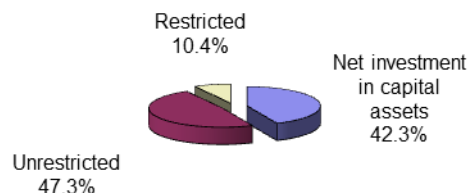
**Primary Government Liabilities &
Deferred Inflows**



Of the total government liabilities, 57.5% are in long-term debt outstanding. Of the total long-term debt, approximately \$123.7 million, or 61.8% is related to debt issued to finance the convention center complex.

A portion of the City's total net position 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 position of the City's governmental activities represent 47.3% of total primary government net position.

Primary Government Total Net Position



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

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	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 10,949	\$ 10,966	\$ 10,218	\$ 9,802	\$ 21,167	\$ 20,768
Operating grants & contributions	7,517	10,088	1,562	1,750	9,079	11,838
Capital grants & contributions	3,556	3,318	-	-	3,556	3,318
General revenues:						
Taxes	210,787	200,318	8,408	10,109	219,195	210,427
Interest	804	1,573	235	268	1,039	1,841
Other	3,896	2,296	336	358	4,232	2,654
Total revenues	<u>237,509</u>	<u>228,559</u>	<u>20,759</u>	<u>22,287</u>	<u>258,268</u>	<u>250,846</u>
Expenses:						
General government	23,591	34,883	-	-	23,591	34,883
Public safety	88,381	85,416	-	-	88,381	85,416
Physical Environment	49,230	48,046	-	-	49,230	48,046
Transportation	11,970	11,201	-	-	11,970	11,201
Economic development	8,120	8,459	-	-	8,120	8,459
Parks and recreation	10,195	11,827	-	-	10,195	11,827
Health & Sanitation	10,388	11,111	-	-	10,388	11,111
Interest on long-term debt	1,718	1,989	-	-	1,718	1,989
Other	-	-	24,890	26,613	24,890	26,613
Total expenses	<u>203,593</u>	<u>212,932</u>	<u>24,890</u>	<u>26,613</u>	<u>228,483</u>	<u>239,545</u>
Increase (decrease) in net position before transfers	33,916	15,627	(4,131)	(4,326)	29,785	11,301
Transfers	(9,123)	(8,148)	9,123	8,148	-	-
Changes in net position	24,793	7,479	4,992	3,822	29,785	11,301
Beginning net position (as restated)	504,348	496,869	62,825	59,003	567,173	555,872
Ending net position	<u>\$ 529,141</u>	<u>\$ 504,348</u>	<u>\$ 67,817</u>	<u>\$ 62,825</u>	<u>\$ 596,958</u>	<u>\$ 567,173</u>

Governmental Activities

Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2013, only the General, Debt Service, and City Court Funds generated material revenues in excess of current expenditures.

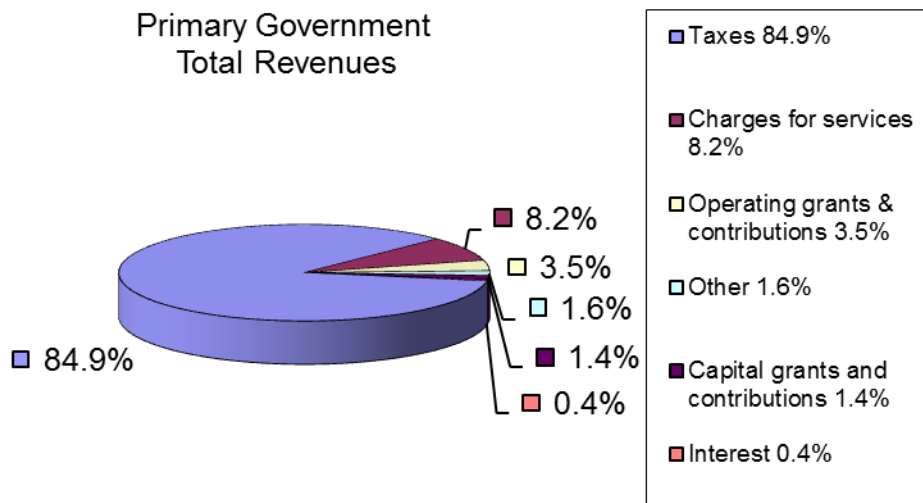
Excess revenue generated by the General Fund is used to support funds that are not self-sufficient on their own and to maintain reserves necessary for the proper operation of the City. Surplus Debt Service fund revenues are generally utilized for one time expenditures and capital projects or will be used to retire debt in the future. Excess City Court revenues are transferred to the General Fund to finance general operations. Overall general government expenditures decreased by \$9.3 million primarily due to the City not making a one-time pension contribution of \$10 million as it had last year. The reduction was partially offset by increased personnel costs and depreciation on recently acquired assets. Public safety operations accounted for approximately 43.4% of the City's total governmental operations of \$204 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, a dedicated Hotel/Motel tax is pledged and used. Additional redevelopment efforts in the City's downtown area are expected to increase the cost effectiveness of the City's infrastructure investments.

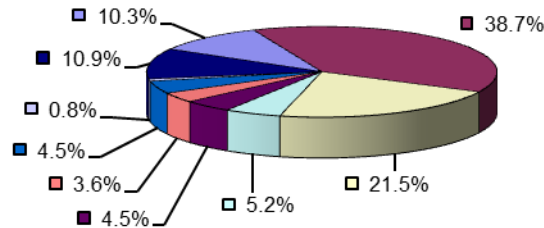
Total Government

Primary Government Revenues were \$258.3 million. The largest portion of these revenues (\$219.2 MM – 84.9%) was from taxes.



Total primary government expenses totaled \$228.5 million, 38.7% of which was directed toward public safety.

Primary Government Total Expenses



General government	10.3%
Public safety	38.7%
Physical Environment	21.5%
Transportation	5.2%
Parks and recreation	4.5%
Economic development	3.6%
Health & Sanitation	4.5%
Interest on long-term debt	0.8%
Other	10.9%

Component Units

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

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

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Program Revenues	\$ 743,627	\$ 696,612	\$ 42,316	\$ 34,277	\$ 25,856	\$ 27,262	\$ 811,799	\$ 758,151
Program Expenses	(716,320)	(671,778)	(36,116)	(34,336)	(33,783)	(35,284)	(786,219)	(741,398)
Total General Revenues	1,032	1,504	364	87	10,426	9,924	11,822	11,515
Change in Net Position	28,339	26,338	6,564	28	2,499	1,902	37,402	28,268
Net Position at Year End (as restated)	\$ 863,645	\$ 835,307	\$ 125,605	\$ 119,041	\$ 48,208	\$ 45,708	\$ 1,037,458	\$ 1,000,056

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2013

The total Governmental Funds balance as of June 30, 2013 is \$221.9 million of which the general fund's balance is approximately \$70.2 million, the debt service fund is \$46.8 million, capital projects funds comprise \$76.8 million, miscellaneous community development total \$1.5 million and the remaining \$26.6 million is distributed among the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances increased by \$17.3 million when compared to the prior year. The general fund was responsible for most of the increase in the governmental funds fund balance (\$10.4 million). The debt service fund increased by \$1 million, capital projects funds increased by \$6.5 million, miscellaneous community development decreased \$0.1 million and, a \$0.5 million decrease 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, 2013

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, 2013, 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	2013	2012	Percent of Total 2013	Change from Prior Year	
				Increase (Decrease)	Percent Change
Taxes, assessments, interest & penalties	\$ 183,445	\$ 180,542	76.91%	\$ 2,903	1.61%
Licenses, permits and inspection charges	1,994	1,975	0.84%	19	0.96%
Intergovernmental revenue	37,359	30,040	15.66%	7,319	24.36%
Charges for services	6,528	6,502	2.74%	26	0.40%
Fines and forfeitures	4,010	3,637	1.68%	373	10.26%
Other	5,170	5,370	2.17%	(200)	(3.72%)
Totals	<u>\$ 238,506</u>	<u>\$ 228,066</u>	<u>100.00%</u>	<u>\$ 10,440</u>	<u>4.58%</u>

A comparison of revenues between FY 11/12 and FY 12/13 shows total general government revenues increasing by approximately \$10.4 million or 4.58%. The increase in revenues from taxes was almost entirely from better than expected property tax collections (\$2.9 million). The growth in Intergovernmental revenue stems almost entirely from an increase in the Hall Income Tax (\$7.6 million). This is a tax on investments that is totally unpredictable and based upon factors beyond the City's control.

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, 2013, and the percentage of increases and decreases in relation to prior year amounts.

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

Expenditures	2013	2012	Percent of Total 2013	Change from Prior Year	
				Increase (Decrease)	Percent Change
Administration	\$ 3,405	\$ 3,501	1.65%	\$ (96)	(2.74%)
Finance	3,775	3,772	1.81%	3	0.08%
Information Systems	3,910	3,998	1.88%	(88)	(2.20%)
Community Development	2,635	2,209	1.26%	426	19.28%
South Knoxville Waterfront	439	520	0.21%	(81)	(15.58%)
Parks & Recreation	6,563	6,712	3.15%	(149)	(2.22%)
Mass Transit	11,295	10,564	5.42%	731	6.92%
Engineering	12,957	13,001	6.22%	(44)	(0.34%)
Public Services	40,296	42,949	19.34%	(2,653)	(6.18%)
Law	2,537	2,573	1.22%	(36)	(1.40%)
Police	51,398	51,647	24.67%	(249)	(0.48%)
Fire	35,588	33,665	17.08%	1,923	5.71%
Legislative	1,140	1,019	0.55%	121	11.87%
City Elections	-	231	0.00%	(231)	(100.00%)
Civil Service	934	889	0.45%	45	5.06%
Knoxville Partnership	619	619	0.30%	-	0.00%
Metropolitan Planning Commission	905	905	0.43%	-	0.00%
Knoxville Zoological Park	1,058	1,010	0.51%	48	4.75%
Community Agency Grants	747	715	0.36%	32	4.48%
Other Nondepartmental	91	10,075	0.04%	(9,984)	(99.10%)
Community Action Committee	691	636	0.33%	55	8.65%
Tax Increment Payments	942	785	0.45%	157	20.00%
Capital and Grant Projects	19,253	17,497	9.24%	1,756	10.04%
Debt service:					
Principal retirement	5,412	4,852	2.60%	560	11.54%
Interest on bonds and notes	1,730	2,116	0.83%	(386)	(18.24%)
Refunding bonds issuance costs	-	411	0.00%	(411)	(100.00%)
Total Expenditures	<u>\$ 208,320</u>	<u>\$ 216,871</u>	<u>100.00%</u>	<u>\$ (8,551)</u>	<u>(3.94%)</u>

Overall, general government expenditures in FY 12/13 decreased by \$8.6 million. In FY 11/12 the City provided a supplemental contribution of \$10 million to the general employee's pension fund. The supplemental pension contribution was booked under other non-departmental and was over and above the normal required annual contribution to the pension funds. The fact that this contribution was not repeated in FY 12/13 accounts for the overall decrease in expenditures. Increases in the Fire Department resulted from greater amounts in replacement funding tied to the increased cost of fire vehicles. In FY11/12, Public Safety expenditures were inflated in response to nonrecurring severe weather activity. Tax increment payments continued to rise as a result of increasing developer subsidies being granted to spur additional development in the City. Increased capital project expenditures were a result of expenditure timing in relation to various projects being performed in the City.

Proprietary Funds Statements

Statement of Net Position at June 30, 2013

The Knoxville Convention Center, shown below and 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, Expenses and Changes in Fund Net Position for the Year Ended June 30, 2013

A summary of the revenues, expenses, and interfund transfers indicates that there is an increase in total proprietary fund net position, including internal service funds, of \$8.0 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2013

The four main business type activities of the City are the Convention Center, Metro Parking, Public Assembly Facilities and the Municipal Golf Courses. As expected, overall operations experienced a net operating loss. Although the Convention Center operated at a loss the amount of the annual loss has continued to decline over the years. The Metro Parking Fund (parking garages) recovered from last year's small loss. The prior year loss was due to construction closures related to expansion of the facilities. The \$2.6 Million transfer into Metro Parking was to provide construction capital. Public Assembly Facilities operated at a loss this year due to a general decline in public amusement attendance. The City's two golf courses continued to have a small operating loss which was partially covered with subsidies from the General Fund. When the City reacquired the courses from the private operators four years ago, the condition of the courses and their reputations had diminished. The City continues to work 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 customer revenues.

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

Condensed Financial Information Proprietary Funds For Fiscal Year Ending June 30 (In \$1,000's)						
Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2013	2012	2013	2012	2013	2012
I. Business-type Activities						
A. Knoxville Convention Center	\$15,547	\$16,307	\$17,159	\$18,869	\$ 3,635	\$ 5,263
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,943	1,425	1,184	1,624	2,600	18
2. Public Assembly Facilities	2,069	2,556	5,212	4,534	2,777	2,738
3. Municipal Golf Courses	1,277	1,469	1,413	1,439	111	128
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	14,403	15,711	13,245	13,400	1,399	1,698
2. Risk Management	5,977	7,559	6,918	6,418	439	435
3. Health Insurance	16,303	14,486	17,985	17,400	1,794	1,336
4. Equipment Replacement	2,329	2,193	1,866	2,043	125	112
5. City Buildings	1,739	1,201	1,532	1,615	-	381
Totals	<u>\$61,587</u>	<u>\$62,907</u>	<u>\$66,514</u>	<u>\$67,342</u>	<u>\$12,880</u>	<u>\$12,109</u>

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

	Capital Contributions		Change in Net Position		Net Position at Year End (as restated)	
	2013	2012	2013	2012	2013	2012
I. Business-type Activities						
A. Knoxville Convention Center	\$ -	\$ 250	\$ 2,023	\$ 2,951	\$25,448	\$23,425
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	3,359	(181)	24,086	20,727
2. Public Assembly Facilities	-	-	(366)	760	17,507	17,873
3. Municipal Golf Courses	-	136	(25)	294	776	801
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	58	51	2,615	4,060	55,006	52,391
2. Risk Management	-	-	(502)	1,576	17,561	18,063
3. Health Insurance	-	-	112	(1,578)	11,000	10,888
4. Equipment Replacement	-	-	588	262	19,466	18,878
5. City Buildings	-	-	207	(33)	4,591	4,384
Totals	<u>\$ 58</u>	<u>\$ 437</u>	<u>\$ 8,011</u>	<u>\$ 8,111</u>	<u>\$ 175,441</u>	<u>\$ 167,430</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 former school board employees that had vested rights in the City's pension plan at the time the school system was consolidated with the Knox County schools. The following table notes the contribution rates:

	Condensed Financial Information		Estimated
	Pension Trust Fund Contribution Rates		FY 13/14
	FY 12/13	FY 11/12	Contribution
	Contribution	Contribution	Rates
	Rates	Rates	
General Government Employees	12.83%	11.80%	20.90%
Police and Fire Employees	23.72%	21.30%	35.36%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 76.0%. 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. These factors will result in increased contributions by the City in the future. These increases have been budgeted. The City Choice Plus Fund and the Employee Health Savings Fund account for employee contributions to IRS Section 125 health benefit plans.

General Fund Budgetary Highlights

During the year there was approximately \$2.6 million in increases in appropriations between the original and final General Fund's budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2013

Department	Carry Forward of Prior Year		
	Encumbrances	Other	Total Changes
Administration	\$ 35,682	\$ 8,000	\$ 43,682
Finance	21,320	(428)	20,892
Information Systems	120,664	(32,200)	88,464
Community Development	17,392	(31,539)	(14,147)
Waterfront Operations	-	-	-
Parks & Recreation	274	(63,116)	(62,842)
Mass Transit	-	(458,010)	(458,010)
Public Services	2,305	234,001	236,306
Engineering	56,480	(203,365)	(146,885)
Law	24,775	-	24,775
Police	40,109	(156,043)	(115,934)
Fire	5,576	184,626	190,202
Legislative	162,400	-	162,400
Civil Service	1,423	(200)	1,223
Nondepartmental	-	37,650	37,650
Transfers	-	2,035,520	2,035,520
Total General Fund	<u>\$ 488,400</u>	<u>\$ 1,554,896</u>	<u>\$ 2,043,296</u>

The largest change occurred in Transfers which accounted for \$2.2 million of the \$2.6 in net revisions. The capital construction fund transfer was increased by \$1.5 million and transfers to the vehicle replacement fund were increased by \$1.3 million to cover increased costs of vehicle replacement. These additional transfers were partially offset by reductions in other departmental areas with favorable financial results for the fiscal year.

Capital Asset and Debt Administration

As of June 30, 2013, as reflected in the following table, the primary government of the City had net investments of \$428.5 million in capital assets. The total belies the fact that the investment in Infrastructure increased by \$10.4 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 8 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	
	2013	2012	2013	2012	2013	2012
Land and site improvements	\$ 50,416	\$ 50,322	\$ 7,336	\$ 7,336	\$ 57,752	\$ 57,658
Buildings and improvements	59,458	58,474	223,290	223,290	282,748	281,764
Equipment, furniture & fixtures	85,355	83,974	7,277	7,265	92,632	91,239
Infrastructure	320,599	310,238	-	-	320,599	310,238
Construction in progress	5,151	3,405	5,888	-	11,039	3,405
Less accumulated depreciation	(246,379)	(229,047)	(89,919)	(84,045)	(336,298)	(313,092)
Totals	<u>\$ 274,600</u>	<u>\$ 277,366</u>	<u>\$ 153,872</u>	<u>\$ 153,846</u>	<u>\$ 428,472</u>	<u>\$ 431,212</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	
	2013	2012	2013	2012	2013	2012
Beginning balance	\$ 506,413	\$ 487,542	\$ 237,891	\$ 237,085	\$ 744,304	\$ 724,627
Additions	20,681	22,706	5,967	999	26,648	23,705
Deletions	(6,115)	(3,835)	(67)	(193)	(6,182)	(4,028)
Balance before depreciation	520,979	506,413	243,791	237,891	764,770	744,304
Accumulated depreciation	(246,379)	(229,047)	(89,919)	(84,045)	(336,298)	(313,092)
Balance after depreciation	<u>\$ 274,600</u>	<u>\$ 277,366</u>	<u>\$ 153,872</u>	<u>\$ 153,846</u>	<u>\$ 428,472</u>	<u>\$ 431,212</u>

As of the year-end, the City's Total Primary Government had \$168.9 million in general obligation debt outstanding. In FY 11/12, in an effort to benefit from lower interest rates, the City refunded \$77,370,000 in outstanding general obligation debt, as well as a \$13,470,609 (present value) master lease purchase agreement covering the construction and related debt associated with an energy savings construction and enhancement program. The nominal savings from this refunding were approximately \$18.2 million, or \$1.4 million per year. The true interest costs on the transaction were 1.93 percent with a net present value savings of 17.97%. The savings were split 76.4% for governmental activities and 23.6% for business activities.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current - Due in 1 year						
General Obligation Bonds	\$ 5,291	\$ 5,413	\$ 4,168	\$ 4,082	\$ 9,459	\$ 9,495
Capital Lease	-	-	14	81	14	81
Note Payable	-	-	-	65	-	65
Total Current	5,291	5,413	4,182	4,228	9,473	9,641
Non Current - Due in more than 1 year						
General Obligation Bonds	39,858	45,149	119,577	123,746	159,435	168,895
Capital Lease	-	-	-	21	-	21
Total Non Current	39,858	45,149	119,577	123,767	159,435	168,916
Subtotal	45,149	50,562	123,759	127,995	168,908	178,557
Unamortized Premiums and Discounts	5,673	6,220	1,619	1,403	7,292	7,623
Total Long Term Debt	\$ 50,822	\$ 56,782	\$ 125,378	\$ 129,398	\$ 176,200	\$ 186,180

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

	2013	2012
Moody's Investors Service	Aa1	Aa1
Standard & Poor's	AA+	AA+
Fitch Ratings	AAA	AAA

For additional information on the long-term debt of the City, please refer to Note 10 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 \$152.3 million or 82% of the total operating revenue to the General Fund. Within this category of revenue, the largest amount comes from property taxes. In turn, property taxes are divided among realty, personal, and public utility. The growth rate for assessed value on real estate has historically been relatively moderate, a trend that is expected to continue. In FY13 the taxable value of real property increased by 1.5% and the overall tax roll increased by 1.7%. 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 upward due to better economic conditions and enhanced collection efforts. This upward movement has slowed somewhat with the current recession but not significantly. 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 \$35 million or 18.9% of total General Fund revenues. The City of Knoxville experienced a slight decrease in sales tax receipts in FY 12/13 when compared to FY 11/12. This decrease is attributed to receipts being unusually high in FY 11/12 due to reconstruction and clean-up from major storm damage. 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 \$29.2 million or 15.7% of total revenue. The increase in this category was due to an increase in the Hall Income Tax (an intangible tax on investments), which grew by \$8.6 million (220%) to a total of \$12.56 million for the year. We are unable to determine the specific cause of the increase due to taxpayer privacy issues. This source has been extremely volatile in recent years. To offset the volatility the revenue is budgeted very conservatively.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system were affected by changes in state legislation which limited the ability of the City to issue tickets for certain types of red light camera violations. 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. In FY10 and FY11, claims versus revenues were such that we were able to stabilize premiums through controlled plan expenses and deductible revisions. FY13 saw an increase in expenditures and a slight deterioration in the fund balance for the fund but not to the point of great concern.

Other areas experiencing particularly high expenditure growth include pension costs and utility increases. The City uses a multi-year smoothing technique to determine pension contributions. Lower than expected returns in the portfolio in the last few years has resulted in increased contributions. To help offset some of the accrued pension liability, a supplemental \$10 million contribution from the City's General Fund was made in FY12. Through this infusion, the fund was able to reduce its need for increased contributions in FY14.

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

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

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

FINANCIAL CONTACT

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

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CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government		
Assets					
Cash and cash equivalents	\$ 5,610,038	\$ 7,203,827	\$ 12,813,865	\$ 135,455,994	\$ 148,269,859
Investments	289,171,616	29,675,144	318,846,760	137,095,200	455,941,960
Receivables (net of allowance for uncollectibles):					
Accounts	7,692,359	2,336,416	10,028,775	90,298,125	100,326,900
Taxes	135,141,034	-	135,141,034	-	135,141,034
Notes and leases	20,859,463	-	20,859,463	-	20,859,463
TVA conservation program	-	-	-	10,189,286	10,189,286
Other	68,307	-	68,307	142,605	210,912
Internal balances	(1,157,000)	1,157,000	-	-	-
Due from component units	5,600,000	-	5,600,000	-	5,600,000
Inventories	1,424,707	398,855	1,823,562	9,058,195	10,881,757
Prepaid items	10,758	26,813	37,571	12,036,350	12,073,921
Net pension obligation asset	3,114,962	-	3,114,962	-	3,114,962
Land held for redevelopment	-	2,500,840	2,500,840	-	2,500,840
Equity interest in joint venture	2,941,304	1,032,383	3,973,687	8,558	3,982,245
Other	-	-	-	788,095	788,095
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	24,476,848	24,476,848
Unused bond proceeds	-	-	-	206	206
Receivables	-	-	-	515,000	515,000
Other	-	-	-	53,820	53,820
Other assets	-	-	-	8,745,320	8,745,320
Capital assets:					
Land and site improvements	50,415,971	7,336,303	57,752,274	175,079,279	232,831,553
Buildings and improvements	59,457,802	223,290,115	282,747,917	177,360,407	460,108,324
Utility plant in service	-	-	-	1,987,349,747	1,987,349,747
Equipment, furniture and fixtures	85,355,342	7,276,755	92,632,097	41,692,898	134,324,995
Infrastructure	320,599,478	-	320,599,478	-	320,599,478
Construction in progress	5,150,704	5,888,147	11,038,851	187,773,045	198,811,896
Less accumulated depreciation	(246,379,426)	(89,919,162)	(336,298,588)	(895,994,450)	(1,232,293,038)
Total assets	745,077,419	198,203,436	943,280,855	2,102,124,528	3,045,405,383
Deferred outflows of resources					
Interest rate swap	-	2,638,045	2,638,045	2,900,108	5,538,153
Unamortized charge on bond refunding	-	-	-	13,002,043	13,002,043
Total deferred outflows of resources	-	2,638,045	2,638,045	15,902,151	18,540,196
Liabilities					
Accounts payable	8,050,658	4,137,984	12,188,642	61,872,347	74,060,989
Matured principal & interest on bonds	-	-	-	11,261,245	11,261,245
Accrued liabilities	4,954,802	34,040	4,988,842	28,494,618	33,483,460
Due to primary government	-	-	-	5,600,000	5,600,000
Due to other governmental agencies	755,817	-	755,817	-	755,817
Customer deposits, plus accrued interest	361,028	290,537	651,565	15,451,660	16,103,225
Accrued interest	181,556	364,219	545,775	114,130	659,905
Noncurrent liabilities:					
Long-term debt due within one year	5,833,695	4,318,666	10,152,361	24,660,000	34,812,361
Long-term debt due in more than one year	44,989,005	121,059,556	166,048,561	894,495,000	1,060,543,561
Other noncurrent liabilities due within one year	12,239,679	181,275	12,420,954	3,811,000	16,231,954
Other noncurrent liabilities due in more than one year	9,229,388	-	9,229,388	21,114,216	30,343,604
Derivative instruments - interest rate swaps	-	2,638,045	2,638,045	6,336,978	8,975,023
Total liabilities	86,595,628	133,024,322	219,619,950	1,073,211,194	1,292,831,144
Deferred inflows of resources					
Unavailable revenue - property taxes	107,212,219	-	107,212,219	-	107,212,219
Unavailable revenue - other	22,128,498	-	22,128,498	7,357,600	29,486,098
Total deferred inflows of resources	129,340,717	-	129,340,717	7,357,600	136,698,317
Net position					
Net investment in capital assets	223,777,171	28,493,936	252,271,107	754,713,279	1,006,984,386
Restricted for:					
Debt service	46,832,834	-	46,832,834	12,318,771	59,151,605
Park maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	239,396	-	239,396	-	239,396
Other	14,300,605	-	14,300,605	1,465,652	15,766,257
Unrestricted	243,367,003	39,323,223	282,690,226	268,960,183	551,650,409
Total net position	\$ 529,141,074	\$ 67,817,159	\$ 596,958,233	\$ 1,037,457,885	\$ 1,634,416,118

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General Government	\$ 23,591,042	\$ 860,052	\$ 356,371	\$ -
Public Safety	88,380,651	7,185,412	1,685,475	979,022
Physical Environment	49,229,566	1,560,999	1,354,279	700,512
Transportation	11,970,294	550,919	-	-
Economic Development	8,119,651	259,686	4,120,911	1,798,405
Parks & Recreation	10,195,387	493,880	-	-
Health & Sanitation	10,387,995	37,896	-	78,180
Interest on Long-Term Debt	1,718,322	-	-	-
Total governmental activities	203,592,908	10,948,844	7,517,036	3,556,119
Business-type activities:				
Metro Parking	1,183,938	1,684,660	-	-
Public Assembly Facilities	5,212,286	1,954,352	-	-
Knoxville Convention Center	17,080,905	5,386,186	1,561,520	-
Municipal Golf Courses	1,413,177	1,193,193	-	-
Total business-type activities	24,890,306	10,218,391	1,561,520	-
Total primary government	\$ 228,483,214	\$ 21,167,235	\$ 9,078,556	\$ 3,556,119
Combined Discretely Presented Component Units	\$ 786,219,807	\$ 775,743,755	\$ 6,924,445	\$ 29,131,747

General revenues:

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

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of year, as restated

Net position - end of year

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
Governmental Activities	Business-type Activities	Total		
\$ (22,374,619)	\$ -	\$ (22,374,619)	\$ -	\$ (22,374,619)
(78,530,742)	-	(78,530,742)	-	(78,530,742)
(45,613,776)	-	(45,613,776)	-	(45,613,776)
(11,419,375)	-	(11,419,375)	-	(11,419,375)
(1,940,649)	-	(1,940,649)	-	(1,940,649)
(9,701,507)	-	(9,701,507)	-	(9,701,507)
(10,271,919)	-	(10,271,919)	-	(10,271,919)
(1,718,322)	-	(1,718,322)	-	(1,718,322)
(181,570,909)	-	(181,570,909)	-	(181,570,909)
-	500,722	500,722	-	500,722
-	(3,257,934)	(3,257,934)	-	(3,257,934)
-	(10,133,199)	(10,133,199)	-	(10,133,199)
-	(219,984)	(219,984)	-	(219,984)
-	(13,110,395)	(13,110,395)	-	(13,110,395)
(181,570,909)	(13,110,395)	(194,681,304)	-	(194,681,304)
-	-	-	25,580,140	25,580,140
121,688,017	-	121,688,017	-	121,688,017
68,336,749	3,198,464	71,535,213	10,272,493	81,807,706
-	1,954,227	1,954,227	-	1,954,227
-	3,255,392	3,255,392	-	3,255,392
247,187	-	247,187	-	247,187
11,511,113	-	11,511,113	-	11,511,113
7,223,043	-	7,223,043	-	7,223,043
1,781,946	-	1,781,946	-	1,781,946
3,661,730	335,562	3,997,292	230,213	4,227,505
803,613	234,930	1,038,543	1,228,900	2,267,443
234,393	-	234,393	90,223	324,616
(9,123,420)	9,123,420	-	-	-
206,364,371	18,101,995	224,466,366	11,821,829	236,288,195
24,793,462	4,991,600	29,785,062	37,401,969	67,187,031
504,347,612	62,825,559	567,173,171	1,000,055,916	1,567,229,087
\$ 529,141,074	\$ 67,817,159	\$ 596,958,233	\$ 1,037,457,885	\$ 1,634,416,118

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

				Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Capital Projects			
Assets						
Cash and cash equivalents	\$ 383,535	\$ 86,316	\$ 306,329	\$ -	\$ 722,039	\$ 1,498,219
Investments	46,666,015	44,991,772	77,273,368	1,200,217	27,298,387	197,429,759
Accounts Receivable	1,565,024	266,833	1,577,957	1,428,319	2,159,562	6,997,695
Taxes Receivable	109,648,923	25,492,111	-	-	-	135,141,034
Notes Receivable	327,772	1,296,100	-	15,748,551	3,487,040	20,859,463
Due from other funds	725,000	-	1,275,000	-	-	2,000,000
Due from component units	2,875,000	-	2,725,000	-	-	5,600,000
Inventories	289,431	-	-	83,300	29,925	402,656
Prepaid items	10,758	-	-	-	-	10,758
Total assets	<u>\$ 162,491,458</u>	<u>\$ 72,133,132</u>	<u>\$ 83,157,654</u>	<u>\$ 18,460,387</u>	<u>\$ 33,696,953</u>	<u>\$ 369,939,584</u>
Liabilities						
Accounts payable	\$ 1,965,969	\$ -	\$ 2,466,098	\$ 422,024	\$ 1,138,112	\$ 5,992,203
Accrued liabilities	2,667,320	-	1,012,709	4,863	181,671	3,866,563
Customer deposits	-	-	-	15,364	345,664	361,028
Due to other funds	-	-	-	500,000	1,900,000	2,400,000
Due to other governmental agencies	478,292	-	8,824	259,904	8,797	755,817
Total liabilities	<u>5,111,581</u>	<u>-</u>	<u>3,487,631</u>	<u>1,202,155</u>	<u>3,574,244</u>	<u>13,375,611</u>
Deferred Inflows of Resources						
Unavailable revenue - property taxes	87,224,918	25,300,298	-	-	-	112,525,216
Unavailable revenue - other	-	-	2,871,536	15,769,922	3,487,040	22,128,498
Total deferred inflows of resources	<u>87,224,918</u>	<u>25,300,298</u>	<u>2,871,536</u>	<u>15,769,922</u>	<u>3,487,040</u>	<u>134,653,714</u>
Fund Balances						
Non-Spendable	300,189	-	-	83,300	653,990	1,037,479
Restricted	-	46,832,834	-	1,405,010	12,895,595	61,133,439
Committed	36,771,148	-	76,798,487	-	13,086,084	126,655,719
Assigned	2,647,854	-	-	-	-	2,647,854
Unassigned	30,435,768	-	-	-	-	30,435,768
Total fund balances	<u>70,154,959</u>	<u>46,832,834</u>	<u>76,798,487</u>	<u>1,488,310</u>	<u>26,635,669</u>	<u>221,910,259</u>
Total liabilities, deferred inflows of resources and fund balances (deficits)	<u>\$ 162,491,458</u>	<u>\$ 72,133,132</u>	<u>\$ 83,157,654</u>	<u>\$ 18,460,387</u>	<u>\$ 33,696,953</u>	<u>\$ 369,939,584</u>

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

CITY OF KNOXVILLE, TENNESSEE

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

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

Fund balance - governmental funds		\$221,910,259
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the balance sheets of the governmental funds.		251,312,206
Revenues that have been deferred in the balance sheet of the governmental funds because they were not available to pay current liabilities of the period are recognized as revenue in the statement of activities and therefore are not included in the statement of net position.		5,312,997
Internal service funds are used by management to charge the costs of office service, fleet management, risk management, health insurance and equipment replacement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		107,624,294
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.		(181,556)
Negative net pension obligation recorded as an asset as an adjustment to net position.		3,114,962
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	(45,149,360)	
Discounts and Premiums (net)	(5,673,340)	
Compensated absences	(9,129,388)	(59,952,088)
Net position - governmental activities		<u>\$ 529,141,074</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes, assessments, interest & penalties	\$ 152,320,929	\$ 25,920,092	\$ -	\$ -	\$ 5,204,302	\$ 183,445,323
Licenses, permits & inspection charges	354,213	-	-	-	1,639,754	1,993,967
Intergovernmental	29,242,836	-	1,798,405	2,457,113	3,860,867	37,359,221
Charge for services	1,664,729	-	-	809,418	4,053,479	6,527,626
Fines & forfeitures	874,641	-	-	-	3,135,044	4,009,685
Other	1,238,623	394,980	2,361,600	160,646	1,014,054	5,169,903
Total revenues	<u>185,695,971</u>	<u>26,315,072</u>	<u>4,160,005</u>	<u>3,427,177</u>	<u>18,907,500</u>	<u>238,505,725</u>
Expenditures:						
Current:						
Administration	3,188,682	-	-	-	215,858	3,404,540
Finance	3,574,785	-	-	-	199,998	3,774,783
Information Systems	3,910,390	-	-	-	-	3,910,390
Community Development	2,634,852	-	-	-	-	2,634,852
South Knoxville Waterfront	439,023	-	-	-	-	439,023
Parks & Recreation	6,562,705	-	-	-	-	6,562,705
Mass Transit	11,295,470	-	-	-	-	11,295,470
Engineering	5,313,084	-	-	-	7,644,072	12,957,156
Public Services	21,857,205	-	-	3,554,302	14,884,744	40,296,251
Law	1,583,175	-	-	-	954,013	2,537,188
Police	49,138,929	-	-	-	2,259,243	51,398,172
Fire	35,576,327	-	-	-	11,467	35,587,794
Legislative	1,140,484	-	-	-	-	1,140,484
Civil Service	933,790	-	-	-	-	933,790
Knoxville Partnership	618,725	-	-	-	-	618,725
Metropolitan Planning Commission	905,000	-	-	-	-	905,000
Knoxville Zoological Park	1,057,825	-	-	-	-	1,057,825
Community Agency Grants	746,706	-	-	-	-	746,706
Other Nondepartmental	90,510	-	-	-	-	90,510
Community Action Committee	690,640	-	-	-	-	690,640
Tax Increment Payments	942,157	-	-	-	-	942,157
Capital & grant projects	-	-	19,253,439	-	-	19,253,439
Debt Service:						
Principal retirement	-	5,412,560	-	-	-	5,412,560
Interest payments on bonds & notes	-	1,730,483	-	-	-	1,730,483
Total expenditures	<u>152,200,464</u>	<u>7,143,043</u>	<u>19,253,439</u>	<u>3,554,302</u>	<u>26,169,395</u>	<u>208,320,643</u>
Excess (deficiency) of revenues over (under) expenditures	33,495,507	19,172,029	(15,093,434)	(127,125)	(7,261,895)	30,185,082
Other financing sources (uses)						
Transfers in	2,936,680	-	21,614,190	-	12,236,050	36,786,920
Transfers out	(26,001,720)	(18,149,800)	(17,220)	-	(5,498,532)	(49,667,272)
Total other financing sources (uses)	<u>(23,065,040)</u>	<u>(18,149,800)</u>	<u>21,596,970</u>	<u>-</u>	<u>6,737,518</u>	<u>(12,880,352)</u>
Net change in fund balances	10,430,467	1,022,229	6,503,536	(127,125)	(524,377)	17,304,730
Fund balances - beginning	59,724,492	45,810,605	70,294,951	1,615,435	27,160,046	204,605,529
Fund balances - ending	\$ 70,154,959	\$ 46,832,834	\$ 76,798,487	\$ 1,488,310	\$ 26,635,669	\$ 221,910,259

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

CITY OF KNOXVILLE, TENNESSEE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

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

Net changes in fund balances - total governmental funds	\$ 17,304,730
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which net capital outlay that meet criteria for capitalization (\$14,657,652) exceeds depreciation expenses (\$14,493,308).	164,344
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,031,722)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	5,253,594
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.	12,161
Change in net pension obligation.	70,863
The internal service fund is used by management to charge the costs of fleet maintenance.	2,614,524
The internal service fund is used by management to charge the costs of risk management.	(502,208)
The internal service fund is used by management to charge the costs of employee health insurance.	111,812
The internal service fund is used by management to charge the costs of equipment replacement.	588,093
The internal service fund is used by management to charge the costs of City buildings.	<u>207,271</u>
Change in net position - governmental activities	<u>\$ 24,793,462</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Revenues						
Property taxes -						
Current	\$ 74,577,840	\$ 74,577,840	\$ 76,921,282	\$ -	\$ 76,921,282	\$ 2,343,442
Prior years	4,268,760	4,268,760	5,220,785	-	5,220,785	952,025
Business taxes	5,146,460	5,146,460	7,220,126	-	7,220,126	2,073,666
Local shares sales tax	37,430,750	37,430,750	35,028,097	-	35,028,097	(2,402,653)
Alcoholic beverage taxes	10,968,220	10,968,220	11,511,113	-	11,511,113	542,893
Payments in lieu of taxes	14,436,970	14,436,970	14,637,580	-	14,637,580	200,610
Franchise fees	1,753,300	1,753,300	1,781,946	-	1,781,946	28,646
Intergovernmental -						
Federal	862,440	862,440	911,702	-	911,702	49,262
State -						
Sales tax	11,836,150	11,836,150	12,364,127	-	12,364,127	527,977
Income tax	5,000,000	5,000,000	12,555,648	-	12,555,648	7,555,648
Other	3,385,100	3,385,100	3,411,359	-	3,411,359	26,259
Local	53,000	53,000	-	-	-	(53,000)
Licenses and permits	332,830	332,830	354,213	-	354,213	21,383
Fines & forfeits	661,800	661,800	874,641	-	874,641	212,841
Charges for services	1,708,900	1,708,900	1,664,729	-	1,664,729	(44,171)
Other -						
Interest	475,100	475,100	294,037	-	294,037	(181,063)
Rents & concessions	377,370	377,370	394,122	-	394,122	16,752
Miscellaneous	288,830	842,476	550,464	-	550,464	(292,012)
Appropriated fund balance	4,410,000	5,899,650	-	-	-	(5,899,650)
Total revenues	<u>177,973,820</u>	<u>180,017,116</u>	<u>185,695,971</u>	<u>-</u>	<u>185,695,971</u>	<u>5,678,855</u>
Expenditures						
Current -						
Administration	3,466,140	3,509,822	3,188,682	16,364	3,205,046	304,776
Finance	3,754,570	3,775,462	3,574,785	-	3,574,785	200,677
Information systems	4,310,650	4,399,114	3,910,390	84,582	3,994,972	404,142
Community development	2,750,540	2,736,393	2,634,852	3,600	2,638,452	97,941
South Knoxville Waterfront	439,740	439,740	439,023	-	439,023	717
Parks & recreation	6,789,100	6,726,258	6,562,705	20,400	6,583,105	143,153
Mass transit	13,534,400	13,076,390	11,295,470	-	11,295,470	1,780,920
Public services	21,674,110	21,910,416	21,857,205	24,332	21,881,537	28,879
Engineering	5,991,370	5,844,485	5,313,084	770	5,313,854	530,631
Law	1,825,760	1,850,535	1,583,175	29,871	1,613,046	237,489
Police	49,846,800	49,730,866	49,138,929	210,938	49,349,867	380,999
Fire	35,391,150	35,581,352	35,576,327	-	35,576,327	5,025
Legislative	1,057,530	1,219,930	1,140,484	-	1,140,484	79,446
Civil Service	1,064,830	1,066,053	933,790	-	933,790	132,263
Nondepartmental -						
City Elections	40,000	40,000	-	-	-	40,000
Knoxville Partnership	642,970	642,970	618,725	-	618,725	24,245
Metropolitan Planning Commission	905,000	905,000	905,000	-	905,000	-
Knoxville Zoological Gardens	1,058,680	1,058,680	1,057,825	-	1,057,825	855
Community Agency Grants	712,000	749,650	746,706	-	746,706	2,944
Other Nondepartmental	90,640	90,640	90,510	-	90,510	130
Community Action Committee	690,640	690,640	690,640	-	690,640	-
Tax Increment Payments	944,780	944,780	942,157	-	942,157	2,623
Total expenditures	<u>156,981,400</u>	<u>156,989,176</u>	<u>152,200,464</u>	<u>390,857</u>	<u>152,591,321</u>	<u>4,397,855</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,992,420</u>	<u>23,027,940</u>	<u>33,495,507</u>	<u>(390,857)</u>	<u>33,104,650</u>	<u>10,076,710</u>
Other Financing Sources (Uses)						
Transfers in	2,992,680	2,992,680	2,936,680	-	2,936,680	56,000
Transfers out	(23,985,100)	(26,020,620)	(26,001,720)	-	(26,001,720)	18,900
Total other financing sources (uses)	<u>(20,992,420)</u>	<u>(23,027,940)</u>	<u>(23,065,040)</u>	<u>-</u>	<u>(23,065,040)</u>	<u>37,100</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>10,430,467</u>	<u>(390,857)</u>	<u>10,039,610</u>	<u>\$ 10,039,610</u>
Fund balance - beginning			<u>59,724,492</u>	<u>-</u>	<u>59,724,492</u>	
Fund balance - ending			<u>\$ 70,154,959</u>	<u>\$ (390,857)</u>	<u>\$ 69,764,102</u>	

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
MISCELLANEOUS COMMUNITY DEVELOPMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance
	Original	Final	Actual	With Final Budget
Revenues				
Intergovernmental	\$ 1,045,390	\$ 1,045,390	\$ 2,457,113	\$ 1,411,723
Charges for services	430,000	430,000	809,418	379,418
Other	-	281,896	160,646	(121,250)
Total revenues	<u>1,475,390</u>	<u>1,757,286</u>	<u>3,427,177</u>	<u>1,669,891</u>
Expenditures				
Current:				
Public services	<u>1,475,390</u>	<u>1,757,286</u>	<u>3,554,302</u>	<u>(1,797,016)</u>
Total expenditures	<u>1,475,390</u>	<u>1,757,286</u>	<u>3,554,302</u>	<u>(1,797,016)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(127,125)</u>	<u>(127,125)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(127,125)</u>	<u>\$ (127,125)</u>
Fund balances - beginning			<u>1,615,435</u>	
Fund balances - ending			<u>\$ 1,488,310</u>	

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Assets				
Current assets:				
Cash & temporary investments	\$ 5,838,246	\$ 1,365,581	\$ 7,203,827	\$ 4,111,819
Investments	16,209,507	13,465,637	29,675,144	91,741,857
Accounts receivable	2,125,730	210,686	2,336,416	762,971
Due from other funds	-	1,202,000	1,202,000	-
Inventories	90,447	308,408	398,855	1,022,051
Prepaid items	21,742	5,071	26,813	-
Total current assets	<u>24,285,672</u>	<u>16,557,383</u>	<u>40,843,055</u>	<u>97,638,698</u>
Noncurrent assets:				
Land & site improvements	2,952,020	4,384,283	7,336,303	-
Building & building improvements	180,566,774	42,723,341	223,290,115	257,391
Equipment	4,467,098	2,809,657	7,276,755	76,231,422
Construction in progress	-	5,888,147	5,888,147	155,191
Less: accumulated depreciation	<u>(59,990,014)</u>	<u>(29,929,148)</u>	<u>(89,919,162)</u>	<u>(53,356,339)</u>
Total capital assets (net of accumulated depreciation):	127,995,878	25,876,280	153,872,158	23,287,665
Land held for redevelopment	-	2,500,840	2,500,840	-
Equity interest in joint venture	207,162	825,221	1,032,383	2,941,304
Total noncurrent assets	<u>128,203,040</u>	<u>29,202,341</u>	<u>157,405,381</u>	<u>26,228,969</u>
Total assets	<u>152,488,712</u>	<u>45,759,724</u>	<u>198,248,436</u>	<u>123,867,667</u>
Deferred outflows of resources				
Interest rate swap	2,638,045	-	2,638,045	-
Total deferred outflows of resources	<u>2,638,045</u>	<u>-</u>	<u>2,638,045</u>	<u>-</u>
Liabilities				
Current liabilities:				
Accounts payable	1,106,243	3,031,741	4,137,984	2,058,454
Accrued liabilities	364,219	34,040	398,259	1,088,239
Customer deposits	205,715	84,822	290,537	-
Due to other funds	-	45,000	45,000	757,000
Compensated absences	-	181,275	181,275	139,679
Long-term debt due within one year	4,304,817	13,849	4,318,666	-
Estimated claims liability	-	-	-	5,000,000
Total current liabilities	<u>5,980,994</u>	<u>3,390,727</u>	<u>9,371,721</u>	<u>9,043,372</u>
Noncurrent liabilities:				
Long-term debt due in more than one year	121,059,556	-	121,059,556	-
Estimated claims liability	-	-	-	7,200,000
Derivative instrument - interest rate swap	2,638,045	-	2,638,045	-
Total noncurrent liabilities	<u>123,697,601</u>	<u>-</u>	<u>123,697,601</u>	<u>7,200,000</u>
Total liabilities	<u>129,678,595</u>	<u>3,390,727</u>	<u>133,069,322</u>	<u>16,243,372</u>
NET POSITION				
Net investment in capital assets	2,631,505	25,862,431	28,493,936	23,287,665
Unrestricted	<u>22,816,657</u>	<u>16,506,566</u>	<u>39,323,223</u>	<u>84,336,630</u>
Total net position	<u>\$ 25,448,162</u>	<u>\$ 42,368,997</u>	<u>\$ 67,817,159</u>	<u>\$ 107,624,295</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating revenues				
Charges for services	\$ 5,454,394	\$ 4,829,644	\$ 10,284,038	\$ 39,382,107
Total operating revenues	<u>5,454,394</u>	<u>4,829,644</u>	<u>10,284,038</u>	<u>39,382,107</u>
Operating expenses				
Personal services	-	2,167,231	2,167,231	2,936,145
Materials & supplies	-	119,281	119,281	1,878,966
Maintenance	2,233	867,424	869,657	650,755
Depreciation & amortization	4,540,037	1,401,506	5,941,543	6,732,813
Other services and charges	9,617,104	3,251,242	12,868,346	29,346,587
Total operating expenses	<u>14,159,374</u>	<u>7,806,684</u>	<u>21,966,058</u>	<u>41,545,266</u>
Operating income (loss)	<u>(8,704,980)</u>	<u>(2,977,040)</u>	<u>(11,682,020)</u>	<u>(2,163,159)</u>
Nonoperating revenues (expense)				
Interest income	217,514	17,416	234,930	72,134
Intergovernmental revenue	9,864,965	104,638	9,969,603	212,143
Other revenues	10,000	338,123	348,123	698,997
Gain (loss) on disposal of capital assets	-	-	-	384,629
Interest expense	(2,999,737)	(2,719)	(3,002,456)	-
Total nonoperating revenues (expenses)	<u>7,092,742</u>	<u>457,458</u>	<u>7,550,200</u>	<u>1,367,903</u>
Income (loss) before transfers and capital contributions	<u>(1,612,238)</u>	<u>(2,519,582)</u>	<u>(4,131,820)</u>	<u>(795,256)</u>
Transfers in	3,635,380	5,488,040	9,123,420	3,756,932
Capital contributions	-	-	-	57,817
Change in net position	<u>2,023,142</u>	<u>2,968,458</u>	<u>4,991,600</u>	<u>3,019,493</u>
Net position, beginning of year, as restated	<u>23,425,020</u>	<u>39,400,539</u>	<u>62,825,559</u>	<u>104,604,802</u>
Net position, end of year	<u>25,448,162</u>	<u>42,368,997</u>	<u>67,817,159</u>	<u>107,624,295</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating activities				
Cash received from customers and users	\$ 5,374,254	\$ 5,139,344	\$ 10,513,598	\$ -
Receipts from interfund services provided	-	-	-	39,304,208
Cash paid to suppliers	(9,320,822)	(4,207,794)	(13,528,616)	(7,330,712)
Cash paid to employees	-	(2,062,850)	(2,062,850)	(2,914,224)
Cash paid for interfund services used	(2,233)	(119,281)	(121,514)	(440,030)
Payments of claims and insurance	-	-	-	(22,557,426)
Net cash provided by (used in) operating activities	<u>(3,948,801)</u>	<u>(1,250,581)</u>	<u>(5,199,382)</u>	<u>6,061,816</u>
Noncapital financing activities				
Transfers from other funds	4,635,380	8,172,610	12,807,990	4,426,931
Transfers to other funds	-	(96,021)	(96,021)	-
Tax and intergovernmental revenues	<u>9,874,965</u>	<u>442,761</u>	<u>10,317,726</u>	<u>911,140</u>
Net cash provided by (used in) noncapital financing activities	<u>14,510,345</u>	<u>8,519,350</u>	<u>23,029,695</u>	<u>5,338,071</u>
Capital and related financing activities				
Principal paid on general obligation bond maturities	(4,218,357)	(233,285)	(4,451,642)	-
Interest paid	(2,999,737)	(2,719)	(3,002,456)	-
Acquisition and construction of capital assets	-	(3,422,085)	(3,422,085)	(3,417,418)
Capital contributions	-	-	-	57,817
Net cash provided by (used in) capital and related financing activities	<u>(7,218,094)</u>	<u>(3,658,089)</u>	<u>(10,876,183)</u>	<u>(3,359,601)</u>
Investing activities				
Sales/(purchases) of investments, net	(2,246,304)	(1,763,602)	(4,009,906)	(7,605,066)
Investment earnings	217,514	17,416	234,930	72,134
Land held for redevelopment	-	(2,500,840)	(2,500,840)	-
Net change in equity investment in joint venture	<u>(154,108)</u>	<u>58,497</u>	<u>(95,611)</u>	<u>(186,037)</u>
Net cash provided by (used in) investing activities	<u>(2,182,898)</u>	<u>(4,188,529)</u>	<u>(6,371,427)</u>	<u>(7,718,969)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,160,552</u>	<u>(577,849)</u>	<u>582,703</u>	<u>321,317</u>
Cash and cash equivalents				
Beginning of year	<u>4,677,694</u>	<u>1,943,430</u>	<u>6,621,124</u>	<u>3,790,502</u>
End of year	<u>\$ 5,838,246</u>	<u>\$ 1,365,581</u>	<u>\$ 7,203,827</u>	<u>\$ 4,111,819</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds			Internal
	Knoxville Convention Center	Other Nonmajor Activities	Total	Service Funds
Reconciliation of operating income (loss)				
to net cash provided by				
(used in) operating activities				
Operating income (loss)	\$ (8,704,980)	\$ (2,977,040)	\$ (11,682,020)	\$ (2,163,159)
Adjustments to reconcile operating income (loss)				
to net cash provided by (used in) operating				
activities:				
Depreciation	4,540,037	1,401,506	5,941,543	6,732,813
Change in assets and liabilities				
(Increase) decrease in receivables	(26,738)	459,207	432,469	(83,047)
(Increase) decrease in prepayments	3,311	4,477	7,788	-
(Increase) decrease in inventories	1,039	(264,166)	(263,127)	(136,735)
Increase (decrease) in accounts payable	180,157	174,097	354,254	90,023
Increase (decrease) in accrued expenses	111,775	104,381	216,156	21,921
Increase (decrease) in deferred revenue	-	(41,603)	(41,603)	-
Increase (decrease) in estimated liability for litigation and claims	-	-	-	1,600,000
Increase (decrease) in customer deposits	(53,402)	(111,440)	(164,842)	-
Total adjustments	<u>4,756,179</u>	<u>1,726,459</u>	<u>6,482,638</u>	<u>8,224,975</u>
Net cash provided by (used in) operating activities	<u>\$ (3,948,801)</u>	<u>\$ (1,250,581)</u>	<u>\$ (5,199,382)</u>	<u>\$ 6,061,816</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	\$ 2,180	\$ 740,199
Cash equivalents	8,900,872	-
United States government securities	26,615,728	-
State & municipal government securities	4,022,860	15,494
International securities	141,531,129	-
Corporate bond & indentures	66,120,829	-
Real estate investment trusts	69,240,400	-
Domestic equity securities	174,703,121	-
Pending sales proceeds	998,967	-
Other receivables	-	15,025
Accrued interest & dividends	1,289,761	-
Due from other funds	-	30,000
Equipment, furniture & fixtures	37,009	-
Accumulated depreciation	(25,936)	-
Total assets	<u>\$ 493,436,920</u>	<u>\$ 800,718</u>
Liabilities		
Accounts payable	782,864	2,869
Investment purchases pending	1,440,888	-
Health care claims liability	-	767,849
Due to other funds	-	30,000
Total liabilities	<u>\$ 2,223,752</u>	<u>\$ 800,718</u>
Net Position		
Held in Trust for:		
Pension benefits	<u>\$ 491,213,168</u>	

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

CITY OF KNOXVILLE, TENNESSEE

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	City Employees' Pension Trust Fund
Additions	
Employee contributions	\$ 3,884,989
Employer contributions	13,762,164
Total contributions	<u>17,647,153</u>
Investment earnings:	
Interest and dividends	9,588,753
Net appreciation/(depreciation) in the fair value of investments	56,388,208
Other income	57,624
Total investment earnings (loss)	<u>66,034,585</u>
Less investment expense	<u>(3,428,227)</u>
Net investment earnings (loss)	<u>62,606,358</u>
Total additions (net)	<u>80,253,511</u>
Deductions	
Benefits paid	40,578,906
Refunds	881,014
Administration expenses	625,958
Total deductions	<u>42,085,878</u>
Change in net position	38,167,633
Total net position - beginning	<u>453,045,535</u>
Total net position - ending	<u><u>\$ 491,213,168</u></u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF NET POSITION - DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2013

	Component Units			Total Component Units
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	
Assets				
Cash and cash equivalents	\$ 125,723,586	\$ 9,655,290	\$ 77,118	\$ 135,455,994
Investments	105,802,918	30,093,254	1,199,028	137,095,200
Receivables (net of allowance for uncollectibles):				
Accounts	77,154,986	5,768,272	7,374,867	90,298,125
TVA conservation program	10,189,286	-	-	10,189,286
Other	52,927	89,678	-	142,605
Inventories	8,038,772	-	1,019,423	9,058,195
Prepaid items	11,590,017	446,333	-	12,036,350
Other	-	788,095	-	788,095
Restricted assets:				
Temporarily restricted:				
Bond funds	23,580,016	896,832	-	24,476,848
Unused bond proceeds	206	-	-	206
Receivables	-	515,000	-	515,000
Other	53,820	-	-	53,820
Other assets	8,745,320	-	-	8,745,320
Capital assets:				
Land and site improvements	-	173,224,499	1,854,780	175,079,279
Buildings and improvements	-	144,722,529	32,637,878	177,360,407
Utility plant in service	1,987,349,747	-	-	1,987,349,747
Equipment, furniture and fixtures	-	10,878,405	30,814,493	41,692,898
Construction in progress	160,097,345	27,675,700	-	187,773,045
Less accumulated depreciation	(681,775,954)	(193,889,350)	(20,329,146)	(895,994,450)
Equity interest in joint venture	-	-	8,558	8,558
Total assets	1,836,602,992	210,864,537	54,656,999	2,102,124,528
Deferred outflows of resources				
Interest rate swap	-	2,900,108	-	2,900,108
Unamortized charge on bond refunding	13,002,043	-	-	13,002,043
Total deferred outflows of resources	13,002,043	2,900,108	-	15,902,151
Liabilities				
Accounts payable	60,742,066	821,428	308,853	61,872,347
Matured principal & interest on bonds	11,261,245	-	-	11,261,245
Accrued liabilities	26,917,368	1,037,247	540,003	28,494,618
Due to primary government	-	-	5,600,000	5,600,000
Customer deposits, plus accrued interest	15,451,660	-	-	15,451,660
Accrued interest	-	114,130	-	114,130
Noncurrent liabilities:				
Long-term debt due within one year	23,965,000	695,000	-	24,660,000
Long-term debt due in more than one year	815,340,000	79,155,000	-	894,495,000
Other noncurrent liabilities due within one year	3,811,000	-	-	3,811,000
Other noncurrent liabilities due in more than one year	21,114,216	-	-	21,114,216
Derivative instruments - interest rate swaps	-	6,336,978	-	6,336,978
Total liabilities	978,602,555	88,159,783	6,448,856	1,073,211,194
Deferred inflows of resources				
Unamortized costs	7,357,600	-	-	7,357,600
Total deferred inflows of resources	7,357,600	-	-	7,357,600
Net position				
Net investment in capital assets	630,793,054	78,942,220	44,978,005	754,713,279
Restricted for:				
Debt service	12,318,771	-	-	12,318,771
Other	53,820	1,411,832	-	1,465,652
Unrestricted	220,479,235	45,250,810	3,230,138	268,960,183
Total net position	\$ 863,644,880	\$ 125,604,862	\$ 48,208,143	\$ 1,037,457,885

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF ACTIVITIES - DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		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	\$ 716,320,479	\$ 743,249,017	\$ -	\$ 378,196	\$ 27,306,734	\$ -	\$ -	\$ 27,306,734
Metropolitan Knoxville Airport Authority	36,116,367	27,853,186	-	14,463,193	-	6,200,012	-	6,200,012
Knoxville Area Transit	33,782,961	4,641,552	6,924,445	14,290,358	-	-	(7,926,606)	(7,926,606)
Total component units	\$ 786,219,807	\$ 775,743,755	\$ 6,924,445	\$ 29,131,747	\$ 27,306,734	\$ 6,200,012	\$ (7,926,606)	\$ 25,580,140
General revenues:								
Intergovernmental revenue, unrestricted					-	-	10,272,493	10,272,493
Other unrestricted revenue					-	156,654	73,559	230,213
Unrestricted investment earnings					1,031,771	195,537	1,592	1,228,900
Gain on disposal of capital assets					-	11,708	78,515	90,223
Total general revenues					<u>1,031,771</u>	<u>363,899</u>	<u>10,426,159</u>	<u>11,821,829</u>
Change in net position					28,338,505	6,563,911	2,499,553	37,401,969
Net position - beginning, as restated					<u>835,306,375</u>	<u>119,040,951</u>	<u>45,708,590</u>	<u>1,000,055,916</u>
Net position - ending					<u>\$ 863,644,880</u>	<u>\$ 125,604,862</u>	<u>\$ 48,208,143</u>	<u>\$ 1,037,457,885</u>

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

1. Knoxville Utilities Board (KUB) provides electric, gas and water and wastewater services to residents of the City and surrounding areas. KUB may not issue debt without the City's approval, although the City does not have any obligation for KUB debt.
2. Metropolitan Knoxville Airport Authority (MKAA) operates two airport facilities that serve Knoxville and the surrounding area. MKAA must obtain City approval to issue debt.
3. Knoxville Area Transit (KAT) operates the public transportation system in Knoxville. The City approves the KAT budget. The City also provides significant operating subsidies to KAT. Additional information may be obtained from the General Manager, 1135 Magnolia Avenue, Knoxville, Tennessee 37917.

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

Knoxville Utilities Board
626 South Gay Street
Knoxville, Tennessee 37929
www.kub.org

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

Joint Ventures

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

*Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) 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
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Related and Jointly Governed Organizations

The following related agencies provide services within the City:

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

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

Government-wide and Fund Financial Statements

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

The **statement of net position** presents the City's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

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

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary fund:

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

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

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

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as those assets with an initial, individual cost of more than 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 \$2,999,737 and no interest was capitalized because there were no major construction projects associated with the Convention Center in the current year.

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

Buildings	25 to 40 years
Improvements	5 to 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred outflows of resources - In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expense) until then. The City has two items that qualify for reporting in this category. The *deferred charge on refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The *effective portions of interest rate swaps* relate to interest rate swap agreements which are considered to be hedging derivative financial instruments. Changes in the fair market value of hedging derivatives are reported as deferred outflows of resources.

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

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

Deferred inflows of resources - In addition to liabilities, the balance sheets and statements of net position will sometimes report a separate section for deferred inflows of resources. *Deferred inflows of resources* represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The City has one item that qualifies for reporting in this category. The *unavailable revenue* reported in the balance sheet, which arises under a modified accrual basis of accounting, represents amounts that are deferred and recognized as an inflow of resources in the periods that the amounts become available. The *unavailable revenue* reported in the statement of net position, arises from imposed nonexchange revenues (property taxes) which are assessed prior to the end of the fiscal year but levied in the subsequent year, and amounts equal to loans receivable that are subject to grant restrictions.

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

Passenger Facility Charges - The collection of Passenger Facility Charges ("PFCs") has been approved to be used for qualifying capital improvement projects. PFCs, along with related interest earnings, are recorded as unearned revenue until used or authorized for use under FAA approved application to use. Once authorized to use, the PFC receipts are recognized and recorded as non-operating revenue in the year collected by the air carriers.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

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

Stabilization Arrangement - The City has a fund balance policy that requires the general fund to maintain a minimum unrestricted fund balance of 20% of ensuing year's appropriated general fund expenditures. For the current fiscal year ending June 30, 2013, the City met 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
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Pronouncements

The City adopted GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement addresses how to account for and report service concession arrangements.

The City adopted GASB Statement No. 61, The Financial Reporting Entity: Omnibus, required for fiscal periods beginning after June 15, 2012, in fiscal 2013. This Statement is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statements No. 14 and 34, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued.

The City adopted GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.

The City adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, required for fiscal periods beginning after December 15, 2011, in fiscal 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government reports with information about how past transactions will continue to impact a government's financial statements in the future.

The City adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, required for fiscal periods beginning after December 15, 2012, in fiscal 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 3 - Restatement of Net Position.

The City plans to adopt GASB Statement No. 66, Technical Corrections- 2012- an amendment of GASB Statements No. 10 and No. 62, required for fiscal periods beginning after December 15, 2012, in fiscal 2014. This Statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and No. 62.

The City plans to adopt GASB Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement improves financial reporting by state and local government pension plans.

The City plans to adopt GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, required for fiscal periods beginning after June 15, 2014, in fiscal 2015. This Statement improves accounting and financial reporting by state and local governments for pensions.

The City plans to adopt GASB Statement No. 69, Government Operations and Disposals of Government Operations, required for fiscal periods beginning after December 15, 2013, in fiscal 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City plans to adopt GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

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

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

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

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

NOTE 3 – RESTATEMENT OF NET POSITION

The City adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, for the year ended June 30, 2013. The Statement established accounting and financial reporting standards that, among other things, recognized as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. As a result, costs related to the issuance of debt previously deferred were reclassified as if they had been reported as an outflow of resources when incurred. The impact on the financial statements was a decrease in beginning net position as follows:

	Statement of Activities			Statement of Revenues, Expenses and Changes in	Statement of
	Governmental Activities	Business-type Activities	Component Units	Proprietary Funds (Enterprise Funds)	Activities Component Units
Net position - beginning of year, as previously reported	\$ 504,347,612	\$ 63,609,419	\$ 1,002,041,714	\$ 63,609,419	\$ 1,002,041,714
Reclassification of deferred charge for debt issuance costs	-	(783,860)	(1,985,798)	(783,860)	(1,985,798)
Net position - beginning of year, as restated	<u>\$ 504,347,612</u>	<u>\$ 62,825,559</u>	<u>\$ 1,000,055,916</u>	<u>\$ 62,825,559</u>	<u>\$ 1,000,055,916</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2013.

General Fund	\$2,043,296
Special Revenue Funds	614,604
Capital Project Funds	1,869,100
Enterprise Funds	4,766,489
Internal Service Funds	2,442,358

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

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

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

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 21,237,630	\$ 19,182,253	\$ (2,055,377)	\$ 21,237,630	\$ 17,159,111	\$ 4,078,519
Metro Parking	2,074,400	4,542,932	2,468,532	2,074,400	1,183,938	890,462
Public Assembly Facilities	7,216,628	4,846,789	(2,369,839)	7,216,628	5,212,287	2,004,341
City Golf Courses	1,549,290	1,388,140	(161,150)	1,549,290	1,413,178	136,112
<i>Knoxville Area Transit</i>						
(Component Unit)	23,606,581	36,282,514	12,675,933	23,606,581	33,782,961	(10,176,380)
<i>Internal Service Funds</i>						
Fleet Maintenance	15,623,834	15,859,938	236,104	15,623,834	13,245,414	2,378,420
Risk Management	7,148,301	6,415,676	(732,625)	7,148,301	6,917,884	230,417
Employee Health Insurance	18,540,728	18,096,984	(443,744)	18,540,728	17,985,175	555,553
Equipment Replacement	2,260,770	2,454,085	193,315	2,260,770	1,865,992	394,778
City Buildings	1,535,915	1,739,204	203,289	1,535,915	1,531,933	3,982

NOTE 5 - 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 9 for a schedule of interfund receivables and payables. In addition, investments are separately held by several of the City's funds.

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

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

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

Investment Policies

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limit investments to terms of no more than two years. As of June 30, 2013, the average weighted maturity of the City's portfolio was 313 days.

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

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

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

Concentration of Credit Risk: The City's Investment Policy imposes several limits on the amount and type of investments in order to avoid having a large percentage of the portfolio in a single issuer. First, the policy states that, with the exception of U.S. treasuries, agency securities, and the state investment pool, no more than 35% of the portfolio shall be invested in a single security type. The policy further limits, with respect to banker's acceptances and commercial paper, that no more than 10% of the portfolio, or \$10 million whichever is less, shall be from a single issuer. As of June 30, 2013, the City held securities in various municipal bonds of \$91 million or approximately 29% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from Baa2 to Baa3 and are part of the permanent fund for Krutch Park.

As of June 30, 2013, the City had the following investments and maturities.

Investments:	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 2 Years</u>	<u>2 - 4 Years</u>
Primary Government:				
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	\$ 4,426,283	\$ -	\$ -	\$ 4,426,283
Private Equity Funding Corporation (PEFCO)	1,452,782	-	-	1,452,782
Federal Farm Credit Bureau (FFCB)	3,464,980	-	-	3,464,980
Commercial Paper	6,979,361	6,979,361	-	-
Other Governmental Bonds	113,203,451	6,043,513	19,048,487	88,111,451
Certificates of Deposit	7,736,307	-	1,500,000	6,236,307
Corporate Equities	162,167	162,167	-	-
Tennessee Local Government Investment Pool	181,421,429	181,421,429	-	-
	<u>\$ 318,846,760</u>	<u>\$ 194,606,470</u>	<u>\$ 20,548,487</u>	<u>\$ 103,691,803</u>
Fiduciary Activities:				
Tennessee Local Government Investment Pool	\$ 15,494	\$ 15,494	\$ -	\$ -

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 FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5 - DEPOSITS AND INVESTMENTS - Continued

Deposits and investments of component units and the City Employees' Pension Trust Fund are classified in the statement of net position and the statement of fiduciary net position, respectively, as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Deposits:				
Bank balances	<u>\$ 206,630,780</u>	<u>\$ 10,947,557</u>	<u>\$ 77,118</u>	<u>\$ 2,180</u>
Carrying amounts:				
Deposits (net of outstanding checks) in financial institutions	\$ 125,776,035	\$ 10,552,122	\$ 77,118	\$ 2,180
Certificates of deposit	<u>76,320,162</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deposits - carrying value	<u>\$ 202,096,197</u>	<u>\$ 10,552,122</u>	<u>\$ 77,118</u>	<u>\$ 2,180</u>

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	\$ -	\$ -	\$ -	\$ 8,900,872	\$ 8,900,872	\$ 8,900,872
United States government securities	42,799,225	-	-	26,615,728	69,414,953	69,414,953
Domestic equity securities	-	-	-	174,703,121	174,703,121	174,703,121
Corporate bonds	-	-	-	66,120,829	66,120,829	66,120,829
State and municipal government securities	-	-	-	4,022,860	4,022,860	4,022,860
Real estate investment trusts	-	-	-	69,240,400	69,240,400	69,240,400
International securities	-	-	-	141,531,129	141,531,129	141,531,129
Total classified investments	42,799,225	-	-	491,134,939	533,934,164	533,934,164
Investments not categorized:						
Investments in state treasurer's investment pool	<u>10,039,012</u>	<u>30,093,254</u>	<u>1,199,028</u>	<u>-</u>	<u>41,331,294</u>	<u>41,331,294</u>
Total investments	<u>\$ 52,838,237</u>	<u>\$ 30,093,254</u>	<u>\$ 1,199,028</u>	<u>\$ 491,134,939</u>	<u>\$ 575,265,458</u>	<u>\$ 575,265,458</u>
Total deposits and investments	<u>\$ 254,934,434</u>	<u>\$ 40,645,376</u>	<u>\$ 1,276,146</u>	<u>\$ 491,137,119</u>		

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	\$ 125,723,586	\$ 9,655,290	\$ 77,118	\$ 2,180
Investments	105,802,918	30,093,254	1,199,028	491,134,939
Unused bond proceeds	206	896,832	-	-
Bond funds	23,580,016	-	-	-
Other temporarily restricted assets	<u>53,820</u>	<u>-</u>	<u>-</u>	<u>-</u>
	255,160,546	40,645,376	1,276,146	491,137,119
Less accrued interest	<u>(226,112)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deposits and investments	<u>\$ 254,934,434</u>	<u>\$ 40,645,376</u>	<u>\$ 1,276,146</u>	<u>\$ 491,137,119</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 6 - RECEIVABLES

Receivables at June 30, 2013, 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	\$ 626,401	\$ 27,242	\$ 911,381	\$ -	\$ -	\$ -	\$ 1,565,024
Debt service fund	-	5,830	-	-	261,003	-	266,833
Capital projects fund	-	24,820	1,553,137	-	-	-	1,577,957
Special revenue funds:							-
Miscellaneous community development funds	-	-	1,428,319	-	-	-	1,428,319
Other governmental funds	837,091	866	1,272,722	31,910	16,973	-	2,159,562
Knoxville Convention Center	-	-	-	-	2,125,730	-	2,125,730
Other enterprise funds	-	-	203,038	7,648	-	-	210,686
Internal service funds	-	-	-	762,971	-	-	762,971
Total primary government	1,463,492	58,758	5,368,597	802,529	2,403,706	-	10,097,082
Component units:							
Knoxville Utilities Board	10,189,286	52,927	-	74,362,256	3,741,088	(948,358)	87,397,199
Metropolitan Knoxville Airport Authority	-	89,678	5,093,962	674,310	-	-	5,857,950
Knoxville Area Transit	-	-	7,374,867	-	-	-	7,374,867
Total reporting entity	<u>\$ 11,652,778</u>	<u>\$ 201,363</u>	<u>\$ 17,837,426</u>	<u>\$ 75,839,095</u>	<u>\$ 6,144,794</u>	<u>\$ (948,358)</u>	<u>\$ 110,727,098</u>
Fiduciary Activities:							
City Employees' Pension Trust Fund	<u>\$ -</u>	<u>\$ 1,289,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,289,761</u>

NOTE 7 - NOTES AND LEASES RECEIVABLE

Notes and leases receivable consisted of the following:

Governmental Funds:

Notes Receivable

General Fund	\$ 327,772
Debt Service Fund	1,296,100
Special Revenue Fund - Miscellaneous Community Development Funds	15,748,551
Other Governmental Funds - Community Development Block Grant Funds	<u>3,487,040</u>
Total Notes Receivable	<u>\$ 20,859,463</u>

The \$1,296,100 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 \$15,748,551 due the Miscellaneous Community Development Funds and the \$3,487,040 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 \$19,235,591 is included in other deferred inflows of resources.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 7 - NOTES AND LEASES RECEIVABLE - Continued

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2042. As of June 30, 2013, minimum future base rentals to be received on noncancellable leases are as follows:

<u>Year Ended June 30,</u>	
2014	\$ 7,399,509
2015	4,504,626
2016	3,741,334
2017	3,522,297
2018	3,458,861
Thereafter	<u>15,412,554</u>
Total	<u>\$38,039,181</u>

Under the terms of one of the Metropolitan Knoxville Airport Authority leases, payments in future years increase significantly. The Authority recognizes income from this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately \$771,000 are included in other noncurrent assets in the accompanying statement of net position as of June 30, 2013. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$1,678,978 for the year ended June 30, 2013.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Primary Government				
<i>Governmental activities:</i>				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 50,321,482	\$ 94,489	\$ -	\$ 50,415,971
Construction in progress	3,405,344	3,864,712	(2,119,352)	5,150,704
Total nondepreciable capital assets	53,726,826	3,959,201	(2,119,352)	55,566,675
<i>Depreciable:</i>				
Buildings and building improvements	58,474,249	983,553	-	59,457,802
Equipment, furniture and fixtures	83,974,266	5,377,201	(3,996,125)	85,355,342
Infrastructure	310,238,439	10,361,039	-	320,599,478
Total depreciable capital assets	452,686,954	16,721,793	(3,996,125)	465,412,622
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(29,224,645)	(1,800,905)	-	(31,025,550)
Equipment, furniture and fixtures	(54,863,855)	(7,788,912)	3,894,183	(58,758,584)
Infrastructure	(144,958,987)	(11,636,305)	-	(156,595,292)
Total accumulated depreciation	(229,047,487)	(21,226,122)	3,894,183	(246,379,426)
Total depreciable capital assets, net	223,639,467	(4,504,329)	(101,942)	219,033,196
Governmental activities capital assets, net	\$ 277,366,293	\$ (545,128)	\$ (2,221,294)	\$ 274,599,871
<i>Business-type activities:</i>				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 7,336,303	\$ -	\$ -	\$ 7,336,303
Artwork	764,875	-	-	764,875
Construction in progress	-	5,888,147	-	5,888,147
Total nondepreciable capital assets	8,101,178	5,888,147	-	13,989,325
<i>Depreciable:</i>				
Buildings and building improvements	223,290,115	-	-	223,290,115
Equipment, furniture and fixtures	6,499,658	79,122	(66,900)	6,511,880
Total depreciable capital assets	229,789,773	79,122	(66,900)	229,801,995
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(80,011,403)	(5,422,086)	-	(85,433,489)
Equipment, furniture and fixtures	(4,033,117)	(519,456)	66,900	(4,485,673)
Total accumulated depreciation	(84,044,520)	(5,941,542)	66,900	(89,919,162)
Total depreciable capital assets, net	145,745,253	(5,862,420)	-	139,882,833
Business-type activities capital assets, net	\$ 153,846,431	\$ 25,727	\$ -	\$ 153,872,158
<i>Fiduciary activities:</i>				
Knoxville Employees' Pension Plan				
<i>Depreciable: Equipment, furniture and fixtures</i>	\$ 43,564	\$ 11,066	\$ (17,621)	\$ 37,009
<i>Accumulated Depreciation</i>	(35,798)	(7,759)	17,621	(25,936)
Total Knoxville Employees' Pension Plan	\$ 7,766	\$ 3,307	\$ -	\$ 11,073

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8 - CAPITAL ASSETS - Continued

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

Governmental Activities

General	\$ 2,232,352
Public Safety	6,647,010
Physical Environment	10,902,774
Economic Development	55,504
Parks and Recreation	1,169,568
Health and Sanitation	<u>218,914</u>
	<u><u>\$21,226,122</u></u>

Business-type Activities

Knoxville Convention Center	\$4,540,036
Metro Parking	678,629
Public Assembly Facilities	110,225
Municipal Golf Courses	<u>612,652</u>
	<u><u>\$5,941,542</u></u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8 - CAPITAL ASSETS - Continued

Capital asset activity for component units for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Component Units				
Knoxville Utilities Board				
<i>Nondepreciable: Construction in Progress</i>	\$ 148,047,816	\$ 148,210,109	\$ (136,160,580)	\$ 160,097,345
<i>Depreciable:</i>				
Pumping and treatment plant	227,847,288	18,400,939	(5,104,994)	241,143,233
Distribution & collection plant	1,508,412,779	117,691,440	(17,229,698)	1,608,874,521
General plant	130,677,027	10,054,272	(3,399,306)	137,331,993
Total depreciable assets	1,866,937,094	146,146,651	(25,733,998)	1,987,349,747
Accumulated depreciation	(647,505,932)	(55,062,934)	20,792,912	(681,775,954)
Total depreciable capital assets, net	1,219,431,162	91,083,717	(4,941,086)	1,305,573,793
Total Knoxville Utilities Board	\$ 1,367,478,978	\$ 239,293,826	\$ (141,101,666)	\$ 1,465,671,138
Metropolitan Knoxville Airport Authority				
<i>Nondepreciable:</i>				
Land	\$ 31,055,241	\$ 2,916	\$ -	\$ 31,058,157
Construction in progress	13,646,464	16,494,229	(2,464,993)	27,675,700
Total nondepreciable capital assets	44,701,705	16,497,145	(2,464,993)	58,733,857
<i>Depreciable:</i>				
Land improvements	142,080,474	85,868	-	142,166,342
Buildings and building improvements	142,532,704	2,189,825	-	144,722,529
Equipment, furniture and fixtures	10,817,142	219,661	(158,398)	10,878,405
Total depreciable capital assets	295,430,320	2,495,354	(158,398)	297,767,276
<i>Accumulated depreciation:</i>				
Land improvements	(103,943,514)	(4,179,516)	-	(108,123,030)
Buildings and building improvements	(70,284,762)	(6,395,366)	-	(76,680,128)
Equipment, furniture and fixtures	(8,419,695)	(794,773)	128,276	(9,086,192)
Total accumulated depreciation	(182,647,971)	(11,369,655)	128,276	(193,889,350)
Total depreciable capital assets, net	112,782,349	(8,874,301)	(30,122)	103,877,926
Total Metropolitan Knoxville Airport Authority	\$ 157,484,054	\$ 7,622,844	\$ (2,495,115)	\$ 162,611,783
Knoxville Area Transit				
<i>Nondepreciable:</i>				
Land	\$ 1,854,780	\$ -	\$ -	\$ 1,854,780
Artwork	49,000	-	-	49,000
Total nondepreciable capital assets	1,903,780	-	-	1,903,780
<i>Depreciable:</i>				
Buildings and building improvements	32,460,504	177,374	-	32,637,878
Equipment, vehicles, furniture and fixtures	29,622,310	4,172,631	(3,029,448)	30,765,493
Total depreciable capital assets	62,082,814	4,350,005	(3,029,448)	63,403,371
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(4,679,252)	(1,037,850)	-	(5,717,102)
Equipment, vehicles, furniture and fixtures	(15,392,800)	(2,248,692)	3,029,448	(14,612,044)
Total accumulated depreciation	(20,072,052)	(3,286,542)	3,029,448	(20,329,146)
Total depreciable capital assets, net	42,010,762	1,063,463	-	43,074,225
Total Knoxville Area Transit	\$ 43,914,542	\$ 1,063,463	\$ -	\$ 44,978,005

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2013 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>	\$ 725,000	\$ -	\$ 725,000	\$ 2,875,000	\$ -
<i>Special Revenue Fund:</i>					
Abandoned Vehicles	-	5,000	(5,000)	-	-
Miscellaneous Special Revenue	-	-	-	-	-
Animal Control	-	-	-	-	-
Community Development Block Grants	-	-	-	-	-
City Inspections	-	315,000	(315,000)	-	-
Miscellaneous Grants	-	680,000	(680,000)	-	-
Storm Water	-	-	-	-	-
Solid Waste	-	900,000	(900,000)	-	-
Miscellaneous Community Development Funds	-	500,000	(500,000)	-	-
<i>Capital Projects Fund</i>	1,275,000	-	1,275,000	2,725,000	-
<i>Internal Service Funds:</i>					
Risk Management	-	725,000	(725,000)	-	-
City Buildings	-	32,000	(32,000)	-	-
Total governmental activities	<u>\$ 2,000,000</u>	<u>\$ 3,157,000</u>	<u>\$ (1,157,000)</u>	<u>\$ 5,600,000</u>	<u>\$ -</u>
Business-Type Activities					
Public Assembly Facilities	1,000,000	-	1,000,000	-	-
Metro Parking	202,000	-	202,000	-	-
City Golf Courses	-	45,000	(45,000)	-	-
Total business-type activities	<u>1,202,000</u>	<u>45,000</u>	<u>1,157,000</u>	<u>-</u>	<u>-</u>
Component Units:					
Knoxville Area Transit	-	-	-	-	5,600,000
	<u>\$ 3,202,000</u>	<u>\$ 3,202,000</u>	<u>\$ -</u>	<u>\$ 5,600,000</u>	<u>\$ 5,600,000</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT

Bonds at June 30, 2013, are comprised of the following issues:

	General Obligation Bonds		
	Governmental Activities	Business-type Activities	Total
Primary Government			
General Obligation Bonds Series 2009 - VI-L-1 through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	\$ -	\$ 21,960,000	\$ 21,960,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	8,680,000	-	8,680,000
General Obligation Refunding Bonds, Series 2012 maturing through 2025 at varying rates of interest ranging from 1.0% to 5.0%	<u>36,469,000</u>	<u>41,816,000</u>	<u>78,285,000</u>
Total Primary Government	<u>\$ 45,149,000</u>	<u>\$ 123,746,000</u>	<u>\$ 168,895,000</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

	Revenue Bonds
Component Units:	
<i>Knoxville Utilities Board:</i>	
Electric Revenue Bonds Series V to CC, maturing through 2032 at varying rates of interest ranging from 1.45% to 6.35%	\$ 186,510,000
Water Revenue Bonds Series R to Y maturing through 2047 at varying rates of interest ranging from 2.0% to 5.5%	101,850,000
Gas Revenue Bonds Series L to S, maturing through 2047 at varying rates of interest ranging from 2.0% to 6.2%	92,350,000
Waste Water Revenue Bonds Series 2005 A&B, 2007, 2008, 2010, 2010B, 2010C, 2012A, 2012B, 2013A maturing through 2047 at varying rates of interest ranging from 1.18% to 6.5%	458,595,000
	<u>\$ 839,305,000</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%	\$ 12,580,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. \$30,955,000 bears interest at a synthetic rate of 3.754%. The remaining principal bears interest at a variable rate (0.15% at June 30, 2013).	67,270,000
	<u>\$ 79,850,000</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, 2013, these requirements had been satisfied.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

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

Primary Government	General Obligation Bonds			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 5,291,100	\$ 1,744,678	\$ 4,168,900	\$ 4,193,176
2015	5,382,720	1,606,756	4,337,280	4,041,548
2016	5,561,140	1,380,248	4,533,860	3,853,782
2017	3,797,760	1,102,191	5,157,240	3,642,039
2018	3,492,180	912,303	5,357,820	3,399,802
2019-2023	17,372,080	2,403,848	28,997,920	15,500,848
2024-2028	4,252,380	148,097	35,567,620	14,029,541
2029-2032	-	-	35,625,000	4,086,225
	45,149,360	\$ 9,298,121	123,745,640	\$ 52,746,961
Unamortized premium	5,673,340		1,618,733	
Total	<u>\$ 50,822,700</u>		<u>\$ 125,364,373</u>	

Component Units	Revenue Bonds and Local Gov't Public Improvement Bonds	
	Principal	Interest
2014	\$ 24,660,000	\$ 35,219,659
2015	29,245,000	34,239,179
2016	30,485,000	33,236,471
2017	31,365,000	32,197,229
2018	32,730,000	31,079,559
2019-2023	186,250,000	136,177,358
2024-2028	201,035,000	99,959,360
2029-2032	137,445,000	68,085,490
2033-2038	106,815,000	45,090,331
2039-2043	105,625,000	21,694,150
2044-2047	33,500,000	2,925,000
	<u>\$ 919,155,000</u>	<u>\$ 539,903,786</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - 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, 2013, is \$21,960,000.

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, 2013, 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 Building Authority of Sevier County	\$21,960,000	12/16/2009	3.955%	70% of 1 Month LIBOR	\$(2,638,045)	6/1/2020	A+

Fair Value - As of June 30, 2013, the swap had a negative fair value of \$2,638,045. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

The current notional and fair value amounts of the outstanding swap as of June 30, 2013, were as follows.

<u>Associated Debt Issue</u>	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2013</u>		<u>June 30, 2013 Notional Amount</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Business-Type Activities					
Hedging Derivative					
Loan Payable to the Public	Deferred				
Building Authority of Sevier	Outflow of				
County - Series VI-L1	Resources	\$1,054,467	Debt	\$(2,638,045)	\$21,960,000

Credit Risk - As of June 30, 2013, 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, 2013, the senior debt of Wells Fargo was rated A1 by Moody's Investor Services.

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

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

Swap Payments and Associated Debt - As of June 30, 2013, 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.

<u>For the Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Interest Rate Swap Payments</u>	<u>Total</u>
2014	\$ 2,730,000	\$ 988,200	\$(63,700)	\$ 3,654,500
2015	2,855,000	865,350	(55,800)	3,664,550
2016	2,990,000	736,875	(47,500)	3,679,375
2017	3,125,000	602,325	(38,800)	3,688,525
2018	3,270,000	461,700	(29,800)	3,701,900
2019 -2020	<u>6,990,000</u>	<u>475,425</u>	<u>(30,700)</u>	<u>7,434,725</u>
Total	<u>\$21,960,000</u>	<u>\$4,129,875</u>	<u>\$(266,300)</u>	<u>\$25,823,575</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

Component units

Metropolitan Knoxville Airport Authority

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, 2013, are as follows:

<u>Associated Bond Issues</u>	<u>Outstanding Notional Amounts</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Swap Termination Date</u>
Series II-D-1	\$12,580,000	9/8/2000	5.29%	SIFMA Municipal Swap Index	6/1/2026
Series V-A-1	<u>30,955,000</u>	6/28/2001	4.36%	62.5% of 5 Year LIBOR	6/1/2021
	<u>\$43,535,000</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.

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.

Hedging Derivative Instruments Risks

The Authority has a cash flow hedge associated with the Series II-D-1 bond - Using the regression analysis method this pay-fixed interest rate swap has been determined to be effective. Accordingly, the \$932,112 decrease in the fair value in 2013 is included in accumulated deferred outflow of resources in the statements of net position. The estimated fair value of \$2,900,108 has been reported as a long-term liability.

Credit Risk - As of June 30, 2013, the Authority's cash flow hedge is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

At the time of the swap the counterparty was unrated. 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, 2013, Ambac's credit rating has been severely downgraded and has been withdrawn by the rating agencies.

Interest Rate Risk - The Authority is exposed to interest rate risk on this instrument. As the Securities Industry and Financial Markets Association™ Index swap index decreases, the Authority's net payment on the swap increases.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

Termination Risk - The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." 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.

Investment Derivative Instruments Risks

The Authority has an investment derivative associated with the Series V-A-1 bond. As of June 30, 2013, the Authority has determined this pay-fixed interest rate swap no longer meets the criteria for effectiveness. Accordingly, the accumulated changes in fair value of the swap that were reported as a deferred outflow of resources of \$5,366,800 at June 30, 2012, and the decrease in its fair value in fiscal year 2013 of \$1,929,930 have been netted (\$3,436,870) and reported as investment interest rate swap expense in the nonoperating income portion of the statements of revenues, expenses and changes in net position. The estimated fair value of \$3,436,870 has been reported as a long-term liability.

Credit Risk - As of June 30, 2013, the Authority's investment derivative is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

For the swap associated with Series V-A-1 bonds, the swap counterparty, Morgan Keegan Financial Products was rated "A+" by Standard and Poor's as of June 30, 2013, with its Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Interest Rate Risk - The Authority is exposed to interest rate risk on this instrument. As the LIBOR decreases, the Authority's net payment on the swap increases.

Schedule Debt Service Requirements

As of June 30, 2013, scheduled debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2014	\$ 695,000	\$ 732,734	\$1,134,075	\$ 2,561,809
2015	4,155,000	696,906	1,014,518	5,866,424
2016	4,365,000	654,165	889,068	5,908,234
2017	4,590,000	608,878	757,527	5,956,405
2018-2022	4,825,000	560,802	619,524	6,005,325
2019-2023	28,355,000	1,973,384	984,778	31,313,162
2024-2027	<u>32,865,000</u>	<u>417,275</u>	<u>13,513</u>	<u>33,295,788</u>
Total	<u>\$79,850,000</u>	<u>\$5,644,144</u>	<u>\$5,413,003</u>	<u>\$90,907,147</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

Advance and Current Refundings

Component units

Knoxville Utilities Board

During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. 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% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds. During fiscal year 2013, KUB's Electric Division issued Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds as follows. KUB sold \$9.7 million in electric system revenue refunding bonds in March 2013 for the purpose of refinancing \$10.1 million in outstanding bonds at lower interest rates. The net proceeds of the bonds of \$10 million (\$9.7 million plus premium of \$0.5 million less issuance costs of \$0.2 million) combined with an additional KUB contribution of \$1.1 million was placed in an irrevocable trust with an escrow agent to pay debt service on the bonds to be refunded prior to the call date and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

This refunding decreases total debt service payments over the life of the bonds by \$1.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$0.7 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$72.3 million at June 30, 2013, and the trust account assets are not included in the financial statements.

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 gas 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 H 1998 bonds. During fiscal year 2008, KUB's Gas Division issued Series N 2007 to fund gas system capital improvements. During fiscal year 2010, KUB's Gas Division issued Series O 2010 bonds to retire Series I 2001 bonds. During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K 2004 bonds. During fiscal year 2013, KUB's Gas Division issued Series R 2012 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series S 2013 bonds to

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

retire Series M 2006 outstanding bonds as follows. KUB sold \$11.6 million in gas system revenue refunding bonds in March 2013 for the purpose of refinancing outstanding bonds at lower interest rates. The net proceeds of the bonds of

\$12 million (\$11.6 million plus premium of \$0.6 million less issuance costs of \$0.2 million) combined with an additional KUB contribution of \$1.1 million was placed in an irrevocable escrow account to be used to pay debt service on the bonds to be refunded prior to the call date in 2015 and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 18 years by \$1.6 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$47.4 million at June 30, 2013, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Water Division issued Series R 2005 bonds for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 bonds to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature. During fiscal year 2008, KUB's Water Division issued Series T 2007 bonds to fund water system capital improvements. During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements.

KUB's Water Division also issued Series V 2010 bonds to retire Series O 2001 bonds. During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds. During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds as follows. KUB sold \$9.3 million in water system revenue refunding bonds in March 2013 for the purpose of refinancing outstanding bonds at lower interest rates. The net proceeds of the bonds of \$9.5 million (\$9.3 million plus premium of \$0.3 million less issuance costs of \$0.1 million) combined with an additional KUB contribution of \$0.8 million was placed in an irrevocable escrow account to be used to pay debt service on the bonds to be refunded prior to the call date in 2015 and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 17 years by \$1.3 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$0.8 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$16.9 million at June 30, 2013, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Wastewater Division issued Series 2005A bonds for the purpose of funding wastewater system capital improvements and to pay off a previously issued \$30 million revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B bonds in part to retire certain existing debt and fund wastewater system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued revenue anticipation note (line of credit), and to fund wastewater system capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, KUB's Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

sequestration rate is subject to change. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund

capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35% interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to an 8.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until September 30, 2013 or intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds. During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds as follows. KUB sold \$113.3 million in revenue refunding bonds in March 2013 for the purpose of refinancing outstanding bonds at lower interest rates. The net proceeds of the bonds of \$112.9 million (\$113.3 million plus premium of \$0.3 million less issuance costs of \$0.7 million) combined with an additional KUB contribution of \$2.5 million was placed in an irrevocable escrow account to be used to pay debt service on the bonds to be refunded prior to the call date in 2015 and to retire the outstanding bonds when called. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 24 years by \$20.5 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$14.4 million. In the current and prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, \$122.1 million at June 30, 2013, and the trust account assets are not included in the financial statements.

Metropolitan Knoxville Airport Authority

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

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 \$69,097.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2013 were as follows:

2014	<u>\$ 13,921</u>
Total minimum future lease payments	13,921
Less: amount representing interest	<u>(72)</u>
Present value of minimum lease payments	<u>\$ 13,849</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

Component Units

Metropolitan Knoxville Airport Authority

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

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

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

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

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

Changes in Long-Term Liabilities

The following schedule is a summary of the changes in long-term debt (including current amounts) for the year ended June 30, 2013:

	Balance June 30, 2012	Additions and Transfers	Reductions and Transfers	Balance June 30, 2013	Due Within One Year
Primary Government					
<i>Government Activities:</i>					
General obligation bonds	\$ 50,561,920	\$ -	\$ 5,412,560	\$ 45,149,360	\$ 5,291,100
Add unamortized amounts for issuance premium:	6,219,002	-	545,662	5,673,340	542,595
	56,780,922	-	5,958,222	50,822,700	5,833,695
Estimated claims liability	10,600,000	4,840,907	3,240,907	12,200,000	5,000,000
Compensated absences payable	8,548,076	7,980,418	7,259,427	9,269,067	7,239,679
Total governmental activities long-term liabilities	<u>\$ 75,928,998</u>	<u>\$ 12,821,325</u>	<u>\$ 16,458,556</u>	<u>\$ 72,291,767</u>	<u>\$ 18,073,374</u>
<i>Business-type Activities:</i>					
General obligation bonds	\$ 127,828,080	\$ -	\$ 4,082,440	\$ 123,745,640	\$ 4,168,900
Add unamortized amounts for issuance premium:	1,754,650	-	135,917	1,618,733	135,917
	129,582,730	-	4,218,357	125,364,373	4,304,817
Note payable	65,000	-	65,000	-	-
Capital lease	101,608	-	87,759	13,849	13,849
Compensated absences payable	157,526	123,121	99,372	181,275	181,275
Total business-type activities long-term liabilities	<u>\$ 129,906,864</u>	<u>\$ 123,121</u>	<u>\$ 4,470,488</u>	<u>\$ 125,559,497</u>	<u>\$ 4,499,941</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 \$139,679 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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 10 - LONG-TERM DEBT - Continued

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, 2013, principal and interest payments on all debt issues were approximately 18% of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately \$238.2 million, based on market interest rates effective on June 30, 2013.

	Balance June 30, 2012	Additions and Transfers	Reductions and Transfers	Balance June 30, 2013	Due Within One Year
Component Units					
<i>Knoxville Utilities Board:</i>					
Revenue bonds	\$ 742,210,000	\$ 253,865,000	\$ 156,770,000	\$ 839,305,000	\$ 23,965,000
TVA conservation program	9,335,409	3,487,807	2,817,477	10,005,739	1,500,000
Compensated absences	8,237,657	14,546,694	14,516,801	8,267,550	2,100,000
Customer advances for construction	1,283,627	420,496	486,595	1,217,528	121,000
Other	211,564	869,647	574,393	506,818	90,000
Total Knoxville Utilities Board	<u>761,278,257</u>	<u>273,189,644</u>	<u>175,165,266</u>	<u>859,302,635</u>	<u>27,776,000</u>
<i>Metropolitan Knoxville Airport Authority:</i>					
Revenue/general obligation bonds	<u>80,505,000</u>	<u>-</u>	<u>655,000</u>	<u>79,850,000</u>	<u>695,000</u>
Total Metropolitan Knoxville Airport Authority	<u>80,505,000</u>	<u>-</u>	<u>655,000</u>	<u>79,850,000</u>	<u>695,000</u>
Total component units	<u>\$ 841,783,257</u>	<u>\$ 273,189,644</u>	<u>\$ 175,820,266</u>	<u>\$ 939,152,635</u>	<u>\$ 28,471,000</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, 2013.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 11 - 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, 2013 were \$1,122,978.

Component Units

The Knoxville Utilities Board has non-cancelable operating lease commitments for office equipment that expire in various years through June 30, 2017. Future minimum lease payments under leases having initial or remaining noncancellable terms in excess of one year as follows:

	<u>Amount</u>
2014	\$ 70,639
2015	56,954
2016	20,544
2017	<u>2,142</u>
Total	<u><u>\$150,279</u></u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 12 - FUND BALANCES

Detail fund balances are as follows:

				<u>Special Revenue Funds</u>		
				Miscellaneous Community Development		
	General Fund	Debt Service Fund	Capital Projects Fund	Fund	Other Funds	Total
Fund Balances:						
Nonspendable:						
Inventory	\$ 289,431	\$ -	\$ -	\$ 83,300	\$ 29,925	\$ 402,656
Prepays	10,758	-	-	-	-	10,758
Permanent Fund Principal	-	-	-	-	624,065	624,065
Restricted for:						
Debt Service Reserves	-	46,832,834	-	-	-	46,832,834
Street Improvements	-	-	-	-	3,083,262	3,083,262
Community Development	-	-	-	1,405,010	61,964	1,466,974
Law Enforcement	-	-	-	-	4,468,181	4,468,181
Parks & Recreation	-	-	-	-	203,289	203,289
Solid Waste Operations	-	-	-	-	4,836,239	4,836,239
Krutch Park	-	-	-	-	242,660	242,660
Committed to:						
Economic Stabilization	36,636,086	-	-	-	-	36,636,086
Other Capital Projects	-	-	76,798,487	-	-	76,798,487
Abandoned Vehicle Operations	-	-	-	-	1,765,820	1,765,820
City Inspections Operations	-	-	-	-	251,990	251,990
City Court Operations	-	-	-	-	1,091,593	1,091,593
Animal Control Operations	-	-	-	-	524,157	524,157
Beer Board	-	-	-	-	131,011	131,011
Finance & Accountability	135,062	-	-	-	-	135,062
Law Enforcement	-	-	-	-	4,784,828	4,784,828
Safety City	-	-	-	-	1,247,899	1,247,899
Storm Water Operations	-	-	-	-	693,283	693,283
Community Development	-	-	-	-	2,595,503	2,595,503
Assigned to:						
Administration	546,714	-	-	-	-	546,714
Appropriated Fund Balance	1,850,000	-	-	-	-	1,850,000
Community Development	183,208	-	-	-	-	183,208
Parks & Recreation	67,932	-	-	-	-	67,932
Unassigned	<u>30,435,768</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,435,768</u>
Total Fund Balances	<u><u>\$70,154,959</u></u>	<u><u>\$46,832,834</u></u>	<u><u>\$ 76,798,487</u></u>	<u><u>\$ 1,488,310</u></u>	<u><u>\$26,635,669</u></u>	<u><u>\$ 221,910,259</u></u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 13 - RISK MANAGEMENT

Primary Government

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

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

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.

	<u>2013</u>	<u>2012</u>
Claims liability, beginning of year	\$ 1,000,000	\$ 1,000,000
Provision for incurred claims	9,805,970	9,925,429
Payments made on claims	<u>(9,805,970)</u>	<u>(9,925,429)</u>
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 \$12,200,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities as of June 30, 2013.

An analysis of claims activity for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Claims liability, beginning of year	\$ 10,600,000	\$ 9,200,000
Provision for incurred claims	4,840,907	4,606,810
Payments made on claims	<u>(3,240,907)</u>	<u>(3,206,810)</u>
Claims liability, end of year	<u>\$ 12,200,000</u>	<u>\$ 10,600,000</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 13 - RISK MANAGEMENT - Continued

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2013, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10. The current portion of the claims liability is estimated to be \$5 million.

Component units

Knoxville Utilities Board

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

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

At June 30, 2013, the amount of these liabilities was \$1,733,984. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Claims liability, beginning of year	\$ 1,827,920	\$ 2,175,294
Provision for incurred claims	12,256,762	14,130,565
Payments made on claims	<u>(12,350,698)</u>	<u>(14,477,939)</u>
Claims liability, end of year	<u>\$ 1,733,984</u>	<u>\$ 1,827,920</u>

Metropolitan Knoxville Airport Authority

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 14 - JOINT VENTURES

Public Building Authority

In 1975, the Authority was formed as a not-for-profit corporation incorporated pursuant to provisions of the Public Building Authority Act of the State of Tennessee and an operating agreement between the City and Knox County. The Authority constructed and presently maintains and operates the City/County Building, which houses the governments of the City and County. The City and County pay rent to the Authority sufficient to meet operating costs with the City responsible for 36.49% of the payments. An eleven-member board comprised of six County appointees and five City appointees operates the Authority. As described in the operating agreement, the City and County acting jointly may terminate the lease when all debt service and other obligations of the Authority have been met. In the event of termination, the City and County shall direct the Authority to whom and in what manner title to the assets is to be transferred. The City retains an equity interest in the joint venture 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 15 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

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

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 15 - 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 various parking lots. The terms of the agreement shall continue until terminated by either party. The terms call for the City and PBA to agree upon an annual budget for the management of the above, said budget to cover direct and indirect costs of PBA relating to the management of the facilities.

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

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal Financial Assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2013 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, 2013:

	<u>Spent to Date</u>	<u>Contractual Commitment Remaining at June 30, 2013</u>
Bridge Maintenance Program	\$ 1,299,856	\$ 1,579,753
Drainage Improvements	662,145	572,793
Information Systems Upgrades	564,958	117,908
Miscellaneous Equipment Acquisition	933,895	67,491
New Facilities & Renovation	952,534	116,133
Parks Improvements	1,038,073	671,276
Paving Program	6,781,646	3,530,515
Redevelopment Program	2,526,767	2,958,144
Roadway Improvements	2,488,940	3,203,384
Sidewalk Improvements	932,268	723,717
South Knoxville Waterfront	606,923	607,995
Traffic Improvements	<u>482,653</u>	<u>266,055</u>
Total	<u>\$19,270,658</u>	<u>\$14,415,164</u>

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 16 - COMMITMENTS AND CONTINGENCIES - Continued

Component units

Knoxville Utilities Board

Purchased Gas Adjustments - In November 1990, KUB implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of GASB Statement No. 62 (Statement No. 62), Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

The PGA is intended to assure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The PGA is also intended to assure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, KUB tracks the actual over/under recovered amount in the (under)/over recovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to KUB's customers. The amount of under-recovered costs was \$(841,779) at June 30, 2013.

Purchased Power Adjustment - In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. These changes in electric costs are reflected as adjustments to the base electric rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, and KUB meets the remaining criteria of Statement No. 62.

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

In April 2011, TVA modified its wholesale rate structure to demand & 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, 2013, the Gas Division of the Knoxville Utilities Board hedged 53% of its total gas purchases via gas supply contracts. As of June 30, 2013, the Gas Division had hedged the price on approximately 15% of its anticipated gas purchases for fiscal year 2014.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 16 - 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:

	2014	2015	2016	2017	2018
Demand:					
Transportation	\$ 17,392,280	\$ 17,392,280	\$ 5,797,427	\$ -	\$ -
Storage	4,751,528	4,610,513	2,298,303	1,353,720	1,015,290
Demand total	<u>\$ 22,143,808</u>	<u>\$ 22,002,793</u>	<u>\$ 8,095,730</u>	<u>\$ 1,353,720</u>	<u>\$ 1,015,290</u>
Commodity:					
Baseload	<u>\$ 11,573,837</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 Conoco and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the CNX contract is based upon firm supply obligations and the applicable four month New York Mercantile Exchange ("NYMEX") strip prices at July 31, 2013.

Other Commitments and Contingencies

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

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

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

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2013, the Wastewater Division had issued \$425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50% rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8% rate increase, which was effective in September 2008, and two 12% rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 17 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on five major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for \$3,158,080 in aviation area revenue during 2013. In addition, a significant portion of terminal area revenue is directly and indirectly generated from four of these airline's passengers, which accounted for approximately 85% of total passengers during 2013. As of June 30, 2013, 73% of trade accounts receivable are due from these major airlines.

NOTE 18 - TRANSFERS

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

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 18 – TRANSFERS - Continued

		Transfers From:									
		Governmental Activities									
	General Fund	Debt Service	Capital Projects	State Street Aid	City Court	Miscellaneous Special Revenue Grants	Miscellaneous Grants	Total			
Transfers To:											
Primary Government:											
<i>Governmental Activities:</i>											
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 2,936,680	\$ -	\$ -	\$ 2,936,680			
Capital Projects Fund	1,500,000	17,739,000	-	750,000	-	1,625,190	-	21,614,190			
City Inspections	596,230	-	-	-	-	-	-	596,230			
Miscellaneous Special Revenue Grants	-	-	-	-	-	-	123,274	123,274			
Miscellaneous Grants	24,559	-	937	-	-	-	-	25,496			
Storm Water	2,642,820	-	-	-	-	-	-	2,642,820			
Solid Waste	8,848,230	-	-	-	-	-	-	8,848,230			
<i>Business-type Activities:</i>											
Metro Parking	2,600,000	-	-	-	-	-	-	2,600,000			
Convention Center	3,635,380	-	-	-	-	-	-	3,635,380			
Public Assembly Facilities	2,430,410	346,200	-	-	-	-	-	2,776,610			
City Golf Courses	111,430	-	-	-	-	-	-	111,430			
<i>Internal Service Funds:</i>											
Fleet Maintenance	1,334,100	64,600	-	-	-	-	-	1,398,700			
Risk Management	439,303	-	-	-	-	-	-	439,303			
Health Insurance	1,793,857	-	-	-	-	-	-	1,793,857			
Equipment Replacement	45,401	-	16,283	-	-	63,388	-	125,072			
	<u>\$ 26,001,720</u>	<u>\$ 18,149,800</u>	<u>\$ 17,220</u>	<u>\$ 750,000</u>	<u>\$ 2,936,680</u>	<u>\$ 1,688,578</u>	<u>\$ 123,274</u>	<u>\$ 49,667,272</u>			

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - RETIREMENT AND DISABILITY PLANS

Defined Benefit Pension Plans

City of Knoxville Pension System

The City also maintains a single-employer defined benefit pension plan (City of Knoxville Pension System), administered by the City of Knoxville Pension Board, which is comprised of three divisions of current membership and a membership of certain former City School employees. All participants are fully vested in the plan after 5 - 10 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.

Division H - All general government and uniformed safety employees who were employed on or after January 1, 2013. Members of Division H are covered by Social Security. Participation in Division H requires employee contributions of 6% of annual earnings. Division H provides for normal retirement benefits at age 63 and ten years of service for general government employees, and age 56 and twenty-five years of service or age 63 and ten years of service for uniformed safety employees.

CITY OF KNOXVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - RETIREMENT AND DISABILITY PLANS - 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 \$952,682 for 2013.

At July 1, 2013 the Plan had 2,120 retirees and beneficiaries currently receiving benefits, 43 employees currently participating in the Delayed Retirement Option Program (DROP) and 92 deferred vested participants. Of the approximately 1,491 active employees in the Plan, 1,150 were fully vested at July 1, 2013. 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 over a thirty year period of which 24 remain as of July 1, 2013. Projected covered payroll for the years beginning on July 1, 2013 and 2012 (without Board of Education amounts) amounted to approximately \$67,782,302 and \$65,396,351, respectively.

Employer contributions, excluding Board of Education contributions, and percentages of employer-covered for the years ended June 30, 2013 and 2012 were as follows:

	2013		2012	
	Amount	Rate - %	Amount	Rate - %
Uniformed Police and Fire	\$ 8,252,621	23.72%	\$ 7,185,033	21.30%
General Government Contribution	4,215,550	12.83%	3,717,146	11.80%
Division G Matching Contribution	270,448	0.82%	269,353	0.85%
Board of Education	<u>952,682</u>	N/A	<u>638,967</u>	N/A
Total	<u>\$13,691,301</u>		<u>\$11,810,499</u>	

Funded Status

The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of July 1, 2013, the most recent actuarial valuation date, the plan was 75.96% funded. The actuarial accrued liability for benefits was \$682.7 million, and the actuarial value of assets was \$518.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$164.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$67.8 million, and the ratio of the UAAL to the covered payroll was 242.1%.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

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, 2013, 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, 2013 include: (a) rate of return on investment of present and future assets of 5.5% for Plan H and 7.375% for all other plans; (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; (c) projected post retirement increases of 3.0% for annually for Plan H and 3.5% annually for all other plans; and (d) an inflation rate of 2.75%. 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.

<u>Fiscal Year Ending</u>	<u>Annual Pension Percentage of APC</u>		<u>Net Pension Obligation</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	
June 30, 2013	\$13,420,853	101%	\$(3,114,962)
June 30, 2012	11,386,903	101%	(3,044,099)
June 30, 2011	9,291,361	99%	(2,889,856)

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

	<u>Plans A, B, G and H</u>	<u>Plans C and F</u>
Age 20	12.0%	12.0%
Age 35	5.2%	6.2%
Age 50	4.1%	4.3%
Age 60	3.5%	3.5%

Net Pension Obligation

The calculation of the net pension obligation is as follows for June 30, 2013:

(1) Determination of Annual Pension Cost / Net Pension Obligation for 2013

Annual required contribution (with interest to middle of year)	\$ 8,143,006
Interest on net pension obligation	(227,141)
Adjustment to annual required contribution	<u>265,893</u>
Annual pension cost	8,181,758
Contributions made	<u>(8,252,621)</u>
Increase in net pension obligation	(70,863)
Net pension (asset) obligation beginning of year	<u>(3,044,099)</u>
 Net pension (asset) obligation end of year	 <u><u>\$(3,114,962)</u></u>

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

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

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, 2012, the Plan had 647 retirees and beneficiaries currently receiving benefits and 54 terminated employees entitled to benefits but not yet receiving them. Of the approximately 824 current employees in the Plan, 747 were fully vested at December 31, 2012. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

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

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

Career Equity Program (CEP)

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

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

Plan A

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

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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Plan B

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

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

For the Plan year ended December 31, 2012, a contribution of \$5,502,677 is required to be made in the Plan sponsor's fiscal year ending June 30, 2014. The annual required contribution was determined as part of the January 1, 2012 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. For the Plan year ended December 31, 2012, the Plan's actuarial funded ratio was 94.1%.

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.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8%, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58% to 7.92%, and (d) cost of living adjustment of 2.8% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2012, contributions of \$5,502,677 and \$3,593,282 for 2012 and 2011, respectively, are required to be made during the Plan sponsor's fiscal years ending June 30, 2014 and 2013, respectively.

Subsequent to June 30, 2013, the actuarial valuation for the Plan year ending December 31, 2013 was completed. The actuarial valuation resulted in a recommended contribution of \$6,314,399 for the fiscal year ending June 30, 2015, based on the Plan's current funding policy. For the Plan year ending December 31, 2013, the Plan's actuarial funded ratio was 89.3%. See Required Supplementary Information for Pension Schedule of Funding Progress.

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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Defined Contribution Plans

Knoxville Utilities Board

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

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

Metropolitan Knoxville Airport Authority

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

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 \$764,787 in 2013.

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 \$398,477 in 2013. Employee contributions totaled \$518,148 in 2013.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 19 - RETIREMENT AND DISABILITY PLANS - Continued

Deferred Compensation Plans

Primary Government

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

Component Unit

Metropolitan Knoxville Airport Authority

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The Plan, available to all Authority employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were \$104,976 in 2013.

NOTE 20 - 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, 2013, the City and the retirees contributed \$486,190 and \$476,630, respectively.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

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, 2013 the City's annual OPEB cost of \$1,210,950 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:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$1,210,950	100%	\$ -
June 30, 2012	1,341,716	100%	-
June 30, 2011	1,317,879	100%	-

Funded Status and Funding Progress

As of July 1, 2013, 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 \$14.5 million. Since there are no plan assets, the unfunded actuarial accrued liability is \$14.5 million. The covered payroll was \$68.5 million and the ratio of the UAAL to covered payroll is 21.2%.

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.

CITY OF KNOXVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

In the July 1, 2012 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 10% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a 10 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, 2013 was 30 years.

Component Units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 618 former employees and 635 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, 2013, 419 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

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

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

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

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

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2013 were \$4.4 million. The contribution to the Trust exceeded the annual required contribution (ARC), as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2011, which was \$3.3 million. As of June 30, 2013, the employer's net OPEB obligation was \$0.6 million.

The ARC for the fiscal year ending June 30, 2014, as determined by the Plan's actuarial valuation for the year ended December 31, 2012 is \$3.3 million.

The actuarial valuation for the Plan for the year ending December 31, 2013 has been completed. The valuation determined that the Plan's actuarial accrued liability was \$63.3 million. The actuarial value of the Plan's assets was \$38.6 million. As a result, the Plan's unfunded actuarial accrued liability was \$24.8 million. The Plan's actuarial funded ratio was 61%. The valuation also determined that the employer's ARC is \$3.5 million for the fiscal year ending June 30, 2015. See Required Supplementary Information for OPEB Schedule of Funding Progress.

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) - Continued

Metropolitan Knoxville Airport Authority and Knoxville Area Transit

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

NOTE 21 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	\$12,126,434
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	14,172,900
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	776,724
Subsidies paid by the City to Knoxville Area Transit	10,272,493

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CITY OF KNOXVILLE, TENNESSEE

**Required Supplementary Information
June 30, 2013**

Schedule of Funding Progress - City of Knoxville Pension System

Unaudited - See Accompanying Auditor's Report

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, 2013	\$ 518,592,807	\$ 682,700,768	\$ 164,107,961	76.0%	\$ 67,782,302	242.1%
July 1, 2012	513,358,762	661,425,448	148,066,686	77.6%	65,396,351	226.4%
July 1, 2011	512,823,411	595,595,409	82,771,998	86.1%	64,309,770	128.7%
July 1, 2010	512,943,851	578,180,826	65,236,975	88.7%	63,977,132	102.0%
July 1, 2009	523,121,786	561,660,015	38,538,229	93.1%	60,585,868	63.6%
July 1, 2008	524,596,859	544,826,299	20,229,440	96.3%	58,226,253	34.7%

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

Unaudited - See Accompanying Auditor's Report

Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2013	-	14,851,766	14,851,766	0.0%	71,419,342	20.8%
July 1, 2012	-	14,527,571	14,527,571	0.0%	68,580,125	21.2%
July 1, 2011	-	13,192,062	13,192,062	0.0%	66,027,397	20.0%
July 1, 2010	-	12,968,732	12,968,732	0.0%	63,402,532	20.5%
July 1, 2009	-	15,445,521	15,445,521	0.0%	58,946,845	26.2%
July 1, 2008	-	15,524,797	15,524,797	0.0%	58,215,528	26.7%
July 1, 2007	-	17,704,000	17,704,000	0.0%	55,396,816	32.0%

CITY OF KNOXVILLE, TENNESSEE

**Required Supplementary Information
June 30, 2013**

Schedule of Funding Progress - Knoxville Utilities Board Pension Plan

Unaudited - See Accompanying Auditor's Report

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, 2012	\$ 175,936,548	\$ 197,049,614	\$ 21,113,066	89.3%	\$ 47,553,598	44.4%
December 31, 2011	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.7%
December 31, 2010	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	-17.8%
December 31, 2009	203,704,898	190,679,453	(13,025,445)	106.8%	48,228,428	-27.0%
December 31, 2008	183,447,296	194,366,597	10,919,301	94.4%	49,602,223	22.0%
December 31, 2007	236,826,472	194,079,348	(42,747,124)	122.0%	46,314,258	-92.3%
December 31, 2006	229,076,421	192,542,020	(36,534,401)	119.0%	43,054,244	-84.9%

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

Unaudited - See Accompanying Auditor's Report

Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2013	\$ 38,571,803	\$ 63,341,531	24,769,728	60.9%	\$ 27,566,340	89.9%
January 1, 2012	37,907,357	61,603,466	23,696,109	61.5%	28,269,123	83.8%
January 1, 2011	40,749,815	64,289,254	23,539,439	63.4%	28,878,791	81.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36.4%	30,069,028	123.7%
January 1, 2009	14,593,487	100,726,738	86,133,251	14.5%	31,846,091	270.5%
January 1, 2008	-	108,329,141	108,329,141	0.0%	31,234,509	346.8%

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Nonmajor Governmental Funds

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

Special Revenue Funds

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

Permanent Fund

Krutch 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, 2013

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Assets						
Cash & cash equivalents	\$ -	\$ 22,151	\$ 2,225	\$ 2,043	\$ 56,792	\$ 40,802
Investments	2,573,146	-	1,799,021	619,934	1,138,370	-
Accounts receivable	837,091	56,581	2,236	5,472	16,873	1,081,175
Notes receivable	-	3,487,040	-	-	-	-
Inventories	-	29,925	-	-	-	-
Total assets	<u>\$ 3,410,237</u>	<u>\$ 3,595,697</u>	<u>\$ 1,803,482</u>	<u>\$ 627,449</u>	<u>\$ 1,212,035</u>	<u>\$ 1,121,977</u>
Liabilities						
Accounts payable	\$ 326,974	\$ 40,262	\$ 25,353	\$ 3,766	\$ 90,829	\$ 207,478
Accrued liabilities	-	16,188	7,309	56,696	29,613	11,917
Customer deposits	-	22,282	-	-	-	-
Due to other funds	-	-	5,000	315,000	-	680,000
Due to other governmental agencies	-	-	-	-	-	196
Total liabilities	<u>326,974</u>	<u>78,732</u>	<u>37,662</u>	<u>375,462</u>	<u>120,442</u>	<u>899,591</u>
Deferred inflows of resources						
Unavailable revenue - other	-	3,487,040	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>3,487,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances						
Non-spendable	-	29,925	-	-	-	-
Restricted	3,083,263	-	-	-	-	222,386
Committed	-	-	1,765,820	251,987	1,091,593	-
Total fund balances	<u>3,083,263</u>	<u>29,925</u>	<u>1,765,820</u>	<u>251,987</u>	<u>1,091,593</u>	<u>222,386</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,410,237</u>	<u>\$ 3,595,697</u>	<u>\$ 1,803,482</u>	<u>\$ 627,449</u>	<u>\$ 1,212,035</u>	<u>\$ 1,121,977</u>

Special Revenue Funds (continued)						Permanent Fund	
Animal Control	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ 243,249	\$ 77,504	\$ 9,785	\$ -	\$ 454,551	\$ 267,488	\$ 722,039
524,733	10,673,352	670,854	6,105,100	2,595,506	26,700,016	598,371	27,298,387
100	127,258	-	31,910	-	2,158,696	866	2,159,562
-	-	-	-	-	3,487,040	-	3,487,040
-	-	-	-	-	29,925	-	29,925
<u>\$ 524,833</u>	<u>\$ 11,043,859</u>	<u>\$ 748,358</u>	<u>\$ 6,146,795</u>	<u>\$ 2,595,506</u>	<u>\$ 32,830,228</u>	<u>\$ 866,725</u>	<u>\$ 33,696,953</u>
\$ 677	\$ 32,172	\$ 12,360	\$ 398,241	\$ -	\$ 1,138,112	\$ -	\$ 1,138,112
-	4,915	42,717	12,316	-	181,671	-	181,671
-	323,382	-	-	-	345,664	-	345,664
-	-	-	900,000	-	1,900,000	-	1,900,000
-	8,601	-	-	-	8,797	-	8,797
<u>677</u>	<u>369,070</u>	<u>55,077</u>	<u>1,310,557</u>	<u>-</u>	<u>3,574,244</u>	<u>-</u>	<u>3,574,244</u>
-	-	-	-	-	3,487,040	-	3,487,040
-	-	-	-	-	3,487,040	-	3,487,040
-	-	-	-	-	29,925	624,065	653,990
-	4,511,048	-	4,836,238	-	12,652,935	242,660	12,895,595
524,156	6,163,741	693,281	-	2,595,506	13,086,084	-	13,086,084
<u>524,156</u>	<u>10,674,789</u>	<u>693,281</u>	<u>4,836,238</u>	<u>2,595,506</u>	<u>25,768,944</u>	<u>866,725</u>	<u>26,635,669</u>
<u>\$ 524,833</u>	<u>\$ 11,043,859</u>	<u>\$ 748,358</u>	<u>\$ 6,146,795</u>	<u>\$ 2,595,506</u>	<u>\$ 32,830,228</u>	<u>\$ 866,725</u>	<u>\$ 33,696,953</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Revenues						
Taxes, assessments, interest & penalties	\$ 4,603,908	\$ -	\$ -	\$ -	\$ 600,394	\$ -
Licenses, permits & inspection charges	-	-	-	1,639,754	-	-
Intergovernmental	-	1,766,850	-	-	-	2,024,220
Charges for services	-	-	346,294	-	1,954,249	-
Fines & forfeitures	-	-	-	-	1,316,657	-
Other	3,610	218,737	288,774	6,719	18,845	3,712
Total revenues	<u>4,607,518</u>	<u>1,985,587</u>	<u>635,068</u>	<u>1,646,473</u>	<u>3,890,145</u>	<u>2,027,932</u>
Expenditures						
Current:						
Administration	-	-	-	-	-	215,858
Finance	-	-	-	-	-	-
Engineering	3,984,944	-	756,086	-	-	119,893
Public Services	-	1,987,248	-	2,241,713	-	442,057
Law	-	-	-	-	954,013	-
Police	-	-	-	-	-	1,252,484
Fire	-	-	-	-	-	-
Total expenditures	<u>3,984,944</u>	<u>1,987,248</u>	<u>756,086</u>	<u>2,241,713</u>	<u>954,013</u>	<u>2,030,292</u>
Excess (deficiency) of revenues over (under) expenditures	622,574	(1,661)	(121,018)	(595,240)	2,936,132	(2,360)
Other financing sources (uses)						
Transfers in	-	-	-	596,230	-	25,496
Transfers out	(750,000)	-	-	-	(2,936,680)	(123,274)
Total other financing sources (uses)	<u>(750,000)</u>	<u>-</u>	<u>-</u>	<u>596,230</u>	<u>(2,936,680)</u>	<u>(97,778)</u>
Net changes in fund balances	(127,426)	(1,661)	(121,018)	990	(548)	(100,138)
Fund balances - beginning	<u>3,210,689</u>	<u>31,586</u>	<u>1,886,838</u>	<u>250,997</u>	<u>1,092,141</u>	<u>322,524</u>
Fund balances - ending	<u>\$ 3,083,263</u>	<u>\$ 29,925</u>	<u>\$ 1,765,820</u>	<u>\$ 251,987</u>	<u>\$ 1,091,593</u>	<u>\$ 222,386</u>

Special Revenue Funds (Continued)						Permanent Fund	
Animal Control	Miscellaneous Special Revenue Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,204,302	\$ -	\$ 5,204,302
-	-	-	-	-	1,639,754	-	1,639,754
-	69,797	-	-	-	3,860,867	-	3,860,867
37,896	303,103	162,581	1,049,358	199,998	4,053,479	-	4,053,479
-	1,818,387	-	-	-	3,135,044	-	3,135,044
676	209,557	951	255,744	3,465	1,010,790	3,264	1,014,054
38,572	2,400,844	163,532	1,305,102	203,463	18,904,236	3,264	18,907,500
-	-	-	-	-	215,858	-	215,858
-	-	-	-	199,998	199,998	-	199,998
-	-	2,783,149	-	-	7,644,072	-	7,644,072
8,366	52,637	-	10,152,723	-	14,884,744	-	14,884,744
-	-	-	-	-	954,013	-	954,013
-	1,006,759	-	-	-	2,259,243	-	2,259,243
-	11,467	-	-	-	11,467	-	11,467
8,366	1,070,863	2,783,149	10,152,723	199,998	26,169,395	-	26,169,395
30,206	1,329,981	(2,619,617)	(8,847,621)	3,465	(7,265,159)	3,264	(7,261,895)
-	123,274	2,642,820	8,848,230	-	12,236,050	-	12,236,050
-	(1,688,578)	-	-	-	(5,498,532)	-	(5,498,532)
-	(1,565,304)	2,642,820	8,848,230	-	6,737,518	-	6,737,518
30,206	(235,323)	23,203	609	3,465	(527,641)	3,264	(524,377)
493,950	10,910,112	670,078	4,835,629	2,592,041	26,296,585	863,461	27,160,046
\$ 524,156	\$ 10,674,789	\$ 693,281	\$ 4,836,238	\$ 2,595,506	\$ 25,768,944	\$ 866,725	\$ 26,635,669

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

CITY OF KNOXVILLE, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
STATE STREET AID
FOR THE YEAR ENDED JUNE 30, 2013**

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Taxes, assessments, interest & penalties	\$ 4,643,000	\$ 4,643,000	\$ 4,603,908	\$ (39,092)
Other	3,000	92,000	3,610	(88,390)
Total revenues	<u>4,646,000</u>	<u>4,735,000</u>	<u>4,607,518</u>	<u>(127,482)</u>
Expenditures				
Current:				
Engineering	3,896,000	3,985,000	3,984,944	56
Total expenditures	<u>3,896,000</u>	<u>3,985,000</u>	<u>3,984,944</u>	<u>56</u>
Excess (deficiency) of revenues over (under) expenditures	<u>750,000</u>	<u>750,000</u>	<u>622,574</u>	<u>(127,426)</u>
Other financing sources (uses)				
Transfers out	<u>(750,000)</u>	<u>(750,000)</u>	<u>(750,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(750,000)</u>	<u>(750,000)</u>	<u>(750,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(127,426)	<u>\$ (127,426)</u>
Fund balance - beginning			<u>3,210,689</u>	
Fund balance - ending			<u>\$ 3,083,263</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GAAP BASIS
COMMUNITY DEVELOPMENT BLOCK GRANTS
FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	\$ 1,561,970	\$ 1,561,970	\$ 1,766,850	\$ 204,880
Other	220,000	258,315	218,737	(39,578)
Total revenues	<u>1,781,970</u>	<u>1,820,285</u>	<u>1,985,587</u>	<u>165,302</u>
Expenditures:				
Current:				
Public Services	<u>1,781,970</u>	<u>1,820,285</u>	<u>1,987,248</u>	<u>(166,963)</u>
Total expenditures	<u>1,781,970</u>	<u>1,820,285</u>	<u>1,987,248</u>	<u>(166,963)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(1,661)</u>	<u>(1,661)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(1,661)</u>	<u>\$ (1,661)</u>
Fund balances - beginning			<u>31,586</u>	
Fund balances - ending			<u>\$ 29,925</u>	

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

CITY OF KNOXVILLE , TENNESSEE

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
ABANDONED VEHICLES
FOR THE YEAR ENDED JUNE 30, 2013**

	Budget			Variance With Final Budget
	Original	Final	Actual	
Revenues:				
Charges for services:	\$ 456,000	\$ 456,000	\$ 346,294	\$ (109,706)
Other	<u>409,380</u>	<u>409,413</u>	<u>288,774</u>	<u>(120,639)</u>
Total revenues	<u>865,380</u>	<u>865,413</u>	<u>635,068</u>	<u>(230,345)</u>
Expenditures				
Current:				
Engineering	<u>865,380</u>	<u>865,413</u>	<u>756,086</u>	<u>109,327</u>
Total expenditures	<u>865,380</u>	<u>865,413</u>	<u>756,086</u>	<u>109,327</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(121,018)</u>	<u>(121,018)</u>
Net changes in fund balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u>(121,018)</u>	<u><u>\$ (121,018)</u></u>
Fund balance - beginning			<u>1,886,838</u>	
Fund balance - ending			<u><u>\$ 1,765,820</u></u>	

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

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
CITY INSPECTIONS
FOR THE YEAR ENDED JUNE 30, 2013**

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Licenses, permits & inspection charges	\$ 1,510,360	\$ 1,510,360	\$ 1,639,754	\$ 129,394
Other	390	294,390	6,719	(287,671)
Total revenues	<u>1,510,750</u>	<u>1,804,750</u>	<u>1,646,473</u>	<u>(158,277)</u>
Expenditures				
Current:				
Public Services	<u>2,400,980</u>	<u>2,400,980</u>	<u>2,241,713</u>	<u>159,267</u>
Total expenditures	<u>2,400,980</u>	<u>2,400,980</u>	<u>2,241,713</u>	<u>159,267</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(890,230)</u>	<u>(596,230)</u>	<u>(595,240)</u>	<u>990</u>
Other financing sources (uses)				
Transfers in	<u>890,230</u>	<u>596,230</u>	<u>596,230</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>990</u>	<u>\$ 990</u>
Fund balance - beginning			<u>250,997</u>	
Fund balance - ending			<u>\$ 251,987</u>	

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

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
CITY COURT
FOR THE YEAR ENDED JUNE 30, 2013**

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenue				
Taxes, assessments, interest & penalties	\$ 607,520	\$ 607,520	\$ 600,394	\$ (7,126)
Charges for services	1,973,070	1,973,070	1,954,249	(18,821)
Fines & forfeitures	1,275,110	1,275,110	1,316,657	41,547
Other	19,890	126,803	18,845	(107,958)
Total revenues	<u>3,875,590</u>	<u>3,982,503</u>	<u>3,890,145</u>	<u>(92,358)</u>
Expenditures				
Current:				
Law	882,910	989,823	954,013	35,810
Total expenditures	<u>882,910</u>	<u>989,823</u>	<u>954,013</u>	<u>35,810</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,992,680</u>	<u>2,992,680</u>	<u>2,936,132</u>	<u>(56,548)</u>
Other financing sources (uses)				
Transfers out	(2,992,680)	(2,992,680)	(2,936,680)	56,000
Total other financing sources (uses)	<u>(2,992,680)</u>	<u>(2,992,680)</u>	<u>(2,936,680)</u>	<u>56,000</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	(548)	<u>\$ (548)</u>
Fund balance - beginning			<u>1,092,141</u>	
Fund balance - ending			<u>\$ 1,091,593</u>	

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

CITY OF KNOXVILLE, TENNESSEE

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
ANIMAL CONTROL
FOR THE YEAR ENDED JUNE 30, 2013**

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	\$ 45,000	\$ 45,000	\$ 37,896	\$ (7,104)
Other	700	700	676	(24)
Total revenues	<u>45,700</u>	<u>45,700</u>	<u>38,572</u>	<u>(7,128)</u>
Expenditures				
Current:				
Public services	45,700	45,700	8,366	37,334
Total expenditures	<u>45,700</u>	<u>45,700</u>	<u>8,366</u>	<u>37,334</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>30,206</u>	<u>30,206</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>30,206</u>	<u>\$ 30,206</u>
Fund balances - beginning			<u>493,950</u>	
Fund balances - ending			<u>\$ 524,156</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP BASIS
MISCELLANEOUS SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	\$ 150,000	\$ 150,000	\$ 69,797	\$ (80,203)
Charges for services	388,800	388,800	303,103	(85,697)
Fines & forfeitures	2,047,400	2,047,400	1,818,387	(229,013)
Other	673,320	746,058	209,557	(536,501)
Total revenues	<u>3,259,520</u>	<u>3,332,258</u>	<u>2,400,844</u>	<u>(931,414)</u>
Expenditures				
Current:				
Public services	210,200	212,659	52,637	160,022
Police	1,424,130	1,416,989	1,006,759	410,230
Fire	-	11,470	11,467	3
Total expenditures	<u>1,634,330</u>	<u>1,641,118</u>	<u>1,070,863</u>	<u>570,255</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,625,190</u>	<u>1,691,140</u>	<u>1,329,981</u>	<u>(361,159)</u>
Other financing sources (uses)				
Transfers in	-	-	123,274	123,274
Transfers out	<u>(1,625,190)</u>	<u>(1,691,140)</u>	<u>(1,688,578)</u>	<u>2,562</u>
Total other financing sources (uses)	<u>(1,625,190)</u>	<u>(1,691,140)</u>	<u>(1,565,304)</u>	<u>125,836</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(235,323)</u>	<u>\$ (235,323)</u>
Fund balances - beginning			<u>10,910,112</u>	
Fund balances - ending			<u>\$ 10,674,789</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP
STORM WATER
FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	\$ 100,200	\$ 100,200	\$ 162,581	\$ 62,381
Other	55,000	180,406	951	(179,455)
Total revenues	155,200	280,606	163,532	(117,074)
Expenditures				
Current:				
Engineering	2,898,160	2,923,426	2,783,149	140,277
Total expenditures	2,898,160	2,923,426	2,783,149	140,277
Excess (deficiency) of revenues over (under) expenditures	(2,742,960)	(2,642,820)	(2,619,617)	23,203
Other financing sources (uses)				
Transfers in	2,742,960	2,642,820	2,642,820	-
Total other financing sources (uses)	2,742,960	2,642,820	2,642,820	-
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	23,203	<u>\$ 23,203</u>
Fund balance - beginning			670,078	
Fund balance - ending			<u>\$ 693,281</u>	

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP
SOLID WASTE
FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	\$ 871,000	\$ 871,000	\$ 1,049,358	\$ 178,358
Other	262,000	1,216,939	255,744	(961,195)
Total revenues	1,133,000	2,087,939	1,305,102	(782,837)
Expenditures				
Current:				
Public Services	10,855,230	10,936,169	10,152,723	783,446
Total expenditures	10,855,230	10,936,169	10,152,723	783,446
Excess (deficiency) of revenues over (under) expenditures	(9,722,230)	(8,848,230)	(8,847,621)	609
Other financing sources (uses)				
Transfers in	9,722,230	8,848,230	8,848,230	-
Total other financing sources (uses)	9,722,230	8,848,230	8,848,230	-
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	609	<u>\$ 609</u>
Fund balance - beginning			4,835,629	
Fund balance - ending			<u>\$ 4,836,238</u>	

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

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CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2013

Assets

Cash & cash equivalents	\$ 86,316
Investments	44,991,772
Accounts receivable	266,833
Taxes receivable	25,492,111
Notes receivable	<u>1,296,100</u>
Total assets	<u>\$ 72,133,132</u>

Deferred inflows of resources

Unavailable revenue - property taxes	<u>25,300,298</u>
Total deferred inflows of resources	<u>25,300,298</u>

Fund balances

Restricted	<u>46,832,834</u>
Total fund balance	<u>46,832,834</u>
Total deferred inflows of resources and fund balances	<u>\$ 72,133,132</u>

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GAAP
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	\$ 24,894,350	\$ 24,894,350	\$ 25,920,092	\$ 1,025,742
Other	919,430	919,430	394,980	(524,450)
Total revenues	<u>25,813,780</u>	<u>25,813,780</u>	<u>26,315,072</u>	<u>501,292</u>
Expenditures				
Current:				
Debt service:				
Principal retirement	5,390,360	5,412,560	5,412,560	-
Interest payments on bonds & notes	2,263,620	2,241,420	1,730,483	510,937
Refunding bonds issuance costs	10,000	10,000	-	10,000
Total expenditures	<u>7,663,980</u>	<u>7,663,980</u>	<u>7,143,043</u>	<u>520,937</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,149,800</u>	<u>18,149,800</u>	<u>19,172,029</u>	<u>1,022,229</u>
Other financing sources (uses)				
Transfers out	<u>(18,149,800)</u>	<u>(18,149,800)</u>	<u>(18,149,800)</u>	-
Total other financing sources (uses)	<u>(18,149,800)</u>	<u>(18,149,800)</u>	<u>(18,149,800)</u>	-
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	1,022,229	<u>\$ 1,022,229</u>
Fund balance - beginning			<u>45,810,605</u>	
Fund balance - ending			<u>\$ 46,832,834</u>	

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2013

Assets

Cash & cash equivalents	\$ 306,329
Investments	77,273,368
Accounts receivable	1,577,957
Due from other funds	1,275,000
Due from component units	<u>2,725,000</u>
Total assets	<u>\$ 83,157,654</u>

Liabilities

Accounts payable	\$ 2,466,098
Accrued liabilities	1,012,709
Due to other governmental agencies	<u>8,824</u>
Total liabilities	<u>3,487,631</u>

Deferred inflows of resources

Unavailable revenue - other	<u>2,871,536</u>
Total deferred inflows of resources	<u>2,871,536</u>

Fund balance

Committed	<u>76,798,487</u>
Total fund balance	<u>76,798,487</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 83,157,654</u>

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - FROM INCEPTION
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Actual</u>		<u>Total</u>	<u>Project</u>	<u>Variance</u>
	<u>Prior Years</u>	<u>Current Year</u>	<u>to Date</u>	<u>Authorization</u>	<u>With Final Budget</u>
Revenues					
Intergovernmental	\$ 5,427,266	\$ 1,798,405	\$ 7,225,671	\$ 38,010,218	\$ (30,784,547)
Other	10,483,346	2,361,600	12,844,946	8,899,720	3,945,226
Total revenues	<u>15,910,612</u>	<u>4,160,005</u>	<u>20,070,617</u>	<u>46,909,938</u>	<u>(26,839,321)</u>
Expenditures					
Current:					
Capital & grant projects	<u>96,686,610</u>	<u>19,253,439</u>	<u>115,940,049</u>	<u>189,740,705</u>	<u>(73,800,656)</u>
Total expenditures	<u>96,686,610</u>	<u>19,253,439</u>	<u>115,940,049</u>	<u>189,740,705</u>	<u>(73,800,656)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(80,775,998)</u>	<u>(15,093,434)</u>	<u>(95,869,432)</u>	<u>(142,830,767)</u>	<u>46,961,335</u>
Other financing sources (uses)					
Transfer in	83,093,655	21,614,190	104,707,845	142,847,988	(38,140,143)
Transfers out	<u>(3,014,504)</u>	<u>(17,220)</u>	<u>(3,031,724)</u>	<u>(17,221)</u>	<u>(3,014,503)</u>
Total other financing sources (uses)	<u>80,079,151</u>	<u>21,596,970</u>	<u>101,676,121</u>	<u>142,830,767</u>	<u>(41,154,646)</u>
Net changes in fund balance	<u>\$ (696,847)</u>	6,503,536	<u>\$ 5,806,689</u>	<u>\$ -</u>	<u>\$ 5,806,689</u>
Fund balance - beginning		<u>70,294,951</u>			
Fund balance - ending		<u>\$ 76,798,487</u>			

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

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Nonmajor Enterprise Funds

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

Metro Parking Fund

To account for the operations of the City's municipal parking facilities.

Public Assembly Facilities Fund

To account for the operation of the City's municipal auditorium.

Municipal Golf Courses

To account for the operation of the City's municipal golf courses.

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2013

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Assets				
Current assets				
Cash & temporary investments	\$ 848,214	\$ 201,778	\$ 315,589	\$ 1,365,581
Investments	4,899,429	8,566,208	-	13,465,637
Accounts receivable	203,038	7,648	-	210,686
Due from other funds	202,000	1,000,000	-	1,202,000
Inventories	276,005	-	32,403	308,408
Prepaid items	-	-	5,071	5,071
Total current assets	<u>6,428,686</u>	<u>9,775,634</u>	<u>353,063</u>	<u>16,557,383</u>
Noncurrent assets				
Land & site improvements	2,079,796	1,831,368	473,119	4,384,283
Building & building improvements	21,594,627	21,117,703	11,011	42,723,341
Equipment	4,450	2,251,124	554,083	2,809,657
Construction in progress	5,846,848	41,299	-	5,888,147
Less: accumulated depreciation	<u>(12,646,273)</u>	<u>(16,815,550)</u>	<u>(467,325)</u>	<u>(29,929,148)</u>
Total capital assets (net of accumulated depreciation)	16,879,448	8,425,944	570,888	25,876,280
Land held for redevelopment	2,500,840	-	-	2,500,840
Equity interest in joint venture	<u>825,221</u>	<u>-</u>	<u>-</u>	<u>825,221</u>
Total noncurrent assets	<u>20,205,509</u>	<u>8,425,944</u>	<u>570,888</u>	<u>29,202,341</u>
Total assets	<u>26,634,195</u>	<u>18,201,578</u>	<u>923,951</u>	<u>45,759,724</u>
Liabilities				
Current liabilities				
Accounts payable	2,548,105	394,189	89,447	3,031,741
Accrued liabilities	-	34,040	-	34,040
Customer deposits	-	84,822	-	84,822
Due to other funds	-	-	45,000	45,000
Compensated absences	-	181,275	-	181,275
Long-term debt due within one year	<u>-</u>	<u>-</u>	<u>13,849</u>	<u>13,849</u>
Total current liabilities	<u>2,548,105</u>	<u>694,326</u>	<u>148,296</u>	<u>3,390,727</u>
Total liabilities	<u>2,548,105</u>	<u>694,326</u>	<u>148,296</u>	<u>3,390,727</u>
Net position				
Net investment in capital assets	16,879,448	8,425,944	557,039	25,862,431
Unrestricted	<u>7,206,642</u>	<u>9,081,308</u>	<u>218,616</u>	<u>16,506,566</u>
Total net position	<u>\$ 24,086,090</u>	<u>\$ 17,507,252</u>	<u>\$ 775,655</u>	<u>\$ 42,368,997</u>

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

CITY OF KNOXVILLE, TENNESSEE

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	\$ 1,684,660	\$ 1,951,791	\$ 1,193,193	\$ 4,829,644
Total operating revenues	<u>1,684,660</u>	<u>1,951,791</u>	<u>1,193,193</u>	<u>4,829,644</u>
Operating expenses				
Personal services	-	2,167,231	-	2,167,231
Materials & supplies	-	119,281	-	119,281
Maintenance	-	867,424	-	867,424
Depreciation & amortization	678,629	612,653	110,224	1,401,506
Other services & charges	505,309	1,445,698	1,300,235	3,251,242
Total operating expenses	<u>1,183,938</u>	<u>5,212,287</u>	<u>1,410,459</u>	<u>7,806,684</u>
Operating income (loss)	<u>500,722</u>	<u>(3,260,496)</u>	<u>(217,266)</u>	<u>(2,977,040)</u>
Nonoperating revenue (expense)				
Interest income	6,227	11,189	-	17,416
Intergovernmental revenue	-	104,638	-	104,638
Other revenues	252,045	2,561	83,517	338,123
Interest expense	-	-	(2,719)	(2,719)
Total nonoperating revenue (expense)	<u>258,272</u>	<u>118,388</u>	<u>80,798</u>	<u>457,458</u>
Income (loss) before transfers and capital contributions	758,994	(3,142,108)	(136,468)	(2,519,582)
Transfers in	<u>2,600,000</u>	<u>2,776,610</u>	<u>111,430</u>	<u>5,488,040</u>
Change in net position	3,358,994	(365,498)	(25,038)	2,968,458
Fund balances - beginning	<u>20,727,096</u>	<u>17,872,750</u>	<u>800,693</u>	<u>39,400,539</u>
Fund balances - ending	<u>\$ 24,086,090</u>	<u>\$ 17,507,252</u>	<u>\$ 775,655</u>	<u>\$ 42,368,997</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating activities				
Cash received from customers and users	\$ 1,440,019	\$ 2,505,562	\$ 1,193,763	\$ 5,139,344
Cash paid to suppliers	(926,284)	(1,993,789)	(1,287,721)	(4,207,794)
Cash paid to employees	-	(2,062,850)	-	(2,062,850)
Cash paid for interfund services used	-	(119,281)	-	(119,281)
Net cash provided by (used in) operating activities	<u>513,735</u>	<u>(1,670,358)</u>	<u>(93,958)</u>	<u>(1,250,581)</u>
Noncapital financing activities				
Transfers from other funds	6,396,000	1,776,610	-	8,172,610
Transfers to other funds	-	(82,000)	(14,021)	(96,021)
Tax and intergovernmental revenues	<u>252,045</u>	<u>107,199</u>	<u>83,517</u>	<u>442,761</u>
Net cash provided by (used in) noncapital financing activities	<u>6,648,045</u>	<u>1,801,809</u>	<u>69,496</u>	<u>8,519,350</u>
Capital and related financing activities				
Principal paid on general obligation bond maturities	-	(80,526)	(152,759)	(233,285)
Interest paid	-	-	(2,719)	(2,719)
Acquisition and construction of capital assets	<u>(3,301,664)</u>	<u>(145,936)</u>	<u>25,515</u>	<u>(3,422,085)</u>
Net cash provided by (used in) capital and related financing activities	<u>(3,301,664)</u>	<u>(226,462)</u>	<u>(129,963)</u>	<u>(3,658,089)</u>
Investing activities				
Sales/(purchases) of investments, net	(819,553)	(944,049)	-	(1,763,602)
Investment earnings	6,227	11,189	-	17,416
Land held for redevelopment	(2,500,840)	-	-	(2,500,840)
Net change in equity investment in joint venture	<u>58,497</u>	<u>-</u>	<u>-</u>	<u>58,497</u>
Net cash provided by (used in) investing activities	<u>(3,255,669)</u>	<u>(932,860)</u>	<u>-</u>	<u>(4,188,529)</u>
Net increase (decrease) in cash and cash equivalents	<u>604,447</u>	<u>(1,027,871)</u>	<u>(154,425)</u>	<u>(577,849)</u>
Cash and cash equivalents				
Beginning of year	<u>243,767</u>	<u>1,229,649</u>	<u>470,014</u>	<u>1,943,430</u>
End of year	<u>\$ 848,214</u>	<u>\$ 201,778</u>	<u>\$ 315,589</u>	<u>\$ 1,365,581</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Metro Parking</u>	<u>Public Assembly Facilities</u>	<u>Municipal Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of operating income (loss)				
to net cash provided by				
(used in) operating activities				
Operating income (loss)	\$ 500,722	\$ (3,260,496)	\$ (217,266)	\$ (2,977,040)
Adjustments to reconcile operating income (loss)				
to net cash provided by (used in) operating				
activities:				
Depreciation	678,629	612,653	110,224	1,401,506
Change in assets and liabilities				
(Increase) decrease in receivables	(203,038)	661,675	570	459,207
(Increase) decrease in prepayments	-	-	4,477	4,477
(Increase) decrease in inventories	(252,480)	-	(11,686)	(264,166)
Increase (decrease) in accounts payable	(164,959)	319,333	19,723	174,097
Increase (decrease) in accrued expenses	-	104,381	-	104,381
Increase (decrease) in deferred revenue	(41,603)	-	-	(41,603)
Increase (decrease) in customer deposits	(3,536)	(107,904)	-	(111,440)
Total adjustments	<u>13,013</u>	<u>1,590,138</u>	<u>123,308</u>	<u>1,726,459</u>
Net cash provided by (used in) operating activities	<u>\$ 513,735</u>	<u>\$ (1,670,358)</u>	<u>\$ (93,958)</u>	<u>\$ (1,250,581)</u>

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

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Internal Service Funds

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

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

CITY OF KNOXVILLE, TENNESSEE
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2013

Assets	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Current assets						
Cash & temporary investments	\$ 1,298,604	\$ 1,910	\$ 1,383,521	\$ 1,795	\$ 1,425,989	\$ 4,111,819
Investments	33,722,867	29,913,239	11,709,482	16,029,316	366,953	91,741,857
Accounts receivable	20,278	736,870	-	5,823	-	762,971
Inventories	1,022,051	-	-	-	-	1,022,051
Total current assets	36,063,800	30,652,019	13,093,003	16,036,934	1,792,942	97,638,698
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	57,479,074	13,400	14,794	18,724,154	-	76,231,422
Construction in progress	155,191	-	-	-	-	155,191
Less: accumulated depreciation	(38,099,102)	(13,400)	(2,301)	(15,241,536)	-	(53,356,339)
Total capital assets (net of accumulated depreciation)	19,792,554	-	12,493	3,482,618	-	23,287,665
Equity interest in joint venture	-	-	-	-	2,941,304	2,941,304
Total noncurrent assets	19,792,554	-	12,493	3,482,618	2,941,304	26,228,969
Total assets	55,856,354	30,652,019	13,105,496	19,519,552	4,734,246	123,867,667
Liabilities						
Current liabilities						
Accounts payable	694,411	136,874	1,062,802	53,367	111,000	2,058,454
Accrued liabilities	39,553	7,134	1,041,552	-	-	1,088,239
Due to other funds	-	725,000	-	-	32,000	757,000
Compensated absences	116,426	22,268	985	-	-	139,679
Estimated claims liability	-	5,000,000	-	-	-	5,000,000
Total current liabilities	850,390	5,891,276	2,105,339	53,367	143,000	9,043,372
Noncurrent liabilities						
Estimated claims liability	-	7,200,000	-	-	-	7,200,000
Total noncurrent liabilities	-	7,200,000	-	-	-	7,200,000
Total liabilities	850,390	13,091,276	2,105,339	53,367	143,000	16,243,372
Net position						
Net investment in capital assets	19,792,554	-	12,493	3,482,618	-	23,287,665
Unrestricted	35,213,410	17,560,743	10,987,664	15,983,567	4,591,246	84,336,630
Total net position	\$ 55,005,964	\$ 17,560,743	\$ 11,000,157	\$ 19,466,185	\$ 4,591,246	\$ 107,624,295

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Operating revenues						
Charges for services	\$ 13,979,834	\$ 5,559,020	\$ 15,883,834	\$ 2,220,732	\$ 1,738,687	\$ 39,382,107
Total operating revenues	<u>13,979,834</u>	<u>5,559,020</u>	<u>15,883,834</u>	<u>2,220,732</u>	<u>1,738,687</u>	<u>39,382,107</u>
Operating expenses						
Personal services	2,208,016	396,379	331,750	-	-	2,936,145
Materials & supplies	1,859,781	10,905	5,609	2,671	-	1,878,966
Maintenance	650,755	-	-	-	-	650,755
Depreciation & amortization	4,869,634	-	986	1,862,193	-	6,732,813
Other services & charges	<u>3,657,228</u>	<u>6,510,600</u>	<u>17,646,826</u>	<u>-</u>	<u>1,531,933</u>	<u>29,346,587</u>
Total operating expenses	<u>13,245,414</u>	<u>6,917,884</u>	<u>17,985,171</u>	<u>1,864,864</u>	<u>1,531,933</u>	<u>41,545,266</u>
Operating income (loss)	<u>734,420</u>	<u>(1,358,864)</u>	<u>(2,101,337)</u>	<u>355,868</u>	<u>206,754</u>	<u>(2,163,159)</u>
Nonoperating revenue (expense)						
Interest income	34,094	-	16,024	21,499	517	72,134
Intergovernmental revenue	-	125,361	-	86,782	-	212,143
Other revenues	3,736	291,992	403,269	-	-	698,997
Gain (loss) on disposal of capital assets	<u>385,757</u>	<u>-</u>	<u>-</u>	<u>(1,128)</u>	<u>-</u>	<u>384,629</u>
Total nonoperating revenue (expense)	<u>423,587</u>	<u>417,353</u>	<u>419,293</u>	<u>107,153</u>	<u>517</u>	<u>1,367,903</u>
Income (loss) before transfers and capital contributions	<u>1,158,007</u>	<u>(941,511)</u>	<u>(1,682,044)</u>	<u>463,021</u>	<u>207,271</u>	<u>(795,256)</u>
Transfers in	1,398,700	439,303	1,793,857	125,072	-	3,756,932
Capital contributions	<u>57,817</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,817</u>
Change in net position	<u>2,614,524</u>	<u>(502,208)</u>	<u>111,813</u>	<u>588,093</u>	<u>207,271</u>	<u>3,019,493</u>
Total net position - beginning	<u>52,391,440</u>	<u>18,062,951</u>	<u>10,888,344</u>	<u>18,878,092</u>	<u>4,383,975</u>	<u>104,604,802</u>
Total net position - ending	<u>\$ 55,005,964</u>	<u>\$ 17,560,743</u>	<u>\$ 11,000,157</u>	<u>\$ 19,466,185</u>	<u>\$ 4,591,246</u>	<u>\$ 107,624,295</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Operating activities						
Receipts from interfund services provided	\$ 13,960,151	\$ 5,431,665	\$ 15,951,101	\$ 2,222,604	\$ 1,738,687	\$ 39,304,208
Cash paid to suppliers	(5,653,744)	(44,570)	(208,794)	(2,671)	(1,420,933)	(7,330,712)
Cash paid to employees	(2,194,484)	(388,424)	(331,316)	-	-	(2,914,224)
Cash paid for interfund services used	(440,030)	-	-	-	-	(440,030)
Payments of claims and insurance	-	(4,910,600)	(17,646,826)	-	-	(22,557,426)
Net cash provided by (used in) operating activities	<u>5,671,893</u>	<u>88,071</u>	<u>(2,235,835)</u>	<u>2,219,933</u>	<u>317,754</u>	<u>6,061,816</u>
Noncapital financing activities						
Transfers from other funds	1,312,700	1,164,303	1,794,071	123,857	32,000	4,426,931
Tax and intergovernmental revenues	<u>3,736</u>	<u>417,353</u>	<u>403,269</u>	<u>86,782</u>	<u>-</u>	<u>911,140</u>
Net cash provided by (used in) noncapital financing activities	<u>1,316,436</u>	<u>1,581,656</u>	<u>2,197,340</u>	<u>210,639</u>	<u>32,000</u>	<u>5,338,071</u>
Capital and related financing activities						
Acquisition and construction of capital assets	(2,510,114)	-	-	(907,304)	-	(3,417,418)
Capital contributions	<u>57,817</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,817</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,452,297)</u>	<u>-</u>	<u>-</u>	<u>(907,304)</u>	<u>-</u>	<u>(3,359,601)</u>
Investing activities						
Sales/(purchases) of investments, net	(5,770,974)	(1,669,639)	1,295,322	(1,542,972)	83,197	(7,605,066)
Investment earnings	34,094	-	16,024	21,499	517	72,134
Net change in equity investment in joint venture	-	-	-	-	(186,037)	(186,037)
Net cash provided by (used in) investing activities	<u>(5,736,880)</u>	<u>(1,669,639)</u>	<u>1,311,346</u>	<u>(1,521,473)</u>	<u>(102,323)</u>	<u>(7,718,969)</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,200,848)</u>	<u>88</u>	<u>1,272,851</u>	<u>1,795</u>	<u>247,431</u>	<u>321,317</u>
Cash and cash equivalents						
Beginning of year	<u>2,499,452</u>	<u>1,822</u>	<u>110,670</u>	<u>-</u>	<u>1,178,558</u>	<u>3,790,502</u>
End of year	<u>\$ 1,298,604</u>	<u>\$ 1,910</u>	<u>\$ 1,383,521</u>	<u>\$ 1,795</u>	<u>\$ 1,425,989</u>	<u>\$ 4,111,819</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 734,420	\$ (1,358,864)	\$ (2,101,337)	\$ 355,868	\$ 206,754	\$ (2,163,159)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	4,869,634	-	986	1,862,193	-	6,732,813
Change in assets and liabilities						-
(Increase) decrease in receivables	(19,683)	(127,355)	67,267	(3,276)	-	(83,047)
(Increase) decrease in inventories	(136,735)	-	-	-	-	(136,735)
Increase (decrease) in accounts payable	210,725	(33,665)	(203,185)	5,148	111,000	90,023
Increase (decrease) in accrued expenses	13,532	2,687	252	-	-	16,471
Increase (decrease) in compensated absences	-	5,268	182	-	-	5,450
Increase (decrease) in estimated liability for litigation and claims	-	1,600,000	-	-	-	1,600,000
Total adjustments	<u>4,937,473</u>	<u>1,446,935</u>	<u>(134,498)</u>	<u>1,864,065</u>	<u>111,000</u>	<u>8,224,975</u>
Net cash provided by (used in) operating activities	<u>\$ 5,671,893</u>	<u>\$ 88,071</u>	<u>\$ (2,235,835)</u>	<u>\$ 2,219,933</u>	<u>\$ 317,754</u>	<u>\$ 6,061,816</u>

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

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Fiduciary Funds

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

Agency Funds

City Choice Plus Fund

To account for funds deducted from employee's pay pursuant to IRS Section 125 regulations to be applied to eligible health related expenses incurred by the employees.

Employee Health Savings

To account for City contributions to a wellness incentive type fund that may be utilized by the employees for eligible health related expenses.

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2013

	City Choice Plus	Employee Health Savings Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash	\$ 2,350	\$ 737,849	\$ 740,199
State & municipal government securities	15,494	-	15,494
Accounts receivable	15,025	-	15,025
Due from other funds	-	30,000	30,000
Total current assets	<u>\$ 32,869</u>	<u>\$ 767,849</u>	<u>\$ 800,718</u>
Liabilities			
Accounts payable	\$ 2,869	\$ -	\$ 2,869
Health care claims liability	-	767,849	767,849
Due to other funds	30,000	-	30,000
Total liabilities	<u>\$ 32,869</u>	<u>\$ 767,849</u>	<u>\$ 800,718</u>

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
<u>City Choice Fund</u>				
Assets				
Cash	\$ -	\$ 516,449	\$ 514,099	\$ 2,350
State & municipal government securities	63,137	-	47,643	15,494
Other receivables	-	514,099	499,074	15,025
Total assets	<u>\$ 63,137</u>	<u>\$ 1,030,548</u>	<u>\$ 1,060,816</u>	<u>\$ 32,869</u>
Liabilities				
Accounts payable	\$ 63,137	\$ 453,831	\$ 514,099	\$ 2,869
Due to other funds	-	30,000	-	30,000
Total liabilities	<u>\$ 63,137</u>	<u>\$ 483,831</u>	<u>\$ 514,099</u>	<u>\$ 32,869</u>
<u>Employee Health Savings Fund</u>				
Assets				
Cash	\$ 656,460	\$ 737,849	\$ 656,460	\$ 737,849
Due from other funds	-	30,000	-	30,000
Total assets	<u>\$ 656,460</u>	<u>\$ 767,849</u>	<u>\$ 656,460</u>	<u>\$ 767,849</u>
Liabilities				
Health care claims liability	\$ 656,460	\$ 767,849	\$ 656,460	\$ 767,849
Total liabilities	<u>\$ 656,460</u>	<u>\$ 767,849</u>	<u>\$ 656,460</u>	<u>\$ 767,849</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 656,460	\$ 1,254,298	\$ 1,170,559	\$ 740,199
State & municipal government securities	63,137	-	47,643	15,494
Other receivables	-	514,099	499,074	15,025
Due from other funds	-	30,000	-	30,000
Total assets	<u>\$ 719,597</u>	<u>\$ 1,798,397</u>	<u>\$ 1,717,276</u>	<u>\$ 800,718</u>
Liabilities				
Accounts payable	\$ 63,137	\$ 453,831	\$ 514,099	\$ 2,869
Health care claims liability	656,460	767,849	656,460	767,849
Due to other funds	-	30,000	-	30,000
Total liabilities	<u>\$ 719,597</u>	<u>\$ 1,251,680</u>	<u>\$ 1,170,559</u>	<u>\$ 800,718</u>

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

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COMPONENT UNIT

CITY OF KNOXVILLE, TENNESSEE
STATEMENT OF NET POSITION
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
JUNE 30, 2013

Assets

Current assets:

Cash & temporary investments	\$ 77,118
Investments	1,199,028
Accounts receivable	7,374,867
Inventories	<u>1,019,423</u>
Total current assets	<u>9,670,436</u>

Noncurrent assets:

Land & site improvements	1,854,780
Building & building improvements	32,637,878
Equipment	30,814,493
Less: accumulated depreciation	<u>(20,329,146)</u>
Total capital assets (net of accumulated depreciation)	44,978,005
Equity interest in joint venture	<u>8,558</u>
Total noncurrent assets	<u>44,986,563</u>
Total assets	<u>54,656,999</u>

Liabilities

Current liabilities:

Accounts payable	308,853
Accrued liabilities	540,003
Due to primary government	<u>5,600,000</u>
Total liabilities	<u>6,448,856</u>

Net position

Net investment in capital assets	44,978,005
Unrestricted	<u>3,230,138</u>
Total net position	<u>\$ 48,208,143</u>

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2013

Operating revenues	
Charges for services	\$ 4,641,552
Total operating revenues	<u>4,641,552</u>
Operating expenses	
Personal services	14,776,621
Materials & supplies	7,354,722
Maintenance	1,191,007
Depreciation & amortization	3,286,751
Other services and charges	<u>7,173,860</u>
Total expenditures	<u>33,782,961</u>
Operating income (loss)	<u>(29,141,409)</u>
Nonoperating revenue (expense)	
Interest income	1,592
Intergovernmental revenue	31,487,296
Other revenues	73,559
Gain on disposal of capital assets	<u>78,515</u>
Total nonoperating revenue (expense)	<u>31,640,962</u>
Change in net position	2,499,553
Total net position - beginning	<u>45,708,590</u>
Total net position - ending	<u>\$ 48,208,143</u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2013

Operating activities

Cash received from customers and users	\$ 4,639,102
Cash paid to suppliers	(16,280,925)
Cash paid to employees	<u>(14,473,586)</u>
Net cash provided by (used in) operating activities	<u>(26,115,409)</u>

Noncapital financing activities

Transfers to primary government	(4,024,000)
Tax and intergovernmental revenues	<u>33,585,426</u>
Net cash provided by (used in) noncapital financing activities	<u>29,561,426</u>

Capital and related financing activities

Acquisition of capital assets	<u>(4,271,699)</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,271,699)</u>

Investing activities

Sales/(purchases) of investments, net	(124,619)
Investment earnings	1,592
Net change in equity interest in joint venture	<u>(8,558)</u>
Net cash provided by (used in) investing activities	<u>(131,585)</u>

Net increase (decrease) in cash and cash equivalents	<u>(957,267)</u>
---	------------------

Cash and cash equivalents

Beginning of year	<u>1,034,385</u>
End of year	<u><u>\$ 77,118</u></u>

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF CASH FLOWS
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2013

Reconciliation of operating income (loss)

to net cash provided by

(used in) operating activities

Operating income (loss)	\$ (29,141,409)
-------------------------	-----------------

Adjustments to reconcile operating income (loss)

to net cash provided by (used in) operating
activities:

Depreciation	3,286,751
--------------	-----------

Change in assets and liabilities

(Increase) decrease in inventories	200,438
------------------------------------	---------

Increase (decrease) in accounts payable	(561,336)
---	-----------

Increase (decrease) in accrued expenses	102,597
---	---------

Increase (decrease) in deferred revenue	<u>(2,450)</u>
---	----------------

Total adjustments	<u>3,026,000</u>
-------------------	------------------

Net cash provided by (used in) operating activities	<u>\$ (26,115,409)</u>
--	-------------------------------

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

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STATISTICAL SECTION

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

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

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities										
Net investment in capital assets	\$ 157,139	\$ 137,765	\$ 139,547	\$ 162,108	\$ 186,466	\$ 205,877	\$ 213,568	\$ 220,028	\$ 220,585	\$ 223,777
Restricted	26,801	31,119	32,847	35,779	37,487	38,911	39,449	43,399	46,675	47,696
Unrestricted	67,800	101,204	114,881	157,067	179,868	192,241	215,235	233,442	237,088	257,668
Total Governmental Activities Net Position	<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>\$ 468,252</u>	<u>\$ 496,869</u>	<u>\$ 504,348</u>	<u>\$ 529,141</u>
Business-type Activities										
Net investment in capital assets	\$ 21,070	\$ 18,712	\$ 32,217	\$ 31,546	\$ 30,268	\$ 28,212	\$ 26,344	\$ 26,075	\$ 24,097	\$ 28,494
Unrestricted	6,226	8,838	9,350	12,266	16,682	17,782	24,590	33,712	38,728	39,323
Total Business-type Activities Net Position	<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>\$ 50,934</u>	<u>\$ 59,787</u>	<u>\$ 62,825</u>	<u>\$ 67,817</u>
Primary Government										
Net investment in capital assets	\$ 178,209	\$ 156,477	\$ 171,764	\$ 193,654	\$ 216,734	\$ 234,089	\$ 239,912	\$ 246,103	\$ 244,682	\$ 252,271
Restricted	26,801	31,119	32,847	35,779	37,487	38,911	39,449	43,399	46,675	47,696
Unrestricted	74,026	110,042	124,231	169,333	196,550	210,023	239,825	267,154	275,816	296,991
Total Primary Government Net Position	<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>\$ 519,186</u>	<u>\$ 556,656</u>	<u>\$ 567,173</u>	<u>\$ 596,958</u>

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental Activities:										
General government	\$ 13,200	\$ 12,218	\$ 15,015	\$ 11,671	\$ 9,630	\$ 8,833	\$ 13,348	\$ 13,495	\$ 34,882	\$ 23,591
Public safety	66,325	65,384	69,949	60,882	78,172	80,936	81,637	83,059	85,416	88,381
Physical environment	27,910	49,678	70,289	40,686	42,048	44,421	45,244	46,977	48,046	49,230
Transportation	5,791	6,844	5,728	7,783	9,614	12,131	9,647	10,467	11,201	11,970
Economic Development	6,924	12,428	8,070	8,314	8,732	10,686	16,441	11,878	8,460	8,120
Parks & Recreation	6,542	10,484	10,760	10,068	11,634	11,893	12,858	12,308	11,827	10,195
Health & Sanitation	9,209	9,696	9,740	9,498	9,833	10,094	10,430	10,361	11,111	10,388
Interest on long-term debt	3,199	4,754	4,005	3,585	3,138	2,754	2,398	2,152	1,989	1,718
Other	13,412	1,830	1,683	-	-	-	-	-	-	-
Total governmental activities expenses	<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>192,003</u>	<u>190,697</u>	<u>212,932</u>	<u>203,593</u>
Business-type Activities:										
Metro parking	740	857	819	1,264	1,464	1,565	1,364	1,610	1,625	1,184
Public assembly facilities	3,696	3,974	3,718	3,902	4,174	4,356	4,847	6,539	4,535	5,212
Knoxville Convention Center	18,573	19,562	20,848	20,734	21,246	20,452	19,393	19,395	19,013	17,081
Municipal Golf Courses	-	-	-	306	886	1,390	1,368	1,811	1,440	1,413
Total business-type activities	<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>	<u>26,613</u>	<u>24,890</u>
Total primary government	<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>\$ 218,975</u>	<u>\$ 220,052</u>	<u>\$ 239,545</u>	<u>\$ 228,483</u>
Program Revenues										
Governmental Activities:										
Charges for Services:										
General government	\$ 6,506	\$ 480	\$ 519	\$ 697	\$ 629	\$ 540	\$ 651	\$ 757	\$ 817	\$ 860
Public safety	1,191	6,995	7,473	9,016	9,233	9,191	9,436	8,945	6,971	7,185
Physical environment	772	815	856	924	1,135	717	1,026	985	1,539	1,561
Transportation	114	674	665	830	857	688	760	955	640	551
Economic Development	1,946	-	-	78	-	-	955	665	428	260
Parks & recreation	217	408	634	666	801	694	689	537	531	494
Health & sanitation	682	26	30	48	43	47	54	49	40	38
Other	5,734	1,170	-	-	-	-	-	-	-	-
Operating grants and contributions	9,033	14,899	13,662	9,656	9,804	10,387	15,758	14,811	10,088	7,517
Capital grants and contributions	890	4,064	9,693	4,558	5,753	5,161	4,724	3,777	3,318	3,556
Total governmental activities program revenues	<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>	<u>24,372</u>	<u>22,022</u>
Business-type Activities:										
Charges for Services:										
Metro parking	999	1,397	698	1,308	1,716	2,188	1,690	1,565	1,418	1,685
Public assembly facilities	1,810	1,725	1,994	2,210	2,863	1,812	1,400	1,855	2,090	1,954
Knoxville Convention Center	3,748	5,048	4,814	5,975	6,409	5,396	5,797	5,171	4,962	5,386
Municipal Golf Courses	-	-	-	211	776	1,105	1,121	1,195	1,332	1,193
Operating grants and contributions	-	-	-	-	-	1,430	1,435	1,500	1,750	1,562
Capital grants and contributions	-	-	-	80	-	-	-	-	-	-
Total business-type activities program revenues	<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>	<u>11,552</u>	<u>11,780</u>
Total primary government program revenues	<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>	<u>\$ 35,924</u>	<u>\$ 33,802</u>
Net expense:										
Governmental Activities	\$ 125,427	\$ 143,785	\$ 161,707	\$ 126,014	\$ 144,546	\$ 154,323	\$ 157,950	\$ 159,216	\$ 188,560	\$ 181,571
Business-type Activities	16,452	16,223	17,879	16,422	16,006	15,832	15,529	18,069	15,061	13,110
Total primary government net expense	<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>\$ 173,479</u>	<u>\$ 177,285</u>	<u>\$ 203,621</u>	<u>\$ 194,681</u>

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property taxes, interest and penalties	\$ 94,957	\$ 99,274	\$ 104,290	\$ 107,901	\$ 109,619	\$ 113,846	\$ 117,760	\$ 118,043	\$ 121,124	\$ 121,922
Intergovernmental revenues	47,215	61,816	56,902	64,449	65,482	58,776	61,625	61,221	60,798	68,337
Other taxes	10,052	6,962	16,392	17,259	17,883	17,908	17,955	18,525	19,968	20,763
Other revenue	3,104	5,113	10,845	11,454	10,670	6,562	2,733	3,669	2,296	4,465
Transfers	(11,040)	(11,032)	(9,535)	(10,261)	(11,010)	(9,561)	(10,900)	(16,352)	(8,148)	(9,123)
Total governmental activities	144,288	162,133	178,894	190,802	192,644	187,531	189,173	185,106	196,038	206,364
Business-type Activities:										
Other taxes	4,975	3,978	7,085	6,517	6,820	6,418	5,047	5,218	5,420	5,211
Intergovernmental revenues	1,382	1,367	155	1,296	671	375	4,283	4,539	4,689	3,198
Other revenue	61	100	15,120	594	643	676	240	599	627	570
Transfers	11,040	11,032	9,535	10,261	11,010	9,561	10,900	16,352	8,148	9,123
Total business-type activities	17,458	16,477	31,895	18,668	19,144	17,030	20,470	26,708	18,884	18,102
Total primary government	161,746	178,610	210,789	209,470	211,788	204,561	209,643	211,814	214,922	224,466
Changes in Net Position										
Governmental activities	\$ 18,861	\$ 18,348	\$ 17,187	\$ 64,788	\$ 48,098	\$ 33,208	\$ 31,223	\$ 25,890	\$ 7,478	\$ 24,793
Business-type activities	1,006	254	14,016	2,246	3,138	1,198	4,941	8,639	3,823	4,992
Prior period adjustment	(80,072)	-	-	-	-	-	-	-	(784)	-
Total primary government	\$ (60,205)	\$ 18,602	\$ 31,203	\$ 67,034	\$ 51,236	\$ 34,406	\$ 36,164	\$ 34,529	\$ 10,517	\$ 29,785

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011*	2012	2013
General Fund										
Reserved	\$ 1,953	\$ 1,298	\$ 248	\$ 1,366	\$ 1,333	\$ 1,303	\$ 960	\$ -	\$ -	\$ -
Unreserved	18,239	23,748	34,501	45,200	48,223	51,036	59,704	-	-	-
Nonspendable	-	-	-	-	-	-	-	425	385	300
Restricted	-	-	-	-	-	-	-	1,989	-	-
Committed	-	-	-	-	-	-	-	34,631	39,136	36,771
Assigned	-	-	-	-	-	-	-	231	311	2,648
Unassigned	-	-	-	-	-	-	-	27,987	19,892	30,436
Total general fund	<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>	<u>\$ 59,724</u>	<u>\$ 70,155</u>
All other governmental funds										
Nonspendable/Restricted										
(Reserved/Designated)	\$ 62,791	\$ 35,609	\$ 13,132	\$ 15,017	\$ 7,082	\$ 5,312	\$ 3,428	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special Revenue funds	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	8,831	17,499	28,008	44,688	53,084	55,248	72,654	-	-	-
Nonspendable	-	-	-	-	-	-	-	656	739	737
Restricted	-	-	-	-	-	-	-	65,277	60,074	61,133
Committed	-	-	-	-	-	-	-	73,913	84,068	89,885
Total all other governmental funds	<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>	<u>\$ 144,881</u>	<u>\$ 151,755</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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes, assessments, interest & penalties	\$ 135,130	\$ 153,817	\$ 160,146	\$ 168,434	\$ 169,632	\$ 169,521	\$ 168,880	\$ 173,425	\$ 180,543	\$ 183,445
Licenses, permits & inspection charges	2,110	2,312	2,342	2,565	2,281	1,973	1,726	1,708	1,975	1,994
Intergovernmental revenue	30,995	31,632	36,907	34,185	34,986	31,540	40,729	37,081	30,040	37,359
Charges for services	4,906	5,547	5,405	6,030	6,323	6,021	6,997	6,859	6,502	6,528
Fines & forfeitures	3,302	1,536	3,127	4,231	4,953	5,397	5,924	5,536	3,637	4,010
Other	5,276	8,714	12,727	9,303	10,711	8,800	7,568	6,207	5,370	5,170
Total revenues	181,719	203,558	220,654	224,748	228,886	223,252	231,824	230,816	228,067	238,506
Expenditures										
Current										
General government	12,039	11,715	12,974	12,461	16,914	14,310	13,958	15,510	27,150	16,643
Public safety	63,888	64,643	68,447	70,466	75,821	77,449	79,071	81,613	85,452	86,986
Physical environment	29,321	21,377	22,742	25,441	21,696	24,435	21,487	22,937	23,380	24,252
Solid waste	9,193	9,369	-	-	-	-	-	-	-	-
Parks & recreation	6,832	6,567	738	908	910	907	906	907	1,010	7,621
Economic development	8,658	26,423	41,325	41,810	48,007	51,701	60,222	56,429	55,004	46,332
Other	5,483	162	446	-	-	-	-	-	411	91
Capital Outlay	23,317	27,802	27,666	12,504	22,684	24,440	20,864	19,155	17,497	19,253
Debt Service										
Principal	19,304	10,973	10,646	9,773	8,540	7,408	5,396	5,577	4,853	5,413
Interest	2,973	4,592	4,004	3,585	3,138	2,754	2,439	2,188	2,116	1,730
Total expenditures	181,008	183,623	188,988	176,948	197,710	203,404	204,343	204,316	216,873	208,321
Excess of revenues over expenditures	711	19,935	31,666	47,800	31,176	19,848	27,481	26,500	11,194	30,185
Other Financing Sources (Uses)										
Proceeds from issuance of debt	42,967	256	-	-	-	-	13,471	-	411	
Transfers in	29,637	40,566	29,474	47,722	45,175	40,845	42,809	39,727	35,817	36,787
Transfers out	(42,801)	(55,642)	(50,689)	(59,826)	(60,611)	(54,645)	(57,350)	(60,612)	(47,926)	(49,667)
Total other financing sources (uses)	29,803	(14,820)	(21,215)	(12,104)	(15,436)	(13,800)	(1,070)	(20,885)	(11,698)	(12,880)
Net changes in fund balances	\$ 30,514	\$ 5,115	\$ 10,451	\$ 35,696	\$ 15,740	\$ 6,048	\$ 26,411	\$ 5,615	\$ (504)	\$ 17,305
Debt service as a percentage of noncapital expenditures	14.1%	10.0%	9.1%	8.1%	6.7%	5.7%	4.3%	4.2%	3.4%	3.7%

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

Fiscal Year	Real Property (1)					Personal Property (1)		Public Utilities (2)		Total's		Direct Tax Rate	Assessed Value as a Percentage of Actual Value	
	Estimated Actual Value:					Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value					
	Commercial	Industrial	Residential & Farm	Exempt Properties	Total's									
2004	3,373,811	186,034	4,225,783	N/A	7,785,628	2,474,149	979,508	293,852	273,208	150,265	9,038,344	2,918,266	2.70	32%
2005	3,425,002	187,470	4,317,168	N/A	7,929,640	2,525,477	1,008,959	302,688	287,068	157,887	9,225,667	2,986,052	3.05	32%
2006	3,801,543	202,532	5,041,704	176,170	9,221,949	2,862,056	1,052,507	315,752	293,389	161,364	10,567,845	3,339,172	2.81	32%
2007	3,877,677	205,211	5,149,924	189,974	9,422,786	2,920,636	1,098,949	329,685	264,552	145,503	10,786,287	3,395,824	2.81	31%
2008	4,080,438	192,241	5,351,751	219,839	9,844,269	3,047,010	1,024,933	307,481	269,757	148,366	11,138,959	3,502,857	2.81	31%
2009	4,256,046	189,664	5,511,802	261,830	10,219,342	3,156,234	1,016,750	305,026	270,210	148,615	11,506,302	3,609,875	2.81	31%
2010	4,887,267	204,716	6,601,700	358,028	12,051,711	3,687,218	1,115,939	334,782	304,404	167,422	13,472,054	4,189,422	2.46	31%
2011	4,923,683	188,715	6,676,669	359,976	12,149,043	3,714,127	1,055,236	316,571	268,712	147,792	13,472,991	4,178,490	2.46	31%
2012	5,067,449	185,806	6,677,256	365,691	12,296,202	3,770,616	1,071,108	321,529	286,778	157,728	13,654,088	4,249,873	2.46	31%
2013	5,254,329	186,137	6,695,127	370,017	12,505,610	3,841,101	995,924	299,141	300,668	165,368	13,802,202	4,305,610	2.46	31%

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	Street Paving	Total	General Operations	Debt Service	School Construction	Total	
2004	1.85	0.81	0.04	2.70	1.34	0.28	1.34	2.96	5.66
2005	2.20	0.81	0.04	3.05	1.34	0.28	1.34	2.96	6.01
2006	2.06	0.75	-	2.81	1.24	0.22	1.23	2.69	5.50
2007	2.06	0.75	-	2.81	1.24	0.22	1.23	2.69	5.50
2008	2.06	0.75	-	2.81	1.13	0.33	1.23	2.69	5.50
2009	2.06	0.75	-	2.81	1.10	0.36	1.23	2.69	5.50
2010	1.80	0.66	-	2.46	0.97	0.31	1.08	2.36	4.82
2011	1.80	0.66	-	2.46	0.97	0.31	1.08	2.36	4.82
2012	1.80	0.66	-	2.46	0.97	0.31	1.08	2.36	4.82
2013	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	2013			2004		
		Taxable Assessed	Rank	Percentage of Total Taxable Assessed	Taxable Assessed	Rank	Percentage of Total Taxable Assessed
		Value ⁽¹⁾		Value	Value ⁽¹⁾		Value
Fort Sanders/TENNOVA	Medical Services	\$ 109,736	1	2.58%	\$ 13,039	7	0.45%
Bellsouth*	Communications	80,680	2	1.90%	58,689	1	2.01%
West Town Mall	Retail	93,009	3	2.19%	29,875	2	1.02%
Metro Knoxville HMA (Formerly ST Marys)	Medical services	73,384	4	1.73%			
WAL-MART	Retail	75,569	5	1.78%	14,894	5	0.51%
AT&T	Communications	48,729	6	1.15%			
Hart TC I-II LLC (Formerly Parkside Dr. LLC)	Property Management	63,689	7	1.50%			
Scripps Media	Media	82,477	8	1.94%			
Pilot	oil marketing & retail	67,859	9	1.60%	21,778	10	0.75%
First American National Bank	Financial Services	49,078	10	1.15%	19,058	4	0.65%
Knoxville Center	Retail				21,824	3	0.75%
First American National Bank	Financial Services				19,058	4	0.65%
Parkway Property	Property Management				13,368	6	0.46%
Goody's Family Clothing	Retail				11,858	8	0.41%
Atlantic Reasearch Corp.	Automotive Parts				11,738	9	0.40%
Center at Deane Hill	Property Management				10,223	10	0.35%
		<u>\$ 744,210</u>		<u>17.52%</u>	<u>\$ 245,402</u>		<u>8.41%</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
2003	79,041	74,363	94.08%	4,365	78,728	99.60%
2004	79,603	75,122	94.37%	4,218	79,340	99.67%
2005	91,075	85,989	94.42%	4,730	90,719	99.61%
2006	93,804	90,406	96.38%	3,031	93,437	99.61%
2007	95,423	91,412	95.80%	3,540	94,952	99.51%
2008	98,233	93,938	95.63%	3,761	97,699	99.46%
2009	101,436	96,102	94.74%	4,538	100,640	99.22%
2010	102,836	96,600	93.94%	5,139	101,739	98.93%
2011	103,350	96,738	93.60%	5,058	101,796	98.50%
2012	104,330	99,236	95.12%	2,544	101,780	97.56%
2013	106,471	103,636	97.34%	-	103,636	97.34%

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			
	General Obligation Bonds	Notes Payable	Lease Purchase Agreement	Debt Participation Agreement	General Obligation Bonds	Total Primary Government ⁽¹⁾	% of Personal Income ⁽²⁾	Per Capita ⁽²⁾
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
2012	50,562	-	-	-	127,828	178,390	5.09%	986.88
2013	45,149	-	-	-	123,746	168,895	5.10%	934.36

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		
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
2012	50,562	40,732	9,830	0.23%	54.38
2013	45,149	45,811	(662)	-0.02%	(3.66)

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>
2004	529,340	460,396	68,944	61,308	1.12
2005	532,535	471,762	60,773	112,034	0.54
2006	611,132	538,260	72,872	27,981	2.60
2007	650,153	566,716	83,437	33,455	2.49
2008	689,212	592,251	96,961	38,596	2.51
2009	751,042	640,292	110,750	44,117	2.51
2010	672,927	573,375	99,552	45,681	2.18
2011	724,318	620,009	104,309	47,009	2.22
2012	693,531	589,320	104,211	54,859	1.90
2013	744,281	628,079	116,202	55,257	2.10

**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>
2004	19,614	11,843	7,771	4,649	1.67
2005	22,746	12,643	10,103	4,806	2.10
2006	25,743	13,615	12,128	7,345	1.65
2007	27,768	15,274	12,494	7,770	1.61
2008	30,148	16,100	14,048	8,810	1.59
2009	28,369	16,934	11,435	7,905	1.45
2010	26,889	16,500	10,389	6,394	1.62
2011	28,357	17,672	10,685	6,924	1.54
2012	25,119	18,588	6,531	13,347	0.49
2013	28,205	24,183	4,022	6,645	0.61

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2013
(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	\$ 45,149	100.00%	\$ 45,149
Overlapping Debt:			
Knox County	374,464	40.55%	151,845
Knox County Schools	257,152	40.55%	104,275
Total Overlapping Debt	631,616		256,120
 Total Direct and Overlapping Debt	 \$ 676,765		 \$ 301,269

Note:

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

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

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

Education Level - Population 25 & Over ⁽¹⁾

Fiscal Year	Population ⁽¹⁾	Personal Income (In \$1,000) ⁽²⁾	Per Capita Personal Income ⁽²⁾	Median Age ⁽¹⁾	High School Graduate	Some College - AS Degree	Bachelor's Degree	Master's & Above	School Enrollment ⁽³⁾	Knoxville, Metropolitan Area Unemployment Rate ⁽⁴⁾
2004	178,118	19,544,768	30,209	-	-	-	-	-	55,720	4.5%
2005	178,400	20,266,000	30,899	-	-	-	-	-	53,130	4.0%
2006	178,500	21,643,000	32,430	35.2	28.8%	31.1%	18.9%	12.6%	56,851	3.3%
2007	178,600	23,316,000	34,180	35.1	33.0%	25.5%	17.0%	11.0%	56,535	3.6%
2008	178,700	24,017,000	34,696	35.5	33.1%	23.9%	18.2%	11.8%	54,896	5.1%
2009	178,800	23,801,000	34,038	35.3	30.2%	26.3%	18.3%	11.5%	55,171	7.9%
2010	178,874	⁽⁵⁾	⁽⁵⁾	35.4	29.9%	26.0%	18.6%	⁽⁵⁾	56,516	7.0%
2011	178,874	23,832	⁽⁵⁾	38.9	28.8%	25.5%	19.5%	⁽⁵⁾	56,817	6.4%
2012	180,761	24,365	35,506	34.0	28.3%	25.6%	15.0%	9.5%	57,812	5.9%
2013	180,761	33,088	⁽⁵⁾	33.0	31.1%	30.0%	17.1%	10.1%	58,940	7.1%

Data sources

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

(2) Knoxville Chamber, Innovation Valley Labor Force and Demographics

(3) Tennessee Department of Education 2013 Report Card

(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	2013			2004		
	Employees	Rank	Percentage of Total Area Employment ⁽¹⁾	Employees	Rank	Percentage of Total Area Employment ⁽²⁾
Covenant Health	9,494	1	11.26%			
Knox County Public Schools	6,891	2	8.18%			
University of Tennessee, Knoxville	6,400	3	7.59%			
Wal-Mart Stores	4,007	4	4.75%			
University of Tennessee Medical Center	3,942	5	4.68%			
K-VA-T Food Stores	3,924	6	4.66%			
Tennova Healthcare	3,857	7	4.58%			
State of Tennessee, Regional Offices	3,528	8	4.19%			
County of Knox	2,998	9	3.56%			
City of Knoxville	2,811	10	3.33%			
Covenant Health				8,000	1	9.41%
University of Tennessee, Knoxville				7,934	2	9.33%
Knox County Public Schools				7,848	3	9.23%
Wal-Mart Stores				4,600	4	5.41%
St. Mary's Health System				3,461	5	4.07%
Baptist Health System of East Tennessee				3,000	6	3.53%
City of Knoxville				2,858	7	3.36%
University of Tennessee Medical Center				2,764	8	3.25%

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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Administration	21.5	19.5	24.5	24.5	25.0	26.5	26.5	26.0	30.5	30.5
Finance and Accountability										
Finance	48.0	55.5	56.5	54.5	52.5	52.5	51.0	51.0	51.5	48.5
Information Systems	28.0	29.0	29.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Subtotal	76.0	84.5	85.5	84.5	82.5	82.5	81.0	81.0	81.5	78.5
Operations & Engineering										
Public Works	-	-	-	-	-	-	-	-	2.0	2.0
Engineering	86.0	88.0	88.0	90.0	89.5	89.5	88.5	88.5	90.5	89.0
Fleet Services	58.0	58.0	57.0	57.0	56.0	56.0	55.0	55.0	54.0	54.0
Inspections	30.0	30.0	31.0	31.0	31.0	31.0	29.0	29.0	29.0	29.0
Subtotal	174.0	176.0	176.0	178.0	176.5	176.5	172.5	172.5	175.5	174.0
Community and Neighborhood Services										
Public Services	315.0	308.0	309.0	307.0	307.0	305.0	305.0	305.0	305.0	305.0
Development Services	5.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Community Development	21.5	20.5	18.5	19.5	21.5	21.5	21.5	19.5	19.5	19.5
Recreation	58.5	60.5	60.5	59.0	58.0	57.5	55.0	55.0	53.0	53.0
Subtotal	400.0	392.0	391.0	389.5	390.5	388.0	385.5	383.5	381.5	381.5
Law	25.5	13.0	13.0	13.0	13.0	14.0	13.0	13.0	12.5	19.0
Police										
Sworn	421.0	414.0	414.0	414.0	416.0	416.0	416.0	416.0	416.0	416.0
Civilian	121.0	120.5	120.5	120.5	121.0	121.0	120.0	120.0	120.0	120.0
Emergency Management	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Subtotal	546.0	537.5	537.5	537.5	540.0	540.0	539.0	539.0	539.0	539.0
Fire										
Sworn	328.0	328.0	328.0	328.0	328.0	328.0	327.0	327.0	327.0	327.0
Civilian	11.0	11.0	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal	339.0	339.0	339.0	338.0	338.0	338.0	337.0	337.0	337.0	337.0
Board Administered/Other Departments										
Legislative	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
City Court	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	14.5
Civil Service	14.0	14.0	14.0	14.5	13.0	13.0	12.0	12.0	12.0	10.0
Public Assembly Facilities	36.0	36.0	36.0	35.5	35.5	35.5	36.0	35.5	36.0	36.0
Subtotal	71.0	71.0	71.0	71.0	69.5	69.5	69.0	68.5	69.0	68.0
GRAND TOTAL	1,653.0	1,632.5	1,637.5	1,636.0	1,635.0	1,635.0	1,623.5	1,620.5	1,626.5	1,627.5

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

Department	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Public Safety										
Police										
Arrests	14,101	14,706	16,656	15,176	20,492	24,008	16,702	16,648	15,898	14,376
Citations	96,509	84,428	64,705	64,683	95,121	131,619	156,053	135,680	107,501	105,635
Fire										
Fire Inspections	4,600	4,298	4,057	4,957	3,742	4,051	3,481	3,692	3,518	4,547
Alarms Attended	17,836	17,639	18,603	19,432	20,174	21,131	20,214	20,463	20,688	21,227
First Responder Calls	9,234	9,654	9,869	9,146	10,272	11,349	10,032	10,442	10,954	10,816
Engineering										
Miles of Streets Resurfaced	37	50	42	9	84	44	38	42	48	55
Parks & Recreation										
Recreation Center Participants	158,941	309,913	314,836	338,510	372,110	537,486	596,748	620,469	551,101	527,224
Service										
Pothole Repairs (by tons of asphalt)	607	483	515	414	349	383	496	561	398	430

Sources: Various city departments

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

Department	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
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	19
Operations & Engineering										
Street Lights	28,545	28,983	29,436	29,440	29,506	29,801	29,649	29,569	29,711	30,145
Miles of Streets maintained	1,257	1,264	1,264	1,264	1,274	1,274	1,277	1,277	1,277	1,278
Parks & Recreation										
Recreation Centers	13	14	14	14	13	13	13	12	12	12
Parks	79	79	79	79	81	81	80	81	81	82
Park Acreage	1,856	1,856	1,856	1,857	1,858	1,858	1,963	1,963	1,963	2,000
Swimming Pools	4	5	5	5	5	5	5	5	5	5
Tennis Courts	61	61	61	61	68	68	68	68	68	67
Miles of Greenway	33	38	40	42	42	43	44	66	66	85
Stormwater										
Storm Sewers (miles)	371	371	372	372	372	375	375	375	376	376

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 YEAR ENDED JUNE 30, 2013

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CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
Year Ended June 30, 2013

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2012	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2013
ARRA 2009 Internet Crimes Against Children		16.800	2009-SN-B9-X052	138,543	191,965	126,293	72,871
ARRA 2012 TN ICAC Forensic Training		16.803	GG-12-37636-00	74,381	74,381	-	-
ARRA 2009 Byrne/Justice Assistance Grant		16.804	2009-SB-B9-2035	37,657	53,369	72,239	56,527
				530,463	717,060	802,998	616,401
Senior Aides (Previous Fiscal Year)		17.235	AD-16177-07-60-A-24	82,562	82,562	-	-
Senior Aides (Current Fiscal Year)		17.235	AD-16177-07-60-A-24	-	279,066	361,932	82,866
		17,235		82,562	361,628	361,932	82,866
Total U.S. Department of Labor							
U.S. Department of Transportation							
Direct assistance							
Knoxville Station Transit Center		20.500	TN-04-0022	387,598	387,598	-	-
2010 STP Funding for the Transit Center							
2010 Formula Grant		20.507	TN-95-X038	64,856	177,003	193,878	81,731
2010 CMAQ Grant		20.507	TN-90-X316	875	96,804	95,931	2
2011 Formula Grant		20.507	TN-95-X035-00	484,075	484,075	-	-
2010 Surface Transportation Grant		20.507	TN-90-X335	26,755	438,110	529,972	118,617
2011 Surface Transportation Grant		20.507	TN-95-X037	1,303,895	1,464,800	160,905	-
2011 CMAQ Grant		20.507	TN-95-X039-00	-	1,320,784	1,320,784	-
2012 Formula Grant		20.507	TN-95-X040-00	5,298	1,367,496	1,664,168	301,970
2013 Formula Grant		20.507	TN-90-0350-00	3,589,354	2,723,870	504,890	1,370,374
		20.507	TN-90-X361-00	-	-	3,780,178	3,780,178
ARRA Funding for the LEED Certified Knoxville Transit Center		20.507	TN-96-X003-00	991	30,888	43,011	13,114
		20,507		5,476,099	8,103,830	8,293,717	5,665,986
Widening of Pleasant Ridge Rd. to 3 lanes with sidewalks		20.205	STP-M-9109(53)	25,509	25,503	(6)	-
Safe Routes to School Program (Beaumont School)		20.205	SRTS-9109(128) / State 080047	1,815	104,614	102,799	-
Jackson Avenue Ramps		20.205	BRZE-9109(103); Pin 106077.00	10,070	14,183	16,984	12,871
Cumberland Avenue Streetscapes & Pedestrian Improvements		20.205	STP-M-9109(115); Pin 110692.00	292,163	486,878	716,894	522,179
Upper Second Creek Greenway		20.205	State 060018; Pin 107380.00	2,712	7,140	32,312	27,884
South Waterfront Pedestrian Bridge to U.T.		20.205	Contract 090266; TCSF-9TN(2)	40,070	216,364	247,874	71,580
Access Improvements to I-275 Business Park		20.205	ARRA-STP-M-9109(132)	5	46,371	55,538	9,172
ARRA Papermill Bluff Greenway		20.205	STP-M-332(7) State 2001638	4,148	3,211	(937)	-
Holbrook Bridge over Fountain Road		20.205	BRZE-9109(122); Pin 107700.00	5,222	5,222	-	-
Knox-Blount Greenway Phase I		20.205	State 110043; Pin 115617.00	20,614	54,585	147,820	113,849
N. Central Street Streetscape Improvements		20.205	47LPLM-F3-082; State 110195	806	1,889	1,083	-
Park City Sidewalk Network Completion		20.205	CM-9109(148); State 110045	4,012	16,082	26,198	14,128
Washington Pike and Millertown Pike Widening		20.205	STP-M-9109(64); State 070099	41,754	18,561	11,482	34,675
Downtown Knoxville Wayfinding Project		20.205	STP-M-9109(451); State 10056	64,279	189,046	153,441	28,674
South Waterfront Enhancement Grant for the Riverwalk		20.205	STP-EN-9109(136); Pin 108784.02	-	55,440	37,244	37,244
		20,205		513,179	1,245,089	1,672,860	68,684
2011 Federal Motor Carrier Safety Grant - High Priority		20.218	FM-MHP-0038-11-01-00	11,760	11,760	-	-
12/13 GHSO (Knoxville's Traffic & DUI Enforcement)		20.600	Z-13-GHS171	-	35,705	45,893	10,188
11/12 Governor's Highway Safety Grant		20.607	Z-12-GHS162	19,831	33,888	14,057	-
				6,408,467	9,817,870	10,026,527	6,617,124
EPA Grant for Brownfields Assessment for the South Waterfront		66.818	BF-95443509-0	153,409	215,738	62,329	-
EPA Grant for Brownfields Assessment for the Downtown North		66.818	BF-95443509-1	6,961	57,223	62,260	11,998
		66,818		160,370	272,961	124,589	11,998
Total U.S. Department of Environmental Protection							

Total U.S. Department of Transportation

U.S. Department of Environmental Protection
 Direct assistance

Total U.S. Department of Environmental Protection

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
Year Ended June 30, 2013

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2012	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2013
U.S. Department of Energy							
Direct assistance							
Total U.S. Department of Energy	ARRA Energy & Sustainability Block Grant	81.128	DE-EE0000954	95,622 <u>95,622</u>	142,332 <u>142,332</u>	46,710 <u>46,710</u>	- <u>-</u>
U.S. Department of Homeland Security							
Passed through from	2013 Hazardous Materials Emergency Planning Grant	20.703	34101-23713	-	-	5,999	5,999
Tennessee Emergency Management Agency	DOE 2012 Offsite Emergency Planning and Response	83.552	34101-000033921	-	15,985	15,985	-
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm	97.036	FEMA-1974-DR-TN	414,883	-	107,452	522,335
	Public Assistance/Disaster Grant for June 22, 2011 Storm	97.036	FEMA-4005-DR-TN	100,402	-	-	100,402
		<u>97.036</u>		<u>515,285</u>	-	<u>107,452</u>	<u>622,737</u>
Tennessee Emergency Management Agency	2010 Emergency Management Performance Grant	97.042	34101-22510	-	150,000	150,000	-
Tennessee Emergency Management Agency	2009 Metropolitan Medical Response System	97.067	2009-SS-T9-0086	(349)	-	349	-
	2010 Metropolitan Medical Response System	97.067	2010-SS-T9-0027	53,102	169,049	264,317	148,370
	2011 Metropolitan Medical Response System	97.067	EMW-2011-SS-00069	-	-	87,502	87,502
Knox County	FY2010 Homeland Security Grant Program	97.067	2010-SS-T9-0027	107	13,936	13,829	-
	FY2011 Homeland Security Grant Program	<u>97.067</u>	<u>EMW-2011-SS-00069</u>	<u>-</u>	<u>182,985</u>	<u>210</u>	<u>210</u>
						<u>366,207</u>	<u>236,082</u>
Total U.S. Department of Homeland Security				<u>568,145</u>	<u>348,970</u>	<u>645,643</u>	<u>864,818</u>
Total Federal Assistance				<u>\$ 8,580,148</u>	<u>\$ 16,042,937</u>	<u>\$ 17,080,229</u>	<u>\$ 9,617,440</u>
STATE ASSISTANCE							
Tennessee Department of Environment and Conservation	Household Hazardous Waste - Fifth Year Funding		GG-08-23533-00	-	71,032	85,000	13,968
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm		FEMA-1974-DR-TN	69,990	-	17,909	87,899
	Public Assistance/Disaster Grant for June 22, 2011 Storm		FEMA-4005-DR-TN	16,976	-	-	16,976
	2011-2012 State Operating Grant		47-UROP-S3-008	2,050,754	2,050,754	-	-
Tennessee Department of Transportation	2012-2013 State Operating Grant		47-UROP-S3-009	-	2,050,754	2,050,754	-
Tennessee State Library and Archives	2012-2013 Direct Grant to Local Gov't Archives		2012-2013 Direct Grant	-	5,000	5,000	-
Criminal Justice Program	2011-2013 East TN ICAC Task Force Program		2012-VA-GX-0025	82,403	191,294	222,883	113,992
Tennessee Department of Transportation	Kingsport Pike/Northshore Feasibility Study		STP-M-332(7) State 2001638	1,306	1,306	-	-
Tennessee Department of Transportation	FTA-TN-04-0022		GG-08-27785-00	48,450	-	-	48,450
Tennessee Department of Transportation	FTA-TN-90-X316		GG-10-34114-00	109	9,525	11,991	2,575
Tennessee Department of Transportation	FTA-TN-90-X335		47-S307-S3-014	479,310	-	66,246	545,556
Tennessee Department of Transportation	FTA-TN-90-X390-00		GG-13-33857-00 (round one)	448,669	-	63,112	511,781
Tennessee Department of Transportation	FTA-TN-90-X361		contract pending	-	-	472,523	472,523
Total State Assistance				<u>\$ 3,197,967</u>	<u>\$ 4,379,665</u>	<u>\$ 2,995,418</u>	<u>\$ 1,813,720</u>
Total Federal and State Assistance				<u>\$ 11,778,115</u>	<u>\$ 20,422,602</u>	<u>\$ 20,075,647</u>	<u>\$ 11,431,160</u>

CITY OF KNOXVILLE, TENNESSEE

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of the City of Knoxville, Tennessee (the "City") for the year ended June 30, 2013. The expenditures of federal and state awards relating to the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units of the City as described in our report on the City's financial statements are not included in the City's schedule of expenditures of federal and state awards. These component units are separately audited and reported on in accordance with OMB Circular A-133, where applicable.

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* and the State of Tennessee.

Expenditures reported on the schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Loans Outstanding

The City of Knoxville had the following loan funding balances and loan balances outstanding at June 30, 2013.

These 2013 loan funding balances are also included in the federal expenditures presented in the schedule.

<u>Cluster / Program Title</u>	<u>CFDA Number</u>	<u>FY 13 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grants	14.218	\$ 177,229	\$ 3,446,018
Empowerment Zone	14.244	-	,596,033
HOME Investment Partnerships Program	14.239	<u>979,774</u>	<u>11,004,343</u>
Total Loans		<u>\$1,157,003</u>	<u>\$17,046,394</u>

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated, December 24, 2013. Our report includes a reference to other auditors who audited the financial statements of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority, which are reported as component units of the City, and the City Employees' Pension Trust Fund as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs and referenced as items 2013-1, 2013-2, and 2013-3 that we consider to be significant deficiencies.

Compliance and Other Matters

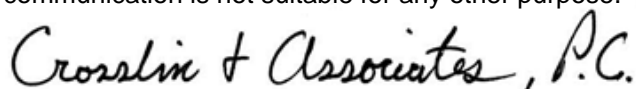
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Nashville, Tennessee
December 24, 2013

Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Knoxville, Tennessee's ("the City") compliance with the types of compliance requirements described in the *OMB 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, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority, which are reported as component units, and which received \$8,666,023 in federal awards which is not included in the schedule for the year ended June 30, 2013. 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 OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Knoxville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-4. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-4 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 24, 2013

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified?

 x yes none reported

Noncompliance material to financial statements noted?

 yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified?

 x yes none reported

Type of auditor's report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of OMB Circular A-133?

 x yes no

Identification of major programs for the City of Knoxville for the fiscal year ended June 30, 2013 are:

CFDA Number

Name of Federal Program

14.239	Home Investment Partnerships Program
16.738 / 16.804	Justice Assistance Grant (JAG) Cluster
20.500 / 20.507	Federal Transit Cluster
20.205	Highway Planning and Construction (Federal-Aid Highway Program)
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$512,407

Auditee qualified as low-risk auditee?

 x yes no

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2013

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

Finding 2013-1: Cash Reconciliation Process

Criteria: The City's concentration bank account should be properly reconciled to the general ledger.

Condition: The reconciliation of the concentration bank account at June 30, 2013 to the general ledger was not fully completed by the City on a timely basis. It was noted during the audit process that certain items remained unreconciled and the preliminary balance did not agree to the general ledger. Full reconciliation of the account was completed during the audit process by City personnel.

Context: The concentration account is the primary operating bank account for the City.

Effect: The account was fully reconciled by the City during the audit process.

Cause: The current reconciliation process for this account is a two part process that is completed by personnel in two different departments (Finance and Treasury). There appears to not have been adequate communication between the two departments during the reconciliation process at year end to properly and completely reconcile the account to the general ledger. Certain reconciling items were not investigated and adjusted by the City timely.

Recommendation: The City should evaluate the current reconciliation process for the concentration account and consider and implement changes that would assure that a full and accurate reconciliation of the account to the general ledger is completed on a timely basis and supported by proper review.

Management's
Response: Due to personnel turnover, the daily cash and investment reconciliation process was assumed by a new employee who did not fully understand the process and how everything ties together. In response to the auditor's recommendation, in addition to the daily bank reconciliation process, we have begun to perform a more traditional bank reconciliation procedure at each month end.

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2013

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

Finding 2013-2: Risk Management Claims Liability

Criteria: Adequate provision should be made for legal and workers compensation claims and judgments incurred by the City.

Condition: The liability for legal and workers compensation claims recorded in the general ledger did not appear to be fully evaluated until the audit process.

Context: Legal and workers compensation claims and judgments are a material estimated liability of the City. All resources available to management should be utilized and considered in estimating the liability.

Effect: The liability for legal and workers compensation claims and judgments was adjusted by the City during the audit process.

Cause: The City does not appear to be fully utilizing the results of the risk management study provided to the City by the third party actuary to evaluate the estimated liability for legal and workers compensation claims and judgments. There also appears to be inadequate communication between the Risk Management and Legal departments. It was noted that certain current lawsuits and claims were not considered and did not have the proper reserve established in the software that is utilized by the Risk Management department in evaluating the adequacy of the liability.

Recommendation: We recommend that the actuary's claims report be fully evaluated and considered in the development of the City's estimated liability for legal and workers compensation claims. If management believes there are possible anomalies or other issues that are not being considered by the actuary, these matters and concerns should be communicated to the actuary for their consideration. This will help to insure a reliable report is provided to City management for their use in determining the liability. Also, thorough communication between the Risk Management and Legal departments should be made to assure that all potential claims and lawsuits are considered by the City in its determination of the estimated liability.

Management's Response: We will work with the worker's compensation actuary to find a middle ground upon which to base our reserves. While the actuary appears to utilize a worst case scenario, our reserves have been based upon management's analysis of the actuary's report, actual claims data and historical cost.

The auditor's observation that law and risk were not reconciling their claims was valid and they have changed their procedures so that a quarterly reconciliation will be performed so each department is aware of the other's claim actions.

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2013

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

Finding 2013-3

Health Insurance Claims

Criteria:	Amounts drafted by the third party administrator, from the City's bank account utilized for health insurance claims, should be reconciled to the monthly reports received from the third party administrator.
Condition:	There is no reconciliation of amounts drafted for health insurance claims and recorded in the general ledger by the Treasury department to the reports received by the Employee Benefits department from the third party administrator.
Context:	The City utilizes a third party administrator to pay health insurance claims under its self-insured health insurance program. Aggregate claims payments under the City's self-insured health insurance program are material and totaled approximately \$9.8 million for fiscal year 2013.
Effect:	Lack of reconciliation of amounts withdrawn from the City's bank account by the third party administrator to actual claims reported creates a deficiency in internal control.
Cause:	Current processes related to the health insurance program of the City do not require or provide for this reconciliation procedure to occur.
Recommendation:	The City should evaluate and consider implementing as part of its controls over the self-insured health insurance program, procedures to reconcile amounts drafted from the City's bank account by the third party administrator to claims subsequently reported as paid for each period. This will help to insure that appropriate amounts are being withdrawn to pay claims under the program.
Management's Response:	Personnel in charge of the claim payment process with the outside service provider have put the company on notice that we wish for additional documentation supporting their draws. We do not anticipate this to be a major issue and it should be resolved fully by the end of the year.

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2013

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

Finding 2013-4: Capital Assets Records

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 assets records for reporting and required biannual inventory.

Condition: During the audit, we noted that there were certain expenditures that were not properly capitalized in accordance with City policy and therefore did not meet the Federal equipment and real property management requirements.

Questioned Cost: There are no questioned costs identified.

Context: The expenditures not properly capitalized for Metropolitan Medical Response for fiscal year 2013 were \$87,043.

Effect: These expenditures were not included in the capital assets records maintained by KEMA and therefore, were not included in the required biannual physical inventory under the program.

Cause: Administrative oversight during recording of program expenditures

Recommendation: We recommend that management properly record capital expenditures noted above and ensure that all equipment requirements are met and included in the physical inventory reports. In addition, we recommend that KEMA review the process of recording capital assets and increase staff training to prevent future errors in meeting these program requirements.

Management's Response: The asset in question was inadvertently missed during the capitalization process. To avoid a repeat, a check list will be utilized in the future to confirm that all projects are capitalized as they are completed.

CITY OF KNOXVILLE, TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

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

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

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

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

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

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

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

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

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

Current Status: This finding has been corrected during the 2013 fiscal year.

CITY OF KNOXVILLE, TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

Finding 2008-2: Timely Depositing of Funds

Criteria:	Deposits of funds should be made within three days of receiving the funds.
Condition:	Certain deposits made by two departments were not deposited within three days in 2008.
Context:	The two department's deposits for the days tested made up 5.8% of the total deposits for those two days in 2008.
Effect:	Not depositing funds within three days violates TCA § 6-56-111.
Cause:	Some departments keep deposits until a certain amount of collections are present before depositing. In addition, certain departments only make deposits once a week.
Recommendation:	As stated in the code, "every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts." We recommend that each department should attempt to correct procedures that are causing them to be in violation of the three-day deposit rule in order to comply with state law.
Current Status:	This finding has been corrected during the 2013 fiscal year.

Finding 2010-1: Accounts Payable Subsidiary Reconciliation

Criteria:	The City should maintain an accurate accounts payable subsidiary ledger that is properly reconciled to the City's detail financial records.
Condition:	The City implemented an upgrade to their Oracle accounting software that corrupted the detail accounts payable subsidiary ledger. The subsidiary ledger does not agree to the general ledger control account and there does not appear to be any appropriate patch for the issue.
Context:	The accounts payable subsidiary ledger maintains all fund-level records for accounts payable.
Effect:	The accounts payable detail subsidiary ledger could not be reconciled to the general ledger without extensive research.

CITY OF KNOXVILLE, TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

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 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: This finding has been corrected during the 2013 fiscal year.

Finding 2011-2: Capital Assets Records and Reporting

Program: Metropolitan Medical Response (CFDA# 97.067)

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

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

Questioned Cost: There are no questioned costs identified.

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

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

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

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

Current Status: This finding has been repeated in the current year as item 2013-4.

CITY OF KNOXVILLE, TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

Finding 2012-1: Cash Management

Program: HOME Investment Partnerships Program (CFDA# 14.239)

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

Condition: During our audit, we noted that the HOME Program appears to have drawn down funds in excess of costs. At fiscal year-end 2012, the cause of the excess funds had not been determined nor has a corrective course of action been determined to correct the excess cash position.

Questioned Cost: There are no questioned costs identified.

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

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

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

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

Current Status: This finding has been corrected during the 2013 fiscal year.



Corrective Action Plan

Finding 2013-1: Cash Reconciliation Process

Name of contract person: Jim York, Finance Director

Corrective action: Although the city performs daily balancing, due to personnel turnover, we were not able to explain the process to the auditors as well as we should have. To avoid these issues from recurring, we will in addition to performing daily bank reconciliations, prepare a more traditional and formal cash and investment reconciliation.

Anticipated Completion Date: December 31, 2013

Findings 2013-2: Risk Management Claims Liability

Name of contact person: Jim York, Finance Director

Corrective action: Law and Risk will balance their outstanding cases and reserves on a quarterly basis so the Risk claims system will be current.

Anticipated Completion Date: December 31, 2013

Corrective Action Plan - Continued

Finding 2013-3: Health Insurance Claims

Name of contract person: Jim York, Finance Director

Corrective action: Health Claims personnel have requested additional information and in a computer compatible format from our health claims administrator which will facilitate our overview of their processes and paid claims.

**Anticipated
Completion Date:** January 31, 2013

Findings 2013-4: Capital Assets Records

Name of contact person: Jim York, Finance Director

Corrective action: During the project capitalization process, a grant capital project fund expenditure was overlooked. To avoid that from happening a fund checklist will be prepared and used during the capitalization process.

**Anticipated
Completion Date:** December 31, 2013