CITY OF KNOXVILLE

MADELINE ROGERO, MAYOR

Comprehensive Annual Financial Report For Fiscal Year Ending June 30, 2014

KNOXVILLE, TENNESSEE

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF KNOXVILLE, TENNESSEE

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

PREPARED BY:

CITY OF KNOXVILLE FINANCE DEPARTMENT

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SENIOR DIRECTOR OF FINANCE

CLYDE 'BOE' COLE, CMFO, CGFO
COMPTROLLER

CITY OF KNOXVILLE, TENNESSEE

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INTRODUCTORY SECTION

CITY OF KNOXVILLE
MADELINE ROGERO, MAYOR

James York
Senior Director of Finance

December 29, 2014

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, 2014. 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 is formatting and presentation only primarily changing the caption "net assets" to "net position". The City also elected early adoption of GASB Statement 65 in FY2013 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. There was no impact on the financial statements due to GASB statements required to be adopted during FY2014.

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.

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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 members 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 an estimated population of 183,270 (2013 Census Bureau Estimate). 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) last 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 $22.1 million in local county tax receipts and $46.7 million in state tax receipts in 2013. The area also generated $930.7 million in direct domestic spending, produced $292.1 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.

Local Option Sales Tax Revenues
For the Fiscal Years Ended June 30
(In $1,000's)

Year	Collections	% Change
2005	$31,785	4.11%
2006	$34,514	8.59%
2007	$36,659	6.21%
2008	$37,274	1.68%
2009	$34,186	(8.28%)
2010	$32,654	(4.48%)
2011	$33,849	3.66%
2012	$36,379	7.47%
2013	$35,028	(3.71%)
2014	$35,783	2.16%

As shown above, the City, in FY14 experienced a 2.16 increase in local sales tax. The increase is a favorable sign of the local economic recovery after the drop in last year's overall collections.

The presence of the University of Tennessee along with Tennessee Valley Authority, Oak Ridge National Laboratory and other large governmental installations lend stability to the area, making the local economy less cyclical than either the national or state economy. In 2013, the Knoxville MSA had a labor force totaling 205,929 workers with an average unemployment rate of 6.6 percent representing an improvement from last year's 8.4 percent. Local rates are also lower than the statewide figure of 7.3 percent and the national unemployment average of 7.4 percent for 2013. This decrease continues the trend for Knoxville's lower unemployment rate yet another year.

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 444,000 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 $1.549 billion in net capital assets, it is the fourth largest customer of the Tennessee Valley Authority.

The McGhee Tyson Airport (MKAA) is served by six major airlines serving 21 non-stop destinations including Atlanta, Dallas/Ft. Worth, Orlando, Fort Lauderdale, New York, Chicago, Denver and Washington D.C. Departures and arrivals total 1.746 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) is the City of Knoxville's transit system, operating buses, trolleys and paratransit service across the city. KAT's funding comes from the City of Knoxville, the state and federal governments and fare revenues. KAT carries over 3 million passenger trips each year. KAT's 24-route bus system and 3-route trolley system is based at the Knoxville Station Transit Center, which serves as the major public transportation hub for metropolitan Knoxville. The facility, which opened in 2010, 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 Knoxville Visitors 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 citing 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 has selected Crosslin & Associates, P.C. to perform the fiscal year 2014 audit.

MAJOR INITIATIVES

I. Redevelopment

Knoxville is the hub of the East Tennessee region. The city was founded in 1791 and served as the first capital of the state of Tennessee, from 1796 to 1812. It retains the best of its Appalachian heritage today – a strong work ethic, a family-centered community, and an intense respect for the natural beauty of the the city and its surroundings.

Downtown Knoxville has enjoyed a sustained resurgence since the start of this century, with a vibrant arts scene and cultural attractions (from the Women's Basketball Hall of Fame to the Knoxville Museum of Art), along with entertainment, shopping and dining opportunities.

The City's Office of Redevelopment has been an important partner in this resurgence, and in 2014 continued its efforts to encourage reinvestment in the urban core and in neighborhoods radiating out in all directions from downtown. A major development opened this year at University Commons, a retail center including a Publix grocery store and a Walmart on a formerly vacant industrial brownfield adjacent to the University of Tennessee campus. The City provided tax-increment financing and $1.5 million in infrastructure funding to build a bridge for traffic access to the site.

On the south bank of the Tennessee River, work continues on the former site of Baptist Hospital, which is being developed by Blanchard & Calhoun Commercial into a $165 million mixed-use complex of apartments, office space, restaurants and retail. That projected is also benefiting from City and Knox County tax-increment financing.

Also on the South Waterfront, work progressed on the planned Suttree Landing Park. The five-acre park will provide public recreation space and river access for boaters. The plan also includes a new street, Waterfront Drive, which will facilitate an extension of the existing neighborhood.

Work moved forward on a more attractive and accessible entrance to Fort Dickerson Park from Chapman Highway, which will bring more attention to the historic Civil War battle site and the park's beautiful quarry.

Installation work has begun for an ambitious $1.2 million Wayfinding program in downtown Knoxville. The project will replace the City's existing directional and informational signs with a coherent set of signs and maps that will make navigation easier for drivers and pedestrians. It is expected to be complete in the first quarter of 2015.

Mayor Madeline Rogero and City Council moved to take possession of a blighted block of downtown real estate along West Jackson Avenue, after the owner of the former McClung Warehouse properties was put into bankruptcy. An unfortunate fire set by vagrants led to the destruction of the two remaining historic buildings on the property, prompting the City to begin a redevelopment process for the entire block. This long-neglected stretch along the north edge of downtown presents a significant opportunity for new investment, building on recent efforts by several local developers who have already brought new residents and businesses to the area.

To the east of downtown, the Office of Redevelopment began design on improved streetscapes for Magnolia Avenue, starting with a "model block" that will serve as a template for improvements all along the historic commercial corridor.

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 improves 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 buildings and attract commercial tenants and residents.

II. Sustainability

Knoxville has a commitment to energy efficiency and sustainability. The Office of Sustainability continued its work this year with the Knoxville Smarter Cities Partnership. The group was formed to follow through on recommendations made by an IBM Smarter Cities team in 2013, 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 the Knoxville Utilities Board, TVA and the Community Action Committee.

The partnership was awarded a total of $60,000 to support energy-efficiency education initiatives. Knoxville was one of 10 communities across the country to receive a $30,000 Partners for Places grant, which is matched locally by the United Way of Greater Knoxville and the East Tennessee Foundation. Partners for Places is a project of the Funders' Network for Smart Growth and Livable Communities, and its aim is to help communities connect local government and philanthropy to invest in sustainability projects that promote a healthy environment, a strong economy and well-being for all residents.

The Office of Sustainability also took the lead in promoting urban agriculture and community gardens, through a set of proposed ordinances that if enacted by City Council will allow more freedom for community gardens to operate within the City and for small growers to directly sell their produce to consumers.

The mayor also completed her service on President Barack Obama's State, Local and Tribal Leaders Task Force on Climate Preparedness and Resilience. The task force brought together 26 governmental leaders to identify key actions the Federal government can take to better support state, local and tribal preparedness for the effects of climate change.

III. Livability

Knoxville continued to receive national attention for its quality of life. It was ranked one of the Best Places to Retire by Livability.com, and the City's investment in outdoor recreation and its Urban Wilderness Corridor attracted favorable coverage from outlets including USA Today and Backpacker magazine.

The City continues to invest in neighborhood infrastructure, recreational facilities, major community events and great public spaces. It is important that neighborhoods also have quality infrastructure and are free from blight. This year's budget provided $800,000 to Knoxville's Community Development Corporation for the redevelopment of the Walter P. Taylor homes project in the Five Points/Park City area, part of an ongoing 10-year commitment to that area.

Great neighborhoods also have access to parks, greenways, natural areas, and recreational opportunities. They safely accommodate pedestrians, bicycles, public transit, and vehicles. The City has continued to invest in Knoxville's greenway network. It also committed money to fund necessary demolition and utility improvements at Lakeshore Park, to lay the groundwork for the implementation of an ambitious new master plan adopted for that park by the nonprofit Lakeshore Park board.

IV. Other

To further strengthen the City's pension system, Mayor Rogero and City Council proposed five amendments to the City Charter, to go to voters on the November 2014 ballot. The amendments limited lifetime annuity survivors' benefits to spouses only, removing the option for children or grandchildren to be designated for lifetime annuities. They also added two new members to the City's Pension Board, who are to be Knoxville residents appointed by the Mayor who are not City employees or beneficiaries of the City pension fund. Other amendments created the possibility for the Pension Board and City Council to add some cost-neutral options for benefit distribution, if desired.

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, 2013. This was the twenty-seventh 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-sixth 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 Knoxvillians.

Sincerely,

James York

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, 2013

Executive Director/CEO

City of Knoxville, Tennessee

Organizational Structure by Function

Citizens of the City of Knoxville

Mayor

Council

City Judge

Appointed Boards

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

General Government

Mayor's Office

- Community Relations
- Economic Development & Communications
- 311 Call Center

Finance

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

Information Systems

- Enterprise & Application Services

Risk Management

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

Community Development

- Program Administration

Law

Fleet

Civil Service

Elections

Recorder's Office

South Knoxville Waterfront

Special Events

Health & Sanitation

Public Works

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

Public Safety

Police Dept.

- Operations
- Patrol
- Investigative
- Safety City
- Emergency Management
- Animal Control

Fire Dept.

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

Transportation

Operating Subsidies to:

- Knoxville Area Transit System

Parks & Recreation

Mayor's Office

- Community Grants

Parks & Recreation

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

Physical Environment

Engineering

- Engineering Services
- Building Plans Review and Inspections
- Stormwater

Public Works

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

Economic Development

Mayor's Office

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

Finance & Accountability

- Community Developmnt Programs
- Empowerment Zone Programs

Business Type Activities

Engineering

- Metro Parking

Public Assembly Facilities

- Coliseum
- Convention Center

Parks & Recreation

- Municipal Golf Courses

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 Pavlis, Vice Mayor
Nick Della Volpe
Mark Campen

Duane Grieve
Daniel Brown
Finbarr Saunders

CITY JUDGE

John Rosson

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Deputy to the Mayor – Christi Branscom, Chief Operating Officer
Deputy to the Mayor – Dr. William Lyons, Chief Policy Officer
Community Relations Director and Special Assistant to the Mayor – Thomas E. Strickland, Jr.
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 – Dawn Distler, 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

FINANCIAL SECTION

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, 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. 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, 2014, 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.

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 87 and 88, and the schedule of employer contributions of the other postemployment benefit plan on page 87 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 90 to 124, 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 29, 2014, 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 29, 2014

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, 2014.

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 $611,208,699 (*net position*). Of this amount, $286,017,676 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.

- Net position increased by $14,250,466, a change of 2.4% when compared to fiscal year 2012/13. 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 $228,219,567, an increase of $6,309,308 over the prior year. Of this total, $200,261,580 or 87.75% is either restricted, committed, or assigned. The remaining balance of $27,957,987 is available for spending at the City's discretion.

- The ending Fund Balance in the City's General Fund increased by $840,673 or 1.2%. Tax collections, particularly the state shared Halls Income Tax, were much higher than anticipated, and augmented by efficient use of resources contributed significantly to the budgetary surplus and allowed for increased appropriations for other uses during the year. Consistent with new fund balance standards, a total of $324,140 is considered non-spendable and $42,713,745 is assigned or committed. This leaves a balance of $27,957,747 available for spending at the City's discretion.

- The City's total debt for the primary government decreased by $9,460,000 (5.6%) from $168,895,000 to $159,435,000 during the current fiscal year as a result of normal debt service activity.

Overview of the Financial Statements

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

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

Government-Wide Financial Statements

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

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

STATEMENT OF NET ASSETS

The *statement of net 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 positon 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 positon 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 and Miscellaneous Community Development Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances) are presented are 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	**Governmental Activities/Internal Service Funds**
Knoxville Convention Center	Fleet Maintenance
Other Business-Type Activities -	Risk Management
Metro Parking	Health Insurance
Public Assembly Facilities	Equipment Replacement
Municipal Golf Courses	City Buildings

Like the government-wide statement, the Proprietary Fund Statement of Net Position reports all assets and deferred outflows 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, Expenditures, 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, 2014

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	
	2014	2013	2014	2013	2014	2013
Assets						
Cash and investments	$ 313,671	$ 294,782	$ 33,074	$ 36,879	$ 346,745	$ 331,661
Other assets	184,846	175,696	9,139	7,452	193,985	183,148
Capital assets	276,654	274,600	150,218	153,873	426,872	428,473
Total assets	775,171	745,078	192,431	198,204	967,602	943,282
Deferred Outlfows	-	-	2,063	2,638	2,063	2,638
Liabilities						
Other liabilities	15,123	14,304	1,821	4,827	16,944	19,131
Noncurrent liabilities	71,926	72,292	123,291	128,198	195,217	200,490
Total liabilities	87,049	86,596	125,112	133,025	212,161	219,621
Deferred Inflows	146,295	129,341	-	-	146,295	129,341
Net position						
Net investment in capital assets	231,666	223,777	29,159	28,494	260,825	252,271
Restricted	64,367	61,997	-	-	64,367	61,997
Unrestricted	245,794	243,367	40,223	39,323	286,017	282,690
Total net position	$ 541,827	$ 529,141	$ 69,382	$ 67,817	$ 611,209	$ 596,958

Governmental Activities

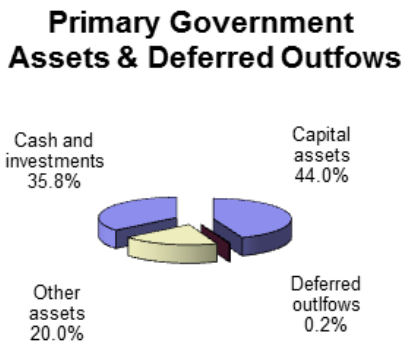
Assets have increased by 4% and liabilities have increased by .5% when compared to 2013 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. The change in liabilities was the net change in various liabilities with no particular liability being the primary cause. Deferred inflows primarily representing the ensuing fiscal year tax levy increased by 13.1% as a result of the increased tax levy for the FY15 fiscal year. The net result of these changes is an increase of 2.4% 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.

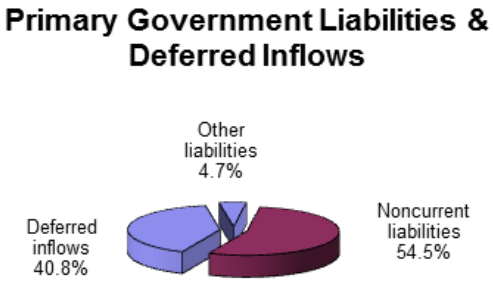
Business-Type Activities

Assets and liabilities have decreased by 2.9% and 6%, respectively from FY2013 levels, resulting in an increase of 2.3% in total net position. Decreased cash flow from financial activities due to assets being taken out of operation while expansions were accomplished accounted for the bulk of the decrease in cash and investments while the reduction in long term debt accounted for the change in noncurrent liabilities.

Total Primary Government

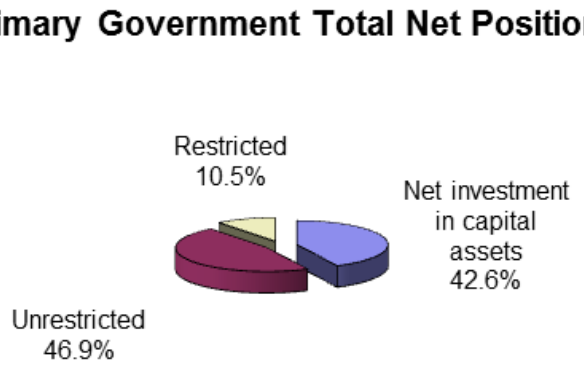
The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 44.0% of $967.6 million in total assets. Taxes and governmental receivables constitute 20%. Deferred outflows representing interest rate swaps account for 0.2% and current liquidity, as shown by cash and investments, composes the remaining 35.8% of total assets.





Of the total government liabilities and deferred inflows, 54.5% are in long-term debt outstanding. Of the total long-term debt, approximately $119.6 million, or 61.3% is related to debt issued to finance the convention center complex.

A portion of the City's total net position 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 positon of the City represents 46.9% of total primary government net position.



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

A summary version of the Statement of Activities follows:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
Revenues:	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	$ 11,645	$ 10,949	$ 9,570	$ 10,218	$ 21,215	$ 21,167
Operating grants & contributions	8,409	7,517	1,500	1,562	9,909	9,079
Capital grants & contributions	4,693	3,556	-	-	4,693	3,556
General revenues:						
Taxes	209,035	210,787	10,284	8,408	219,319	219,195
Interest	1,674	804	164	235	1,838	1,039
Other	2,388	3,896	1,018	336	3,406	4,232
Total revenues	237,844	237,509	22,536	20,759	260,380	258,268
Expenses:						
General government	32,702	23,591	-	-	32,702	23,591
Public safety	89,816	88,381	-	-	89,816	88,381
Physical Environment	51,368	49,230	-	-	51,368	49,230
Transportation	11,048	11,970	-	-	11,048	11,970
Economic development	8,752	8,120	-	-	8,752	8,120
Parks and recreation	10,345	10,195	-	-	10,345	10,195
Health & Sanitation	10,688	10,388	-	-	10,688	10,388
Interest on long-term debt	1,827	1,718	-	-	1,827	1,718
Other	-	-	29,583	24,890	29,583	24,890
Total expenses	216,546	203,593	29,583	24,890	246,129	228,483
Increase (decrease) in net position before transfers	21,298	33,916	(7,047)	(4,131)	14,251	29,785
Transfers	(8,612)	(9,123)	8,612	9,123	-	-
Changes in net position	12,686	24,793	1,565	4,992	14,251	29,785
Beginning net position	529,141	504,348	67,817	62,825	596,958	567,173
Ending net position	$ 541,827	$ 529,141	$ 69,382	$ 67,817	$ 611,209	$ 596,958

Governmental Activities

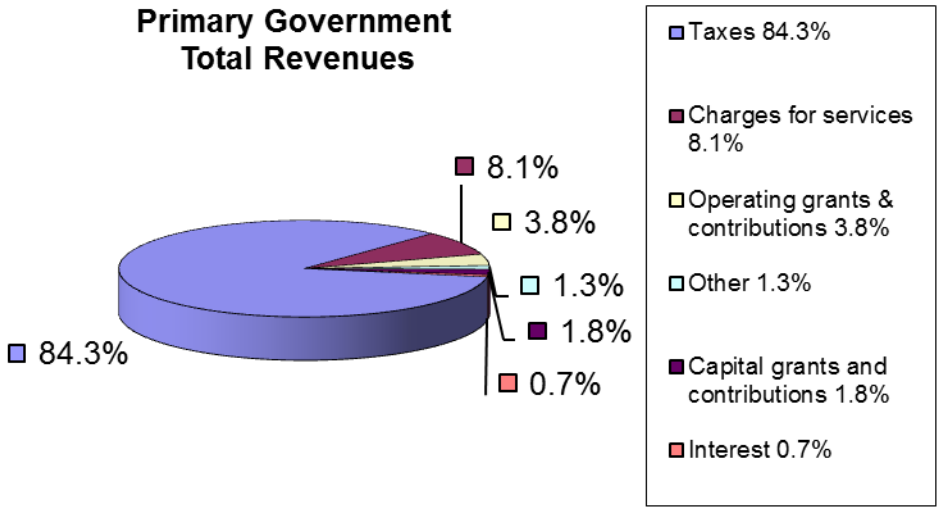
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2014, only the General, Debt Service, and City Court Funds generated material revenues in excess of current expenditures. Excess revenue generated by the General Fund is used to support funds that are not self-sufficient 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 increased by $13.0 million primarily due to the increased funding for capital projects. Public safety operations accounted for approximately 41.4% of the City's total governmental operations of $216.5 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

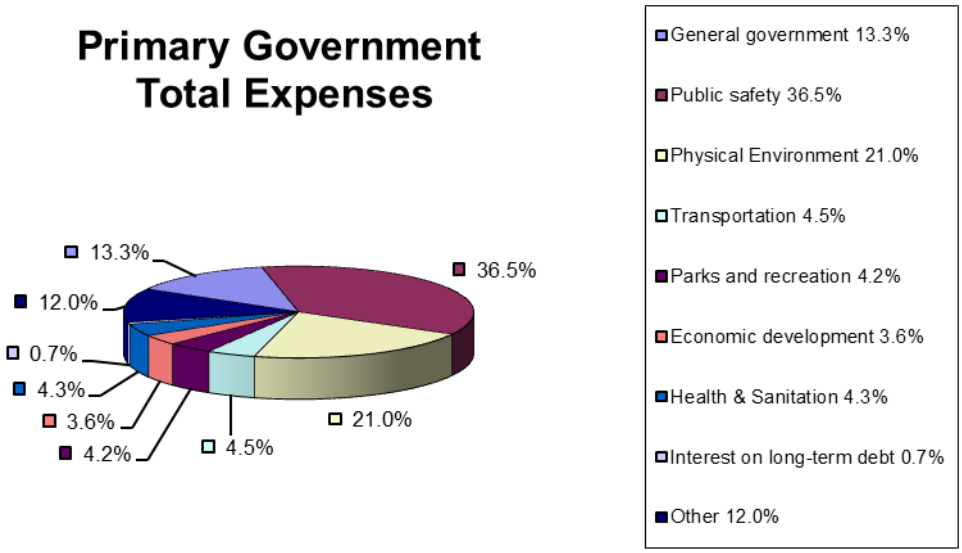
The City's business-type activities include public parking, public assembly facilities and the municipal golf courses. The City also operates the Knoxville Convention Center and the Knoxville Civic Coliseum/ Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands 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 $260.4 million. The largest portion of these revenues ($219.3 MM – 84.3%) was from taxes.



Total primary government expenses totaled $246.1 million, 36.5% of which was directed toward public safety.



Component Units

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

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

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Program Revenues	$ 752,446	$ 743,627	$ 34,248	$ 42,316	$ 24,506	$ 25,856	$ 811,200	$ 811,799
Program Expenses	(723,528)	(716,320)	(32,598)	(36,116)	(33,606)	(33,783)	(789,732)	(786,219)
Total General Revenues	851	1,032	762	364	9,530	10,426	11,143	11,822
Change in Net Position	29,769	28,339	2,412	6,564	430	2,499	32,611	37,402
Net Position at Year End	$ 893,414	$ 863,645	$ 128,017	$ 125,605	$ 48,638	$ 48,208	$1,070,069	$1,037,458

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2014

The total Governmental Funds balance as of June 30, 2014 is $228.2 million of which the general fund's balance is approximately $71 million, the debt service fund is $48.9 million, capital projects funds comprise $81.2 million, miscellaneous community development total $1.3 million and the remaining $25.8 million is distributed among the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances increased by $6.3 million when compared to the prior year. The increase was shared by the debt service fund ($2 million) and the capital projects fund ($4.4 million). 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, 2014

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, 2014, 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	2014	2013	Percent of Total 2014	Change from Prior Year Increase (Decrease)	Change from Prior Year Percent Change
Taxes, assessments, interest & penalties	$184,128	$183,445	78.09%	$ 683	0.37%
Licenses, permits and inspection charges	2,027	1,994	0.86%	33	1.65%
Intergovernmental revenue	34,585	37,359	14.67%	(2,774)	(7.43%)
Charges for services	6,263	6,528	2.66%	(265)	(4.06%)
Fines and forfeitures	3,256	4,010	1.38%	(754)	(18.80%)
Other	5,525	5,170	2.34%	355	6.87%
Totals	$235,784	$238,506	100.00%	$ (2,722)	(1.14%)

A comparison of revenues between FY13 and FY14 shows total general government revenues decreased by approximately $2.7 million or 1.14%. The debt service fund's decrease was due to a decrease in property tax collections. The capital projects funds increase was due to increased transfers for approved capital projects.

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, 2014, 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	2014	2013	Percent of Total 2014	Change from Prior Year Increase (Decrease)	Change from Prior Year Percent Change
Administration	$ 3,473	$ 3,405	1.58%	$ 68	2.00%
Finance	3,924	3,775	1.79%	149	3.95%
Information Systems	3,857	3,910	1.75%	(53)	(1.36%)
Community Development	7,133	2,635	3.25%	4,498	170.70%
South Knoxville Waterfront	499	439	0.23%	60	13.67%
Parks & Recreation	6,867	6,563	3.12%	304	4.63%
Mass Transit	12,337	11,295	5.61%	1,042	9.23%
Engineering	13,046	12,957	5.94%	89	0.69%
Public Services	36,092	40,296	16.42%	(4,204)	(10.43%)
Law	2,594	2,537	1.18%	57	2.25%
Police	52,525	51,398	23.90%	1,127	2.19%
Fire	36,699	35,588	16.70%	1,111	3.12%
Legislative	1,060	1,140	0.48%	(80)	(7.02%)
City Elections	228	-	0.10%	228	0.00%
Civil Service	1,105	934	0.50%	171	18.31%
Knoxville Partnership	800	619	0.36%	181	29.24%
Metropolitan Planning Commission	905	905	0.41%	-	0.00%
Knoxville Zoological Park	1,109	1,058	0.50%	51	4.82%
Community Agency Grants	697	747	0.32%	(50)	(6.69%)
Other Nondepartmental	68	91	0.03%	(23)	(25.27%)
Community Action Committee	616	691	0.28%	(75)	(10.85%)
Tax Increment Payments	1,247	942	0.57%	305	32.38%
Capital and Grant Projects	25,892	19,253	11.78%	6,639	34.48%
Debt service:					
Principal retirement	5,291	5,412	2.41%	(121)	(2.24%)
Interest on bonds and notes	1,745	1,730	0.79%	15	0.87%
Total Expenditures	$ 219,809	$ 208,320	100.00%	$ 11,489	5.52%

Overall, general government expenditures in FY 13/14 increased by $11.5 million. Increases in Mass Transit were the result of increased services being made available to our customers. Public Services decreased slightly due to there being no major storm activities which can result in increased expenditures for public right of way maintenance. Police and Fire Department resulted from greater amounts in replacement funding tied to the increased cost of police and fire vehicles. 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, 2014

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

Statement of Revenues, Expenditures and Changes in Fund Net Position for the Year Ended June 30, 2014

A summary of the revenues, expenses, and interfund transfers indicates that there is a decrease in total proprietary fund net position, including internal service funds, of $.3 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2014

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. 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 five 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	
	2014	2013	2014	2013	2014	2013
I. Business-type Activities						
A. Knoxville Convention Center	$16,322	$15,547	$16,651	$17,159	$ 5,903	$ 3,635
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,550	1,943	4,693	1,184	125	2,600
2. Public Assembly Facilities	2,263	2,069	5,751	5,212	2,403	2,777
3. Municipal Golf Courses	1,339	1,277	1,427	1,413	182	111
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	15,206	14,403	13,065	13,245	122	1,399
2. Risk Management	8,014	5,977	12,844	6,918	546	439
3. Health Insurance	17,500	16,303	18,333	17,985	992	1,794
4. Equipment Replacement	1,822	2,329	1,520	1,866	631	125
5. City Buildings	1,660	1,739	1,517	1,532	(1,237)	-
Totals	$65,676	$61,587	$75,801	$66,514	$ 9,667	$12,880

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	
	2014	2013	2014	2013	2014	2013
I. Business-type Activities						
A. Knoxville Convention Center	$ -	$ -	$ 5,574	$ 2,023	$31,022	$25,448
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	(3,018)	3,359	21,068	24,086
2. Public Assembly Facilities	-	-	(1,085)	(366)	16,422	17,507
3. Municipal Golf Courses	-	-	94	(25)	870	776
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	126	58	2,389	2,615	57,395	55,006
2. Risk Management	-	-	(4,284)	(502)	13,277	17,561
3. Health Insurance	-	-	159	112	11,159	11,000
4. Equipment Replacement	-	-	933	588	20,399	19,466
5. City Buildings	-	-	(1,094)	207	3,497	4,591
Totals	$ 126	$ 58	$ (332)	$ 8,011	$ 175,109	$ 175,441

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
Pension Trust Fund Contribution Rates

	FY 13/14 Contribution Rates	FY 12/13 Contribution Rates	Estimated FY 14/15 Contribution Rates
General Government Employees	20.90%	13.60%	19.30%
Police and Fire Employees	35.36%	24.07%	42.43%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 75.68%. 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 $8.35 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, 2014

Department	Carry Forward of Prior Year Encumbrances	Other	Total Changes
Administration	$ 16,364	$ 73,000	$ 89,364
Finance	-	(110,000)	(110,000)
Information Systems	84,581	(215,001)	(130,420)
Community Development	3,600	(23,000)	(19,400)
Waterfront Operations	-	10	10
Parks & Recreation	20,400	-	20,400
Mass Transit	-	(105,030)	(105,030)
Public Services	24,332	324,000	348,332
Engineering	770	(417,240)	(416,470)
Law	29,871	-	29,871
Police	210,939	(692,849)	(481,910)
Fire	-	67,500	67,500
Legislative	-	-	-
Civil Service	-	-	-
Nondepartmental	-	69,990	69,990
Transfers	-	8,992,620	8,992,620
Total General Fund	$ 390,857	$ 7,964,000	$ 8,354,857

The largest change occurred in Transfers which accounted for $9.0 million of the net $8.4 million in revisions. Construction fund transfers accounted for the bulk of the changes ($8 million). The balance of the revisions allowed departments with favorable financial results to offset unanticipated expenditures in other departments.

Capital Asset and Debt Administration

As of June 30, 2014, as reflected in the following table, the primary government of the City had net investments of $426.9 million in capital assets. The total belies the fact that the investment in Infrastructure increased by $11.6 million due to the completion of various projects and revitalization efforts throughout the city and in the downtown area. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets in the other categories, primarily equipment, which includes vehicles. For additional information on the capital assets of the City, please refer to Note 7 of the Notes to Financial Statements.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land and site improvements	$ 50,113	$ 50,416	$ 7,336	$ 7,336	$ 57,449	$ 57,752
Buildings and improvements	60,005	59,458	230,362	223,290	290,367	282,748
Equipment, furniture & fixtures	86,909	85,355	7,575	7,277	94,484	92,632
Infrastructure	332,246	320,599	-	-	332,246	320,599
Construction in progress	10,884	5,151	130	5,888	11,014	11,039
Less accumulated depreciation	(263,502)	(246,379)	(95,185)	(89,919)	(358,687)	(336,298)
Totals	$ 276,655	$ 274,600	$ 150,218	$ 153,872	$ 426,873	$ 428,472

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	
	2014	2013	2014	2013	2014	2013
Beginning balance	$ 520,979	$ 506,413	$ 243,791	$ 237,891	$ 764,770	$ 744,304
Additions	28,821	20,681	8,727	5,967	37,548	26,648
Deletions	(9,643)	(6,115)	(7,115)	(67)	(16,758)	(6,182)
Balance before depreciation	540,157	520,979	245,403	243,791	785,560	764,770
Accumulated depreciation	(263,502)	(246,379)	(95,185)	(89,919)	(358,687)	(336,298)
Balance after depreciation	$ 276,655	$ 274,600	$ 150,218	$ 153,872	$ 426,873	$ 428,472

As of the year-end, the City's Total Primary Government had $159.4 million in general obligation debt outstanding. The capital lease issued for golf carts at the city's municipal golf courses was retired.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current - Due in 1 year						
General Obligation Bonds	$ 5,382	$ 5,291	$ 4,337	$ 4,168	$ 9,719	$ 9,459
Capital Lease	-	-		14	-	14
Total Current	5,382	5,291	4,337	4,182	9,719	9,473
Non Current - Due in more than 1 year						
General Obligation Bonds	34,476	39,858	115,240	119,578	149,716	159,436
Capital Lease	-	-	-	-	-	-
Total Non Current	34,476	39,858	115,240	119,578	149,716	159,436
Subtotal	39,858	45,149	119,577	123,760	159,435	168,909
Unamortized Premiums, Discounts and Gain on Refunding	5,131	5,673	1,483	1,619	6,614	7,292
Total Long Term Debt	$ 44,989	$ 50,822	$ 121,060	$ 125,379	$ 166,049	$ 176,201

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

	2014	2013
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 8 of the Notes to Financial Statements.

Economic Factors

As with most local governments, the largest source of revenue for the City of Knoxville is taxes. This revenue category represents $155.1 million or 83% of the total operating revenue to the General Fund. Within this category of revenue, the largest amount comes from property taxes. In turn, property taxes are divided among realty, personal, and public utility. The growth rate for assessed value on real estate has generally been relatively moderate, a trend that is expected to continue. In FY14 the taxable value of real property increased by 4.2% and the overall tax roll increased by 4.1%. This change is due almost entirely to a county reappraisal of all property. Discounting the impact of reappraisal lowers the growth rate to 0.7%. Historically, the city has collected an average of 95% of property taxes in the year they are due. The trend has, in recent years, been upward due to better economic conditions and enhanced collection efforts. This upward movement has slowed somewhat with the recent recession but not significantly. The trend in personal property has been more volatile but has trended upward in the recent past. Going forward we forecast slight growth in this source. We expect limited to no growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately $35.8 million or 19.1% of total General Fund revenues. This source tends to be somewhat more elastic than other taxes and is more cyclical in nature. The continued increase in internet shopping also serves to lower growth in this revenue source. In FY 13/14 receipts from this source grew by 2.2% as compared to FY 12/13. Going forward we expect to see moderate annual growth in the 2% to 3% range.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for $26.4 million or 14.1% of total revenue. When compared to FY 12/13 this represents a decrease of approximately $2.8 million or 9.7%. The change in this category was due to a reduction in receipts from the Hall Income Tax (an intangible tax on investments). The revenue from this source was extraordinarily high in FY 12/13 in which it grew by $8.6 million (220%) to a total of $12.56 million for the year. The amount in FY 13/14 represented a reversion toward the mean. This source has been extremely volatile revenue in recent years. To offset this volatility the revenue is budgeted very conservatively. To illustrate, this category of revenue, despite the reduction, still finished 25% over the budgeted amount.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Overall these categories show a decline when compared to FY 12/13. Interest earnings, which are grouped under the category of miscellaneous revenue, do show an increase for the year but this is partially offset by a book loss in the value of investments. Revenues from the City Municipal Court system are also down due to some state government issues in responding to delinquent payers, and as part of a continued downward trend for this revenue. Improvements in the court management system and system processes are expected to reverse this trend going forward.

In short, the revenue picture is relatively good in most areas but bear watching in other areas. Revenues are expected to increase in the future, albeit at modest levels. On the expenditure side, costs are increasing. The largest concerns on this side of the ledger are salary, benefit, and pension costs.

The largest increase in costs is expected in the area of pensions. The City currently has a defined benefit system. The plan is currently underfunded though the funding status has improved in recent years. The City is amortizing the unfunded portion over the next twenty three years, and costs are expected to rise for another four years before leveling off. This increase is primarily due to a lowering of the discount rate in order to be more conservative. The Pension System is reevaluating its portfolio to try and lower risk. Also, in 2012 the citizens approved a new pension plan for all employees hired after January 1, 2013. It is expected that will reduce future costs.

Salary costs are expected to increase in the future. The City has a longstanding ordinance which mandates a two and one half percent (2 1/2 %) annual increase. This requirement typically results in increased costs. The City has maintained staffing levels at a constant number over the past years. The primary benefit cost is health care. The City has experienced double digit premium increases in recent years, the increases dropping slightly within the past two years. The City makes a concerted effort, through plan design changes and a focus on wellness, to contain health care costs. This focus has enabled the City to hold increases below national averages. The City operates a self-insurance plan and believes that it has adequate reserves to deal with any extraordinary costs.

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, 2014

	Primary Government			Combined Discretely Presented Component Units	Total Reporting Unit
	Governmental Activities	Business-type Activities	Total Primary Government		
Assets					
Cash and cash equivalents	$ 7,257,748	$ 2,308,606	$ 9,566,354	$ 114,442,211	$ 124,008,565
Investments	306,413,176	30,765,593	337,178,769	131,712,368	468,891,137
Receivables (net of allowance for uncollectibles):					
Accounts	7,346,985	2,665,626	10,012,611	91,610,961	101,623,572
Taxes	150,440,890	-	150,440,890	-	150,440,890
Notes and leases	18,265,757	-	18,265,757	-	18,265,757
TVA conservation program	-	-	-	11,093,821	11,093,821
Other	34,353	-	34,353	81,049	115,402
Due from component units	1,331,000	4,651,000	5,982,000	-	5,982,000
Inventories	1,642,356	112,090	1,754,446	10,287,081	12,041,527
Prepaid items	1,689	39,324	41,013	12,466,548	12,507,561
Due from governmental agencies	178,565	-	178,565	-	178,565
Net pension obligation asset	3,282,734	-	3,282,734	-	3,282,734
Equity interest in joint venture	2,321,560	1,670,620	3,992,180	-	3,992,180
Deferred charges	-	-	-	832,434	832,434
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	25,777,002	25,777,002
Unused bond proceeds	-	-	-	1,055,410	1,055,410
Receivables	-	-	-	418,000	418,000
Other	-	-	-	43,872	43,872
Other assets	-	-	-	7,726,980	7,726,980
Capital assets:					
Land and site improvements	50,113,021	7,336,303	57,449,324	176,894,460	234,343,784
Buildings and improvements	60,005,080	230,361,990	290,367,070	197,324,292	487,691,362
Utility plant in service	-	-	-	2,130,908,796	2,130,908,796
Equipment, furniture and fixtures	86,909,003	7,575,484	94,484,487	41,230,819	135,715,306
Infrastructure	332,246,034	-	332,246,034	-	332,246,034
Construction in progress	10,883,542	129,602	11,013,144	134,771,592	145,784,736
Less accumulated depreciation	(263,502,025)	(95,185,147)	(358,687,172)	(930,346,629)	(1,289,033,801)
Total assets	775,171,468	192,431,091	967,602,559	2,158,331,067	3,125,933,626
Deferred outflows of resources					
Interest rate swap	-	2,062,861	2,062,861	2,644,082	4,706,943
Unamortized bond refunding costs	-	-	-	12,251,803	12,251,803
Total deferred outflows of resources	-	2,062,861	2,062,861	14,895,885	16,958,746
Liabilities					
Accounts payable	6,858,364	1,182,248	8,040,612	56,407,503	64,448,115
Matured principal & interest on bonds	-	-	-	11,543,105	11,543,105
Accrued liabilities	7,045,132	37,702	7,082,834	29,061,915	36,144,749
Due to primary government	-	-	-	5,967,000	5,967,000
Due to component unit	15,000	-	15,000	-	15,000
Due to other governmental agencies	536,165	-	536,165	-	536,165
Customer deposits, plus accrued interest	404,837	250,646	655,483	15,732,652	16,388,135
Accrued interest	263,330	350,323	613,653	98,181	711,834
Noncurrent liabilities:					
Long-term debt due within one year	5,925,313	4,337,280	10,262,593	29,895,000	40,157,593
Long-term debt due in more than one year	39,063,693	116,722,276	155,785,969	914,000,000	1,069,785,969
Other noncurrent liabilities due within one year	12,400,000	169,100	12,569,100	4,552,000	17,121,100
Other noncurrent liabilities due in more than one year	14,537,818	-	14,537,818	22,363,458	36,901,276
Derivative instruments - interest rate swaps	-	2,062,861	2,062,861	5,493,335	7,556,196
Total liabilities	87,049,652	125,112,436	212,162,088	1,095,114,149	1,307,276,237
Deferred inflows of resources					
Assessed and unlevied property taxes	126,635,018	-	126,635,018	-	126,635,018
Other	19,659,615	-	19,659,615	8,044,772	27,704,387
Total deferred inflows of resources	146,294,633	-	146,294,633	8,044,772	154,339,405
Net position					
Net investment in capital assets	231,665,649	29,158,676	260,824,325	810,150,439	1,070,974,764
Restricted for:					
Debt service	48,855,587	-	48,855,587	13,119,150	61,974,737
Park Maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	302,616	-	302,616	-	302,616
Other	14,584,430	-	14,584,430	1,576,619	16,161,049
Unrestricted	245,794,836	40,222,840	286,017,676	245,221,823	531,239,499
Total net position	$ 541,827,183	$ 69,381,516	$ 611,208,699	$ 1,070,068,031	$ 1,681,276,730

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General Government	$ 32,702,125	$ 2,338,820	$ 1,332,989	$ -
Public Safety	89,816,344	6,114,089	1,022,800	793,248
Physical Environment	51,367,988	1,582,937	1,808,455	1,816,361
Transportation	11,048,241	634,818	-	-
Economic Development	8,751,867	355,414	4,245,286	2,021,243
Parks & Recreation	10,344,804	582,810	-	-
Health & Sanitation	10,688,383	35,765	-	61,933
Interest on Long-Term Debt	1,826,422	-	-	-
Total governmental activities	216,546,174	11,644,653	8,409,530	4,692,785
Business-type activities:				
Metro Parking	5,689,287	1,546,010	-	-
Public Assembly Facilities	5,750,830	1,951,681	-	-
Knoxville Convention Center	16,715,577	4,755,073	1,500,000	-
Municipal Golf Courses	1,426,934	1,317,457	-	-
Total business-type activities	29,582,628	9,570,221	1,500,000	-
Total primary government	$ 246,128,802	$ 21,214,874	$ 9,909,530	$ 4,692,785
Combined Discretely Presented Component Units	$ 789,731,659	$ 783,765,659	$ 7,626,989	$ 19,806,820

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

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		
$ (29,030,316)	$ -	$ (29,030,316)	$ -	$ (29,030,316)
(81,886,207)	-	(81,886,207)	-	(81,886,207)
(46,160,235)	-	(46,160,235)	-	(46,160,235)
(10,413,423)	-	(10,413,423)	-	(10,413,423)
(2,129,924)	-	(2,129,924)	-	(2,129,924)
(9,761,994)	-	(9,761,994)	-	(9,761,994)
(10,590,685)	-	(10,590,685)	-	(10,590,685)
(1,826,422)	-	(1,826,422)	-	(1,826,422)
(191,799,206)	-	(191,799,206)	-	(191,799,206)
-	(4,143,277)	(4,143,277)	-	(4,143,277)
-	(3,799,149)	(3,799,149)	-	(3,799,149)
-	(10,460,504)	(10,460,504)	-	(10,460,504)
-	(109,477)	(109,477)	-	(109,477)
-	(18,512,407)	(18,512,407)	-	(18,512,407)
(191,799,206)	(18,512,407)	(210,311,613)	-	(210,311,613)
-	-	-	21,467,809	21,467,809
123,072,157	-	123,072,157	-	123,072,157
65,910,044	4,888,067	70,798,111	9,288,368	80,086,479
-	2,078,895	2,078,895	-	2,078,895
-	3,315,425	3,315,425	-	3,315,425
481,297	-	481,297	-	481,297
11,379,643	-	11,379,643	-	11,379,643
6,385,335	-	6,385,335	-	6,385,335
1,806,977	-	1,806,977	-	1,806,977
2,220,280	1,018,460	3,238,740	220,800	3,459,540
1,674,464	163,516	1,837,980	1,613,044	3,451,024
167,519	-	167,519	20,125	187,644
(8,612,401)	8,612,401	-	-	-
204,485,315	20,076,764	224,562,079	11,142,337	235,704,416
12,686,109	1,564,357	14,250,466	32,610,146	46,860,612
529,141,074	67,817,159	596,958,233	1,037,457,885	1,634,416,118
$ 541,827,183	$ 69,381,516	$ 611,208,699	$ 1,070,068,031	$ 1,681,276,730

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 1,477,562	$ 826	$ 1,198,976	$ 522,158	$ 2,081,837	$ 5,281,359
Investments	51,515,993	50,054,346	81,237,019	1,070,520	24,293,707	208,171,585
Accounts Receivable	1,525,010	245,190	2,397,013	1,415,968	1,766,396	7,349,577
Taxes Receivable	122,773,353	27,667,537	-	-	-	150,440,890
Notes Receivable	305,209	1,136,300	-	13,926,191	2,898,057	18,265,757
Due from other funds	2,998,030	-	2,199,000	54,000	85,000	5,336,030
Inventories	323,900	-	206,898	18,699	29,925	579,422
Prepaid items	240	-	300	-	-	540
Due from governmental agencies	-	-	-	-	178,565	178,565
Total assets	$ 180,919,297	$ 79,104,199	$ 87,239,206	$ 17,007,536	$ 31,333,487	$ 395,603,725
Liabilities						
Accounts payable	$ 2,080,438	$ -	$ 2,162,373	$ 153,475	$ 1,206,327	$ 5,602,613
Accrued liabilities	3,406,449	-	871,674	2,904	188,521	4,469,548
Customer deposits	-	-	-	13,037	391,800	404,837
Due to other funds	-	2,809,000	386,000	1,348,000	793,030	5,336,030
Due to component unit	-	-	-	-	15,000	15,000
Due to other governmental agencies	516,040	-	8,824	-	11,301	536,165
Total liabilities	6,002,927	2,809,000	3,428,871	1,517,416	2,605,979	16,364,193
Deferred Inflows of Resources						
Unavailable revenue - property taxes	103,920,738	27,439,612	-	-	-	131,360,350
Unavailable revenue - other	-	-	2,564,827	14,175,517	2,919,271	19,659,615
Total deferred inflows of resources	103,920,738	27,439,612	2,564,827	14,175,517	2,919,271	151,019,965
Fund Balances						
Non-Spendable	324,140	-	-	18,699	653,990	996,829
Restricted	-	48,855,587	-	1,295,904	13,218,378	63,369,869
Committed	40,232,010	-	81,245,508	-	11,935,869	133,413,387
Assigned	2,481,735	-	-	-	-	2,481,735
Unassigned	27,957,747	-	-	-	-	27,957,747
Total fund balances	70,995,632	48,855,587	81,245,508	1,314,603	25,808,237	228,219,567
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 180,919,297	$ 79,104,199	$ 87,239,206	$ 17,007,536	$ 31,333,487	$ 395,603,725

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, 2014

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

Fund balance - governmental funds		$228,219,567
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the balance sheets of the governmental funds.		254,292,718
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.		4,725,332
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.		105,726,697
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.		(263,330)
Negative net pension obligation recorded as an asset as an adjustment to net position.		3,282,734
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	(39,858,260)	
Discounts and Premiums (net)	(5,130,746)	
Compensated absences	(9,167,529)	(54,156,535)
Net position - governmental activities		$ 541,827,183

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, 2014

	General Fund	Debt Service	Capital Projects	Special Revenue Fund Miscellaneous Community Development Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes, assessments, interest & penalties	$ 155,096,971	$ 23,918,053	$ -	$ -	$ 5,112,755	$ 184,127,779
Licenses, permits & inspection charges	338,933	-	-	-	1,687,767	2,026,700
Intergovernmental	26,395,786	-	2,021,243	2,701,597	3,466,897	34,585,523
Charge for services	1,555,767	-	-	1,027,415	3,680,065	6,263,247
Fines & forfeitures	652,602	-	-	-	2,603,509	3,256,111
Other	1,227,592	672,478	2,630,238	5,477	989,009	5,524,794
Total revenues	185,267,651	24,590,531	4,651,481	3,734,489	17,540,002	235,784,154
Expenditures:						
Current:						
Administration	3,465,854	-	-	-	6,993	3,472,847
Finance	3,724,114	-	-	-	199,998	3,924,112
Information Systems	3,856,959	-	-	-	-	3,856,959
Community Development	1,506,472	-	-	3,908,196	1,718,222	7,132,890
South Knoxville Waterfront	498,502	-	-	-	-	498,502
Parks & Recreation	6,862,307	-	-	-	5,185	6,867,492
Mass Transit	12,336,851	-	-	-	-	12,336,851
Engineering	5,476,004	-	-	-	7,570,407	13,046,411
Public Services	22,831,137	-	-	-	13,260,854	36,091,991
Law	1,636,627	-	-	-	957,217	2,593,844
Police	50,104,564	-	-	-	2,420,634	52,525,198
Fire	36,471,845	-	-	-	226,800	36,698,645
Legislative	1,060,429	-	-	-	-	1,060,429
Civil Service	1,105,333	-	-	-	-	1,105,333
City Elections	228,122	-	-	-	-	228,122
Knoxville Partnership	800,080	-	-	-	-	800,080
Metropolitan Planning Commission	905,000	-	-	-	-	905,000
Knoxville Zoological Park	1,108,610	-	-	-	-	1,108,610
Community Agency Grants	697,000	-	-	-	-	697,000
Other Nondepartmental	68,288	-	-	-	-	68,288
Community Action Committee	615,640	-	-	-	-	615,640
Tax Increment Payments	1,246,902	-	-	-	-	1,246,902
Capital & grant projects	-	-	25,892,356	-	-	25,892,356
Debt Service:						
Principal retirement	-	5,291,100	-	-	-	5,291,100
Interest payments on bonds & notes	-	1,744,678	-	-	-	1,744,678
Total expenditures	156,606,640	7,035,778	25,892,356	3,908,196	26,366,310	219,809,280
Excess (deficiency) of revenues over (under) expenditures	28,661,011	17,554,753	(21,240,875)	(173,707)	(8,826,308)	15,974,874
Other financing sources (uses)						
Transfers in	2,341,041	-	26,055,530	-	13,585,709	41,982,280
Transfers out	(30,161,379)	(15,532,000)	(367,634)	-	(5,586,833)	(51,647,846)
Total other financing sources (uses)	(27,820,338)	(15,532,000)	25,687,896	-	7,998,876	(9,665,566)
Net change in fund balances	840,673	2,022,753	4,447,021	(173,707)	(827,432)	6,309,308
Fund balances - beginning	70,154,959	46,832,834	76,798,487	1,488,310	26,635,669	221,910,259
Fund balances - ending	$ 70,995,632	$ 48,855,587	$ 81,245,508	$ 1,314,603	$ 25,808,237	$ 228,219,567

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

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, 2014

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

Net changes in fund balances - total governmental funds	$ 6,309,308
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 ($17,175,531) exceeds depreciation expenses ($14,367,879).	2,807,652
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(587,665)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	5,968,384
Change in 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.	(81,744)
Change in net pension obligation.	167,772
The internal service fund is used by management to charge the costs of fleet maintenance.	2,389,016
The internal service fund is used by management to charge the costs of risk management.	(4,283,806)
The internal service fund is used by management to charge the costs of employee health insurance.	158,886
The internal service fund is used by management to charge the costs of equipment replacement.	932,639
The internal service fund is used by management to charge the costs of City buildings.	(1,094,333)
Change in net position - governmental activities	$ 12,686,109

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, 2014

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Revenues						
Property taxes -						
Current	$ 78,130,720	$ 78,130,720	$ 79,629,338	$ -	$ 79,629,338	$ 1,498,618
Prior years	5,190,310	5,190,310	5,167,385	-	5,167,385	(22,925)
Business taxes	6,391,030	6,391,030	6,385,231	-	6,385,231	(5,799)
Local shares sales tax	36,143,610	36,143,610	35,783,351	-	35,783,351	(360,259)
Alcoholic beverage taxes	11,539,090	11,539,090	11,379,643	-	11,379,643	(159,447)
Payments in lieu of taxes	14,946,260	14,946,260	14,945,046		14,945,046	(1,214)
Franchise fees	1,819,120	1,819,120	1,806,977	-	1,806,977	(12,143)
Intergovernmental -						
Federal	1,024,390	1,024,390	847,551	-	847,551	(176,839)
State -						
Sales tax	12,668,190	12,668,190	12,779,828	-	12,779,828	111,638
Income tax	3,925,700	3,925,700	9,171,850	-	9,171,850	5,246,150
Other	3,330,670	3,330,670	3,543,557	-	3,543,557	212,887
Local	53,000	53,000	53,000	-	53,000	-
Licenses and permits	320,720	320,720	338,933	-	338,933	18,213
Fines & forfeits	438,000	438,000	652,602	-	652,602	214,602
Charges for services	1,568,970	1,568,970	1,555,767	-	1,555,767	(13,203)
Other -						
Interest	251,550	251,550	313,460	-	313,460	61,910
Rents & concessions	388,970	388,970	360,049	-	360,049	(28,921)
Miscellaneous	341,260	735,117	554,083	-	554,083	(181,034)
Appropriated fund balance	1,885,000	9,846,000	-	-	-	(9,846,000)
Total revenues	180,356,560	188,711,417	185,267,651	-	185,267,651	(3,443,766)
Expenditures						
Current -						
Administration	3,662,480	3,751,844	3,465,854	74,602	3,540,456	211,388
Finance	3,961,160	3,851,160	3,724,114	1,389	3,725,503	125,657
Information systems	4,303,610	4,173,190	3,856,959	33,441	3,890,400	282,790
Community development	1,617,910	1,598,510	1,506,472	23,099	1,529,571	68,939
South Knoxville Waterfront	498,500	498,510	498,502	-	498,502	8
Parks & recreation	7,015,810	7,036,210	6,862,307	17,980	6,880,287	155,923
Mass transit	15,657,990	15,552,960	12,336,851	-	12,336,851	3,216,109
Public services	22,518,380	22,866,712	22,831,137	2,811	22,833,948	32,764
Engineering	6,107,100	5,690,630	5,476,004	948	5,476,952	213,678
Law	1,908,700	1,938,571	1,636,627	33,054	1,669,681	268,890
Police	50,879,490	50,397,580	50,104,564	5,001	50,109,565	288,015
Fire	36,434,160	36,501,660	36,471,845	10,748	36,482,593	19,067
Legislative	1,066,260	1,066,260	1,060,429	24	1,060,453	5,807
Civil Service	1,219,150	1,219,150	1,105,333	32,118	1,137,451	81,699
Nondepartmental -						
City Elections	260,000	260,000	228,122	-	228,122	31,878
Knoxville Partnership	800,080	800,080	800,080	-	800,080	-
Metropolitan Planning Commission	905,000	905,000	905,000	-	905,000	-
Knoxville Zoological Gardens	1,108,610	1,108,610	1,108,610	-	1,108,610	-
Community Agency Grants	712,000	712,000	697,000	-	697,000	15,000
Other Nondepartmental	70,320	70,310	68,288	-	68,288	2,022
Community Action Committee	615,640	615,640	615,640	-	615,640	-
Tax Increment Payments	1,177,590	1,247,590	1,246,902	-	1,246,902	688
Total expenditures	162,499,940	161,862,177	156,606,640	235,215	156,841,855	5,020,322
Excess (deficiency) of revenues over (under) expenditures	17,856,620	26,849,240	28,661,011	(235,215)	28,425,796	1,576,556
Other Financing Sources (Uses)						
Transfers in	3,284,570	3,284,570	2,341,041	-	2,341,041	943,529
Transfers out	(21,141,190)	(30,133,810)	(30,161,379)	-	(30,161,379)	(27,569)
Total other financing sources (uses)	(17,856,620)	(26,849,240)	(27,820,338)	-	(27,820,338)	971,098
Net changes in fund balances	$ -	$ -	840,673	(235,215)	605,458	$ 605,458
Fund balance - beginning			70,154,959	-	70,154,959	
Fund balance - ending			$ 70,995,632	$ (235,215)	$ 70,760,417	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 993,120	$ 993,120	$ 2,701,597	$ 1,708,477
Charges for services	1,125,680	1,210,680	1,027,415	(183,265)
Other	-	-	5,477	5,477
Total revenues	2,118,800	2,203,800	3,734,489	1,530,689
Expenditures				
Current:				
Community Development	2,118,800	2,203,800	3,908,196	1,704,396
Total expenditures	2,118,800	2,203,800	3,908,196	1,704,396
Excess (deficiency) of revenues over (under) expenditures	-	-	(173,707)	(173,707)
Net changes in fund balances	$ -	$ -	(173,707)	$ (173,707)
Fund balances - beginning			1,488,310	
Fund balances - ending			$ 1,314,603	

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Assets				
Current assets:				
Cash & temporary investments	$ 990,075	$ 1,318,531	$ 2,308,606	$ 1,976,389
Investments	19,881,928	10,883,665	30,765,593	98,241,591
Accounts receivable	2,422,071	243,555	2,665,626	31,761
Due from other funds	650,000	-	650,000	184,000
Due from component unit	4,251,000	400,000	4,651,000	1,331,000
Inventories	76,848	35,242	112,090	1,062,934
Prepaid items	16,267	23,057	39,324	1,149
Total current assets	28,288,189	12,904,050	41,192,239	102,828,824
Noncurrent assets:				
Land & site improvements	2,952,020	4,384,283	7,336,303	-
Building & building improvements	180,566,774	49,795,216	230,361,990	257,391
Equipment	4,723,292	2,852,192	7,575,484	77,550,530
Construction in progress	-	129,602	129,602	664,000
Less: accumulated depreciation	(63,969,672)	(31,215,475)	(95,185,147)	(56,109,984)
Total capital assets (net of accumulated depreciation):	124,272,414	25,945,818	150,218,232	22,361,937
Equity interest in joint venture	940,054	730,566	1,670,620	2,321,560
Total noncurrent assets	125,212,468	26,676,384	151,888,852	24,683,497
Total assets	153,500,657	39,580,434	193,081,091	127,512,321
Deferred outflows of resources				
Interest rate swap	2,062,861	-	2,062,861	-
Total deferred outflows of resources	2,062,861	-	2,062,861	-
Liabilities				
Current liabilities:				
Accounts payable	921,867	260,381	1,182,248	1,255,751
Accrued liabilities	350,323	37,702	388,025	2,575,584
Customer deposits	147,181	103,465	250,646	-
Due to other funds	-	650,000	650,000	184,000
Compensated absences	-	169,100	169,100	170,289
Long-term debt due within one year	4,337,280	-	4,337,280	-
Estimated claims liability	-	-	-	5,100,000
Total current liabilities	5,756,651	1,220,648	6,977,299	9,285,624
Noncurrent liabilities:				
Long-term debt due in more than one year	116,722,276	-	116,722,276	-
Estimated claims liability	-	-	-	12,500,000
Derivative instrument - interest rate swap	2,062,861	-	2,062,861	-
Total noncurrent liabilities	118,785,137	-	118,785,137	12,500,000
Total liabilities	124,541,788	1,220,648	125,762,436	21,785,624
NET POSITION				
Net investment in capital assets	3,212,858	25,945,818	29,158,676	22,361,937
Unrestricted	27,808,872	12,413,968	40,222,840	83,364,760
Total net position	$ 31,021,730	$ 38,359,786	$ 69,381,516	$ 105,726,697

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, 2014

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating revenues				
Charges for services	$ 4,690,937	$ 4,808,203	$ 9,499,140	$ 42,244,527
Total operating revenues	4,690,937	4,808,203	9,499,140	42,244,527
Operating expenses				
Personal services	-	2,145,718	2,145,718	3,601,797
Materials & supplies	306,058	180,324	486,382	2,027,469
Maintenance	51,865	1,153,877	1,205,742	459,423
Depreciation & amortization	3,979,660	1,286,327	5,265,987	6,126,185
Other services and charges	9,452,958	7,104,720	16,557,678	35,064,129
Total operating expenses	13,790,541	11,870,966	25,661,507	47,279,003
Operating income (loss)	(9,099,604)	(7,062,763)	(16,162,367)	(5,034,476)
Nonoperating revenues (expense)				
Interest income	151,410	12,106	163,516	118,214
Intergovernmental revenue	11,480,015	302,372	11,782,387	480,025
Other revenues (expenses)	(4,684)	29,389	24,705	1,012,365
Gain (loss) on disposal of capital assets	-	-	-	347,335
Interest expense	(2,856,216)	(70)	(2,856,286)	-
Total nonoperating revenues (expenses)	8,770,525	343,797	9,114,322	1,957,939
Income (loss) before transfers and capital contributions	(329,079)	(6,718,966)	(7,048,045)	(3,076,537)
Transfers in	5,902,647	2,730,995	8,633,642	2,296,774
Transfers out	-	(21,240)	(21,240)	(1,243,610)
Capital contributions	-	-	-	125,775
Change in net position	5,573,568	(4,009,211)	1,564,357	(1,897,598)
Net position, beginning of year	25,448,162	42,368,997	67,817,159	107,624,295
Net position, end of year	$ 31,021,730	$ 38,359,786	$ 69,381,516	$ 105,726,697

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, 2014

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Operating activities				
Cash received from customers and users	$ 4,336,062	$ 4,793,977	$ 9,130,039	$ -
Receipts from interfund services provided	-	-	-	42,996,524
Cash paid to suppliers	(9,938,216)	(10,954,730)	(20,892,946)	(6,349,819)
Cash paid to employees	-	(2,154,231)	(2,154,231)	(3,549,419)
Cash paid for interfund services used	(51,865)	-	(51,865)	(2,395,172)
Payments of claims and insurance	-	-	-	(22,805,975)
Net cash provided by (used in) operating activities	(5,654,019)	(8,314,984)	(13,969,003)	7,896,139
Noncapital financing activities				
Transfers from other funds	1,001,647	3,487,995	4,489,642	(1,034,836)
Transfers to other funds	-	628,760	628,760	-
Tax and intergovernmental revenues	11,475,331	331,761	11,807,092	1,492,390
Net cash provided by (used in) noncapital financing activities	12,476,978	4,448,516	16,925,494	457,554
Capital and related financing activities				
Principal paid on general obligation bond maturities	(4,304,817)	(13,849)	(4,318,666)	-
Interest paid	(2,856,216)	(70)	(2,856,286)	-
Acquisition and construction of capital assets	(256,194)	(1,356,236)	(1,612,430)	(5,200,457)
Proceeds from sale of capital assets	-	-	-	347,335
Capital contributions	-	-	-	125,775
Net cash provided by (used in) capital and related financing activities	(7,417,227)	(1,370,155)	(8,787,382)	(4,727,347)
Investing activities				
Sales/(purchases) of investments, net	(3,672,421)	2,581,972	(1,090,449)	(6,499,734)
Investment earnings	151,410	12,106	163,516	118,214
Land held for redevelopment	-	2,500,840	2,500,840	-
Net change in equity investment in joint venture	(732,892)	94,655	(638,237)	619,744
Net cash provided by (used in) investing activities	(4,253,903)	5,189,573	935,670	(5,761,776)
Net increase (decrease) in cash and cash equivalents	(4,848,171)	(47,050)	(4,895,221)	(2,135,430)
Cash and cash equivalents				
Beginning of year	5,838,246	1,365,581	7,203,827	4,111,819
End of year	$ 990,075	$ 1,318,531	$ 2,308,606	$ 1,976,389

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, 2014

	Enterprise Funds			
	Knoxville Convention Center	Other Nonmajor Activities	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ (9,099,604)	$ (7,062,763)	$ (16,162,367)	$ (5,034,476)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	3,979,660	1,286,327	5,265,987	6,126,185
Change in assets and liabilities				
(Increase) decrease in receivables	(296,341)	(32,869)	(329,210)	731,210
(Increase) decrease in prepayments	5,475	(17,986)	(12,511)	-
(Increase) decrease in inventories	13,599	272,866	286,465	(40,883)
(Increase) decrease in prepaids	-	-	-	(1,149)
Increase (decrease) in accounts payable	(184,378)	(2,770,689)	(2,955,067)	(802,704)
Increase (decrease) in accrued expenses	(13,896)	3,662	(10,234)	1,517,956
Increase (decrease) in deferred revenue	-	(12,175)	(12,175)	-
Increase (decrease) in estimated liability for litigation and claims	-	-	-	5,400,000
Increase (decrease) in customer deposits	(58,534)	18,643	(39,891)	-
Total adjustments	3,445,585	(1,252,221)	2,193,364	12,930,615
Net cash provided by (used in) operating activities	$ (5,654,019)	$ (8,314,984)	$ (13,969,003)	$ 7,896,139

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

CITY OF KNOXVILLE, TENNESSEE

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	$ 5,035	$ 816,595
Cash equivalents	11,876,550	-
United States government securities	30,537,612	-
State & municipal government securities	8,986,796	17,671
International securities	174,379,672	-
Corporate bond & indentures	64,120,106	-
Real estate investment trusts	65,542,806	-
Domestic equity securities	196,150,033	-
Pending sales proceeds	3,778,974	-
Other receivables	1,474	13,322
Accrued interest & dividends	1,555,606	-
Due from other funds	-	26,000
Equipment, furniture & fixtures	38,356	-
Accumulated depreciation	(32,803)	-
Total assets	$ 556,940,217	$ 873,588
Liabilities		
Accounts payable	841,430	5,169
Investment purchases pending	1,673,706	-
Health care claims liability	-	842,419
Due to other funds	-	26,000
Total liabilities	$ 2,515,136	$ 873,588
Net Position Restricted for Pensions	$ 554,425,081	

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, 2014

	City Employees' Pension Trust Fund
Additions	
Employee contributions	$ 4,000,994
Employer contributions	15,239,948
Total contributions	19,240,942
Investment earnings:	
Interest and dividends	11,788,727
Net appreciation/(depreciation) in the fair value of investments	79,091,242
Other income	8,974
Total investment earnings (loss)	90,888,943
Less investment expense	(3,818,931)
Net investment earnings (loss)	87,070,012
Total additions (net)	106,310,954
Deductions	
Benefits paid	41,502,497
Refunds	768,187
Administration expenses	828,357
Total deductions	43,099,041
Change in net position	63,211,913
Total net position - beginning	491,213,168
Total net position - ending	$ 554,425,081

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

COMBINING STATEMENT OF NET POSITION - DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2014

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Assets				
Cash and cash equivalents	$ 106,078,842	$ 8,011,329	$ 352,040	$ 114,442,211
Investments	89,541,473	42,170,895	-	131,712,368
Receivables (net of allowance for uncollectibles):				
Accounts	77,679,318	4,303,551	9,628,092	91,610,961
TVA conservation program	11,093,821	-	-	11,093,821
Other	29,754	51,295	-	81,049
Inventories	9,090,412	-	1,196,669	10,287,081
Prepaid items	12,212,957	253,591	-	12,466,548
Deferred charges	-	832,434	-	832,434
Restricted assets:				
Temporarily restricted:				
Bond funds	24,662,255	1,114,747	-	25,777,002
Unused bond proceeds	1,055,410	-	-	1,055,410
Receivables	-	418,000	-	418,000
Other	43,872	-	-	43,872
Other assets	7,726,980	-	-	7,726,980
Capital assets:				
Land and site improvements	-	174,924,080	1,970,380	176,894,460
Buildings and improvements	-	164,686,414	32,637,878	197,324,292
Utility plant in service	2,130,908,796	-	-	2,130,908,796
Equipment, furniture and fixtures	-	10,330,786	30,900,033	41,230,819
Construction in progress	124,829,743	9,941,849	-	134,771,592
Less accumulated depreciation	(706,864,663)	(203,782,385)	(19,699,581)	(930,346,629)
Equity interest in joint venture	-	-	-	-
Total assets	1,888,088,970	213,256,586	56,985,511	2,158,331,067
Deferred outflows of resources				
Interest rate swap	-	2,644,082	-	2,644,082
Unamortized bond refunding costs	12,251,803	-	-	12,251,803
Total deferred outflows of resources	12,251,803	2,644,082	-	14,895,885
Liabilities				
Accounts payable	54,343,429	1,781,362	282,712	56,407,503
Matured principal & interest on bonds	11,543,105	-	-	11,543,105
Accrued liabilities	27,247,849	1,356,542	457,524	29,061,915
Due to primary government	-	-	5,967,000	5,967,000
Customer deposits, plus accrued interest	15,732,652	-	-	15,732,652
Accrued interest	-	98,181	-	98,181
Noncurrent liabilities:				
Long-term debt due within one year	25,740,000	4,155,000	-	29,895,000
Long-term debt due in more than one year	839,000,000	75,000,000	-	914,000,000
Other noncurrent liabilities due within one year	4,552,000	-	-	4,552,000
Other noncurrent liabilities due in more than one year	22,363,458	-	-	22,363,458
Derivative instruments - interest rate swaps	-	5,493,335	-	5,493,335
Total liabilities	1,000,522,493	87,884,420	6,707,236	1,095,114,149
Deferred inflows of resources				
Unamortized costs	6,404,477	-	-	6,404,477
Unavailable revenue - other	-	-	1,640,295	1,640,295
Total deferred inflows of resources	6,404,477	-	1,640,295	8,044,772
Net position				
Net investment in capital assets	688,373,838	75,967,891	45,808,710	810,150,439
Restricted for:				
Debt service	13,119,150	-	-	13,119,150
Other	43,872	1,532,747	-	1,576,619
Unrestricted	191,876,943	50,515,610	2,829,270	245,221,823
Total net position	$ 893,413,803	$ 128,016,248	$ 48,637,980	$ 1,070,068,031

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

COMBINING STATEMENT OF ACTIVITIES - DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Component Units			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Component units:								
Knoxville Utilities Board	$ 723,527,705	$ 751,710,100	$ -	$ 735,759	$ 28,918,154	$ -	$ -	$ 28,918,154
Metropolitan Knoxville Airport Authority	32,598,115	29,700,598	-	4,547,269	-	1,649,752	-	1,649,752
Knoxville Area Transit	33,605,839	2,354,961	7,626,989	14,523,792	-	-	(9,100,097)	(9,100,097)
Total component units	$ 789,731,659	$ 783,765,659	$ 7,626,989	$ 19,806,820	$ 28,918,154	$ 1,649,752	$ (9,100,097)	$ 21,467,809
		General revenues:						
		Intergovernmental revenue, unrestricted			-	-	9,288,368	9,288,368
		Other unrestricted revenue			-	-	220,800	220,800
		Unrestricted investment earnings			850,769	761,634	641	1,613,044
		Gain on disposal of capital assets			-	-	20,125	20,125
		Total general revenues			850,769	761,634	9,529,934	11,142,337
		Change in net position			29,768,923	2,411,386	429,837	32,610,146
		Net position - beginning			863,644,880	125,604,862	48,208,143	1,037,457,885
		Net position - ending			$ 893,413,803	$ 128,016,248	$ 48,637,980	$ 1,070,068,031

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Related and Jointly Governed Organizations

The following related agencies provide services within the City:

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements, which consist of the statement of net 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.

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.

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. The fund's fiduciary net position has been determined on the same basis used by the Pension System.

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.

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 $2,856,216 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.

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 *assessed and unlevied property taxes* 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 *other* arises from 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.

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, 2014, 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.

Postemployment Benefits - Postemployment pension benefits are accounted for under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for the measurement, recognition and display of pension expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information. Note disclosures regarding pension information are made in accordance with GASB Statement No. 50, *Pension Disclosure, an Amendment of GASB Statements No. 25 and 27. S*ee additional information regarding the City's pension benefits in Accounting Pronouncements below and in Note 18. The City's Retirement Plan (City of Knoxville Pension System) issues a separate, publically available financial report under the requirements of GASB Statement No. 67, as further described in Note 18.

Postemployment healthcare benefits other than pension benefits are accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* which establishes standards for the measurement, recognition, and display of postemployment healthcare benefits expense and related liabilities, assets, and note disclosures, as further described in Note 19 and, if applicable, required supplementary information.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Accounting Pronouncements

The City adopted 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. 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.

The City adopted 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.

The City plans to adopt GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, 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 by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement.

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 - 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 2014.

General Fund	$8,374,857
Special Revenue Funds	762,765
Debt Service Fund	70,000
Capital Project Funds	7,034,000
Enterprise Funds	4,172,397
Internal Service Funds	6,866,359

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.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

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

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Enterprise Funds						
Knoxville Convention Center	$ 18,842,340	$ 22,225,009	$ 3,382,669	$ 18,482,340	$ 16,651,441	$ 1,830,899
Metro Parking	5,036,270	1,675,464	(3,360,806)	5,036,270	4,693,272	342,998
Public Assembly Facilities	5,759,767	4,686,664	(1,073,103)	5,759,767	5,772,070	(12,303)
City Golf Courses	1,575,280	1,520,937	(54,343)	1,575,280	1,426,934	148,346
Knoxville Area Transit						
(Component Unit)	23,609,420	34,035,676	10,426,256	23,609,420	33,605,839	(9,996,419)
Internal Service Funds						
Fleet Maintenance	14,068,940	15,454,184	1,385,244	14,068,940	13,065,168	1,003,772
Risk Management	12,896,473	8,563,178	(4,333,295)	12,896,473	12,846,984	49,489
Employee Health Insurance	18,749,166	18,495,106	(254,060)	18,749,166	18,336,219	412,947
Equipment Replacement	1,935,620	2,452,212	516,592	1,935,620	1,519,573	416,047
City Buildings	1,539,340	1,660,335	120,995	1,539,340	2,754,668	(1,215,328)

NOTE 4 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds except the City Employees' 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 other equities.

NOTE 4 - 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, 2014, the average weighted maturity of the City's portfolio was 251 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, 2014, the City held securities in various municipal bonds of $86 million or approximately 26% 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, 2014, the City had the following investments and maturities.

Investments:	Fair Value	Less Than 1 Year	1 - 2 Years	2 - 4 Years
Primary Government:				
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	$ 4,574,042	$ -	$ -	$ 4,574,042
Private Equity Funding Corporation (PEFCO)	504,145	504,145	-	-
Federal Farm Credit Bureau (FFCB)	3,996,310	-	997,860	2,998,450
Other Governmental Bonds	107,971,340	35,350,422	36,225,956	36,394,962
Certificates of Deposit	12,878,176	3,124,298	6,999,688	2,754,190
Corporate Equities	219,799	219,799	-	-
Tennessee Local Government Investment Pool	207,052,626	207,052,626	-	-
	$ 337,196,438	$ 246,251,290	$ 44,223,504	$ 46,721,644
Fiduciary Activities:				
Tennessee Local Government Investment Pool	$ 17,671	$ 17,671	$ -	$ -

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

NOTE 4 - DEPOSITS AND INVESTMENTS - Continued

Deposits and investments of component units 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	$ 159,881,097	$ 9,126,076	$ 352,040	$ 5,035
Carrying amounts:				
Deposits (net of outstanding checks) in financial institutions	$ 106,078,842	$ 9,126,076	$ 352,040	$ 5,035
Certificates of deposit	53,802,255	-	-	-
Total deposits - carrying value	$ 159,881,097	$ 9,126,076	$ 352,040	$ 5,035

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	$ -	$ -	$ -	$ 11,876,550	$ 11,876,550	$ 11,876,550
United States government securities	60,176,431	-	-	30,537,612	90,714,043	90,714,043
Domestic equity securities	-	-	-	196,150,033	196,150,033	196,150,033
Corporate bonds	-	-	-	64,120,106	64,120,106	64,120,106
State and municipal government securities	-	-	-	8,986,796	8,986,796	8,986,796
Real estate investment trusts	-	-	-	65,542,806	65,542,806	65,542,806
International securities	-	-	-	174,379,672	174,379,672	174,379,672
Total classified investments	60,176,431	-	-	551,593,575	611,770,006	611,770,006
Investments not categorized:						
Investments in state treasurer's investment pool	1,066,682	42,170,895	-	-	43,237,577	43,237,577
Total investments	$ 61,243,113	$ 42,170,895	$ -	$ 551,593,575	$ 655,007,583	$ 655,007,583
Total deposits and investments	$ 221,124,210	$ 51,296,971	$ 352,040	$ 551,598,610		

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	$ 106,078,842	$ 8,011,329	$ 352,040	$ 5,035
Investments	89,541,473	42,170,895	-	551,593,575
Unused bond proceeds	1,055,410	-	-	-
Bond funds	24,662,255	1,114,747	-	-
Other temporarily restricted assets	43,872	-	-	-
	221,381,852	51,296,971	352,040	551,598,610
Less accrued interest	(257,642)	-	-	-
Total deposits and investments	$ 221,124,210	$ 51,296,971	$ 352,040	$ 551,598,610

NOTE 5 - RECEIVABLES

Receivables at June 30, 2014, 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	$ 690,217	$ 2,795	$ 854,118	$ -	$ -	$ (22,120)	$ 1,525,010
Debt service fund	-	22,244	-	-	222,946	-	245,190
Capital projects fund	-	8,313	2,388,700	-	-	-	2,397,013
Special revenue funds:							
Miscellaneous community development funds	-	-	1,415,968	-	-	-	1,415,968
Other governmental funds	838,766	1,001	871,619	33,713	21,297	-	1,766,396
Knoxville Convention Center	-	-	-	-	2,422,071	-	2,422,071
Other enterprise funds	-	-	228,088	8,507	6,960	-	243,555
Internal service funds	-	-	-	31,761	-	-	31,761
Total primary government	1,528,983	34,353	5,758,493	73,981	2,673,274	(22,120)	10,046,964
Component units:							
Knoxville Utilities Board	11,093,821	29,754	-	74,323,067	4,071,301	(715,050)	88,802,893
Metropolitan Knoxville Airport Authority	-	51,295	3,570,270	733,281	-	-	4,354,846
Knoxville Area Transit	-	-	9,628,092	-	-	-	9,628,092
Total reporting entity	$ 12,622,804	$ 115,402	$ 18,956,855	$ 75,130,329	$ 6,744,575	$ (737,170)	$ 112,832,795
Fiduciary Activities:							
City Employees' Pension Trust Fund	$ -	$ 1,555,606	$ -	$ -	$ 1,474	$ -	$ 1,557,080

NOTE 6 - NOTES AND LEASES RECEIVABLE

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

Governmental Funds:	
Notes Receivable	
General Fund	$ 305,209
Debt Service Fund	1,136,300
Special Revenue Fund - Miscellaneous Community Development Funds	13,926,191
Other Governmental Funds - Community Development Block Grant Funds	2,898,057
Total Notes Receivable	$ 18,265,757

The $1,136,300 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 $13,926,191 due the Miscellaneous Community Development Funds and the $2,898,057 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 $16,824,248 is included in other deferred inflows of resources.

NOTE 6 - 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, 2014, minimum future base rentals to be received on noncancellable leases are as follows:

Year Ended June 30,	
2015	$ 8,329,582
2016	8,926,382
2017	7,856,304
2018	7,762,636
2019	4,799,361
Thereafter	8,323,720
Total	$45,997,985

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 $726,000 are included in other noncurrent assets in the accompanying statement of net position as of June 30, 2014. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to $1,697,710 for the year ended June 30, 2014.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Primary Government				
Governmental activities:				
Nondepreciable:				
Land & site improvements	$ 50,415,971	$ 27,437	$ (330,388)	$ 50,113,020
Construction in progress	5,150,704	15,026,129	(9,293,291)	10,883,542
Total nondepreciable capital assets	55,566,675	15,053,566	(9,623,679)	60,996,562
Depreciable:				
Buildings and building improvements	59,457,802	547,279	-	60,005,081
Equipment, furniture and fixtures	85,355,342	4,945,888	(3,392,227)	86,909,003
Infrastructure	320,599,478	11,646,556	-	332,246,034
Total depreciable capital assets	465,412,622	17,139,723	(3,392,227)	479,160,118
Accumulated depreciation:				
Buildings and building improvements	(31,025,550)	(1,819,957)	-	(32,845,507)
Equipment, furniture and fixtures	(58,758,584)	(6,940,003)	3,371,464	(62,327,123)
Infrastructure	(156,595,292)	(11,734,103)	-	(168,329,395)
Total accumulated depreciation	(246,379,426)	(20,494,063)	3,371,464	(263,502,025)
Total depreciable capital assets, net	219,033,196	(3,354,340)	(20,763)	215,658,093
Governmental activities capital assets, net	$ 274,599,871	$ 11,699,226	$ (9,644,442)	$ 276,654,655
Business-type activities:				
Nondepreciable:				
Land & site improvements	$ 7,336,303	$ -	$ -	$ 7,336,303
Artwork	764,875	-	-	764,875
Construction in progress	5,888,147	1,356,236	(7,114,781)	129,602
Total nondepreciable capital assets	13,989,325	1,356,236	(7,114,781)	8,230,780
Depreciable:				
Buildings and building improvements	223,290,115	7,071,876	-	230,361,991
Equipment, furniture and fixtures	6,511,880	356,624	(57,896)	6,810,608
Total depreciable capital assets	229,801,995	7,428,500	(57,896)	237,172,599
Accumulated depreciation:				
Buildings and building improvements	(85,433,489)	(5,002,395)	-	(90,435,884)
Equipment, furniture and fixtures	(4,485,673)	(273,178)	9,588	(4,749,263)
Total accumulated depreciation	(89,919,162)	(5,275,573)	9,588	(95,185,147)
Total depreciable capital assets, net	139,882,833	2,152,927	(48,308)	141,987,452
Business-type activities capital assets, net	$ 153,872,158	$ 3,509,163	$ (7,163,089)	$ 150,218,232
Fiduciary activities:				
Knoxville Employees' Pension Plan				
Depreciable: Equipment, furniture and fixtures	$ 37,009	$ 1,347	$ -	$ 38,356
Accumulated Depreciation	(25,936)	(6,867)	-	(32,803)
Total Knoxville Employees' Pension Plan	$ 11,073	$ (5,520)	$ -	$ 5,553

NOTE 7 - CAPITAL ASSETS - Continued

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

Governmental Activities	
General	$ 1,958,929
Public Safety	6,118,864
Physical Environment	11,018,677
Economic Development	39,123
Parks and Recreation	1,169,569
Health and Sanitation	188,901
	$20,494,063
Business-type Activities	
Knoxville Convention Center	$3,989,248
Metro Parking	678,629
Public Assembly Facilities	21,435
Municipal Golf Courses	586,261
	$5,275,573

NOTE 7 - CAPITAL ASSETS - Continued

Capital asset activity for component units for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Component Units				
Knoxville Utilities Board				
Nondepreciable: Construction in Progress	$ 160,097,345	$ 135,673,684	$ (170,941,286)	$ 124,829,743
Depreciable:				
Pumping and treatment plant	241,143,233	29,498,352	(1,483,039)	269,158,546
Distribution & collection plant	1,608,874,521	133,244,421	(26,541,543)	1,715,577,399
General plant	137,331,993	11,294,651	(2,453,793)	146,172,851
Total depreciable assets	1,987,349,747	174,037,424	(30,478,375)	2,130,908,796
Accumulated depreciation	(681,775,954)	(55,192,036)	30,103,327	(706,864,663)
Total depreciable capital assets, net	1,305,573,793	118,845,388	(375,048)	1,424,044,133
Total Knoxville Utilities Board	$ 1,465,671,138	$ 254,519,072	$ (171,316,334)	$ 1,548,873,876
Metropolitan Knoxville Airport Authority				
Nondepreciable:				
Land	$ 31,058,157	$ 522,815	$ -	$ 31,580,972
Construction in progress	27,640,040	5,027,929	(22,726,120)	9,941,849
Total nondepreciable capital assets	58,698,197	5,550,744	(22,726,120)	41,522,821
Depreciable:				
Land improvements	142,166,342	1,176,766	-	143,343,108
Buildings and building improvements	144,722,529	19,963,885	-	164,686,414
Equipment, furniture and fixtures	10,878,405	578,463	(1,126,082)	10,330,786
Total depreciable capital assets	297,767,276	21,719,114	(1,126,082)	318,360,308
Accumulated depreciation:				
Land improvements	(108,123,030)	(3,007,541)	-	(111,130,571)
Buildings and building improvements	(76,680,128)	(7,151,631)	-	(83,831,759)
Equipment, furniture and fixtures	(9,086,192)	(827,978)	1,094,115	(8,820,055)
Total accumulated depreciation	(193,889,350)	(10,987,150)	1,094,115	(203,782,385)
Total depreciable capital assets, net	103,877,926	10,731,964	(31,967)	114,577,923
Total Metropolitan Knoxville Airport Authority	$ 162,576,123	$ 16,282,708	$ (22,758,087)	$ 156,100,744
Knoxville Area Transit				
Nondepreciable:				
Land	$ 1,854,780	$ 115,600	$ -	$ 1,970,380
Artwork	49,000	-	-	49,000
Total nondepreciable capital assets	1,903,780	115,600	-	2,019,380
Depreciable:				
Buildings and building improvements	32,637,878	-	-	32,637,878
Equipment, vehicles, furniture and fixtures	30,765,493	4,036,709	(3,951,169)	30,851,033
Total depreciable capital assets	63,403,371	4,036,709	(3,951,169)	63,488,911
Accumulated depreciation:				
Buildings and building improvements	(5,717,102)	(1,026,725)	-	(6,743,827)
Equipment, vehicles, furniture and fixtures	(14,612,044)	(2,294,879)	3,951,169	(12,955,754)
Total accumulated depreciation	(20,329,146)	(3,321,604)	3,951,169	(19,699,581)
Total depreciable capital assets, net	43,074,225	715,105	-	43,789,330
Total Knoxville Area Transit	$ 44,978,005	$ 830,705	$ -	$ 45,808,710

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2014 is as follows:

	Due From Other Funds	Due To Other Funds	Internal Balances	Due From Component Units	Due To Component Units	Due To Primary Government
Governmental Activities						
General Fund	$ 2,998,030	$ -	$ 2,998,030	$ -	$ -	$ -
Debt Service Fund	-	2,809,000	(2,809,000)	-	-	-
Special Revenue Fund:						
Abandoned Vehicles	-	1,000	(1,000)	-	-	-
Miscellaneous Special Revenue	-	35,000	(35,000)	-	15,000	-
Animal Control	-	-	-	-	-	-
Community Development Block Grants	-	-	-	-	-	-
City Inspections	-	7,000	(7,000)	-	-	-
City Court	85,000	-	85,000	-	-	-
Miscellaneous Grants	-	677,000	(677,000)	-	-	-
Storm Water	-	6,030	(6,030)	-	-	-
Solid Waste	-	67,000	(67,000)	-	-	-
Miscellaneous Community Development Funds	54,000	1,348,000	(1,294,000)	-	-	-
Capital Projects Fund	2,199,000	386,000	1,813,000	-	-	-
Internal Service Funds:						
Risk Management	184,000	3,000	181,000	1,331,000	-	-
Health Insurance	-	181,000	(181,000)	-	-	-
City Buildings	-	-	-	-	-	-
Total governmental activities	$ 5,520,030	$5,520,030	$ -	$1,331,000	$ 15,000	$ -
Business-Type Activities						
Knoxville Convention Center	650,000	-	650,000	4,251,000	-	-
Public Assembly Facilities	-	650,000	(650,000)	-	-	-
Metro Parking	-	-	-	400,000	-	-
City Golf Courses	-	-	-	-	-	-
Total business-type activities	650,000	650,000	-	4,651,000	-	-
Component Units:						
Knoxville Area Transit	-	-	-	-	-	5,967,000
	$ 6,170,030	$6,170,030	$ -	$5,982,000	$ 15,000	$5,967,000

NOTE 9 - LONG-TERM DEBT

Bonds at June 30, 2014, 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	$ -	$ 19,230,000	$ 19,230,000
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%	7,610,000	-	7,610,000
General Obligation Refunding Bonds, Series 2012 maturing through 2025 at varying rates of interest ranging form 1.0% to 5.0%	32,248,260	40,376,740	72,625,000
Total Primary Government	$ 39,858,260	$ 119,576,740	$ 159,435,000

NOTE 9 - LONG-TERM DEBT - Continued

	Revenue Bonds
Component Units:	
Knoxville Utilities Board:	
Electric Revenue Bonds Series W to CC, maturing through 2032 at varying rates of interest ranging from 1.45% to 6.35%	$ 178,940,000
Water Revenue Bonds Series R to Z maturing through 2047 at varying rates of interest ranging from 2.0% to 5.5%	123,385,000
Gas Revenue Bonds Series L to S, maturing through 2047 at varying rates of interest ranging from 2.0% to 6.2%	112,365,000
Waste Water Revenue Bonds Series 2005 A&B, 2007, 2008, 2010, 2010C, 2012A, 2012B, 2013A maturing through 2047 at varying rates of interest ranging from 1.18% to 6.5%	450,050,000
	$ 864,740,000
Metropolitan Knoxville Airport Authority:	
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. The remaining principal bears interest at a synthetic rate of 5.29%	$ 11,885,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. $27,700,000 bears interest at a synthetic rate of 3.502%. The remaining principal bears interest at a variable rate (0.11% at June 30, 2014).	67,270,000
	$ 79,155,000

Each of the Divisions of the Knoxville Utilities Board have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2014, these requirements had been satisfied.

NOTE 9 - LONG-TERM DEBT - Continued

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

Primary Government	General Obligation Bonds			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
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	3,646,980	803,609	5,558,020	15,754,091
2020-2024	17,293,310	1,727,811	29,671,690	12,168,528
2025-2029	684,170	20,525	37,725,830	2,483,100
2030-2032	-	-	27,235,000	48,553,786
	39,858,260	$ 7,553,443	119,576,740	$ 93,896,676
Unamortized premium	5,130,746		1,482,816	
Total	$ 44,989,006		$ 121,059,556	

Component Units	Revenue Bonds and Local Gov't Public Improvement Bonds	
	Principal	Interest
2015	$ 29,895,000	$ 36,111,706
2016	31,160,000	35,104,676
2017	32,365,000	34,061,247
2018	33,730,000	32,925,585
2019	35,110,000	31,749,253
2020-2024	199,900,000	137,945,239
2025-2028	201,650,000	100,833,694
2029-2032	140,435,000	67,966,648
2033-2038	118,825,000	43,212,613
2039-2043	100,475,000	17,952,775
2044-2047	20,350,000	1,260,000
	$ 943,895,000	$ 539,123,436

NOTE 9 - LONG-TERM DEBT - Continued

Interest Swap Agreements

Primary Government

On May 15, 2002, the City entered into a $45,000,000 interest rate swap agreement with Wachovia First Union Bank. The intention of the agreement was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F bonds to a synthetic fixed rate. Principal payments on this agreement run through June 1, 2020. On December 16, 2009, the City refinanced the Series III-F loan as Series VI L-1 while maintaining the original III-F amortization schedule. The refinancing was done to achieve lower rates on the bonds by reissuing them without an insurance provision. The principal outstanding on these notes, subject to the swap agreement, as of June 30, 2014, is $19,230,000.

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, 2014, were as follows:

Associated Debt Issue	Outstanding Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Estimated Fair Value	Swap Term Date	Counter-party Credit Rating
Business-Type Activities							
General Obligation Bonds Series VI-L-1 through Public Building Authority of Sevier County	$19,230,000	12/16/2009	3.955%	70% of 1 Month LIBOR	$(2,062,861)	6/1/2020	A+

Fair Value - As of June 30, 2014, the swap had a negative fair value of $2,062,861. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

NOTE 9 - LONG-TERM DEBT - Continued

The current notional and fair value amounts of the outstanding swap as of June 30, 2014, were as follows:

Associated Debt Issue	Changes in Fair Value Classification	Changes in Fair Value Amount	Fair Value at June 30, 2014 Classification	Fair Value at June 30, 2014 Amount	June 30, 2014 Notional Amount
Business-Type Activities					
Hedging Derivative					
Loan Payable to the Public Building Authority of Sevier County - Series VI-L1	Deferred Outflow of Resources	$575,184	Debt	$(2,062,861)	$19,230,000

Credit Risk - As of June 30, 2014, 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, 2014, the senior debt of Wells Fargo was rated A2 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, 2014, 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.

For the year ending June 30,	Principal	Interest	Net Interest Rate Swap Payment	Total
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	3,415,000	314,550	(20,300)	3,709,250
2020	3,575,000	160,875	(10,400)	3,725,475
	$ 19,230,000	$ 3,141,675	$ (202,600)	$ 22,169,075

NOTE 9 - 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, 2014, are as follows:

Associated Bond Issues	Outstanding Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Swap Termination Date
Series II-D-1	$11,885,000	9/8/2000	5.29%	SIFMA Municipal Swap Index	6/1/2026
Series V-A-1	27,700,000	6/28/2001	4.36%	62.5% of 5 Year LIBOR	6/1/2021
	$39,585,000				

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 $256,026 decrease in the fair value in 2014 is included in accumulated deferred outflow of resources in the statements of net position. The estimated fair value of $2,644,082 has been reported as a long-term liability.

Credit Risk - As of June 30, 2014, 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, 2014, 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.

NOTE 9 - 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 Instrument Risks

The Authority has an investment derivative associated with the Series V-A-1 bond. Accordingly, the $587,617 decrease in its fair value in fiscal year 2014 is reported as a change in fair value of investment interest rate swap in the nonoperating income portion of the Statements of Revenues, Expenses and Changes in Net Position. The estimated fair value of $2,849,253 has been reported as a long-term liability at June 30, 2014.

Credit risk: As of June 30, 2014, 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, 2014, with its Credit 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.

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

Scheduled Debt Service Requirements

As of June 30, 2014, 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	Variable Rate Bonds		Interest Rate	
June 30,	Principal	Interest	Swaps, net	Total
2015	$ 4,155,000	$ 522,483	$1,104,131	$ 5,781,614
2016	4,365,000	490,420	976,653	5,832,073
2017	4,590,000	456,446	842,867	5,889,313
2018	4,825,000	420,378	702,368	5,947,746
2019	5,075,000	382,168	554,817	6,011,985
2020-2024	29,925,000	1,248,693	831,595	32,005,288
2025-2028	26,220,000	159,272	36,754	26,416,026
Total	$79,155,000	$3,679,860	$5,049,185	$87,884,045

NOTE 9 - 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 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until 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. In 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, $68 million at June 30, 2014, 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 and fund gas system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series J 2001 bonds, as such amounts mature. 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 O2010 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 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until 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 retire Series M 2006 outstanding bonds. During fiscal year 2014, KUB's Gas Division issued Series T 2013 to fund gas system capital improvements. In 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, $43.5 million at June 30, 2014, 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. During fiscal year 2012, KUB's Water Division issued Series W 2011

NOTE 9 - LONG-TERM DEBT - Continued

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. During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements. In 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, $16.6 million at June 30, 2014, 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 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the 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 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until 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. In 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, $120.8 million at June 30, 2014, 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 November 2018. Costs of maintaining this letter of credit and other administrative fees are included in interest expense.

NOTE 9 - LONG-TERM DEBT - Continued

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, 2014:

	Balance June 30, 2013	Additions and Transfers	Reductions and Transfers	Balance June 30, 2014	Due Within One Year
Primary Government					
Government Activities:					
General obligation bonds	$ 45,149,360	$ -	$ 5,291,100	$ 39,858,260	$ 5,382,720
Add unamortized amounts for issuance premiums	5,673,340	-	542,594	5,130,746	542,593
	50,822,700	-	5,833,694	44,989,006	5,925,313
Estimated claims liability	12,200,000	9,527,971	4,127,971	17,600,000	5,100,000
Compensated absences payable	9,269,067	7,560,688	7,491,937	9,337,818	7,300,000
Total governmental activities long-term liabilities	$ 72,291,767	$ 17,088,659	$ 17,453,602	$ 71,926,824	$ 18,325,313
Business-type Activities:					
General obligation bonds	$ 123,745,640	$ -	$ 4,168,900	$ 119,576,740	$ 4,337,280
Add unamortized amounts for issuance premiums	1,618,733	-	135,917	1,482,816	135,917
	125,364,373	-	4,304,817	121,059,556	4,473,197
Capital lease	13,849	-	13,849	-	-
Compensated absences payable	181,275	82,915	95,090	169,100	169,100
Total business-type activities long-term liabilities	$ 125,559,497	$ 82,915	$ 4,413,756	$ 121,228,656	$ 4,642,297

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 $170,289 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.

NOTE 9 - 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, 2014, principal and interest payments on all debt issues were approximately 12% of the pledged revenue. Principal and interest remaining to be paid on all debt issues is approximately $267.5 million, based on market interest rates effective on June 30, 2014.

	Balance June 30, 2013	Additions and Transfers	Reductions and Transfers	Balance June 30, 2014	Due Within One Year
Component Units					
Knoxville Utilities Board:					
Revenue bonds	$ 839,305,000	$ 50,000,000	$ 24,565,000	$ 864,740,000	$ 25,740,000
TVA conservation program	10,005,739	3,734,967	2,855,461	10,885,245	1,500,000
Compensated absences	8,267,550	14,261,664	14,053,402	8,475,812	3,000,000
Customer advances for construction	1,217,528	886,510	496,674	1,607,364	17,000
Other	506,818	475,259	725,953	256,124	35,000
Total Knoxville Utilities Board	859,302,635	69,358,400	42,696,490	885,964,545	30,292,000
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	79,850,000	-	695,000	79,155,000	4,155,000
Total Metropolitan Knoxville Airport Authority	79,850,000	-	695,000	79,155,000	4,155,000
Total component units	$ 939,152,635	$ 69,358,400	$ 43,391,490	$ 965,119,545	$ 34,447,000

Conduit Debt

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

The bonds were issued pursuant to a lease agreement between the Authority and Northwest Airlines, Inc. (“Northwest”) dated July 12, 2001, and subsequently amended. The proceeds of the bonds were used for the construction by Northwest of an aircraft maintenance hangar and related facilities to be leased by Northwest from the Authority under the lease agreement. Under the terms of the lease agreement, Delta Air Lines, formerly 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 Delta Air Lines, are the only security for the bondholders. The entire amount of the bonds was outstanding at June 30, 2014.

NOTE 10 - LEASES

Primary Government

The City was committed to semiannual payments to the Public Building Authority for rental of the City-County Building. The lease expired during 2001 and the City is renting the space on a month-to month basis until a new lease is established. Total rental payments for the year ending June 30, 2014 were $1,205,340.

Component Units

The Knoxville Utilities Board has non-cancelable operating lease commitments for office equipment and vehicles 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:

	Amount
2015	$56,954
2016	20,544
2017	2,142
Total	$79,640

NOTE 11 - FUND BALANCES

Detail fund balances are as follows:

				Special Revenue Funds		
	General Fund	Debt Service Fund	Capital Projects Fund	Miscellaneous Community Development Fund	Other Funds	Total
Fund Balances:						
Nonspendable:						
Inventory	$ 323,900	$ -	$ -	$ 18,699	$ 29,925	$ 372,524
Prepaids	240	-	-	-	-	240
Permanent Fund Principal	-	-	-	-	624,065	624,065
Restricted for:						
Debt Service Reserves	-	48,855,587	-	-	-	48,855,587
Street Improvements	-	-	-	-	2,975,918	2,975,918
Community Development	-	-	-	1,295,904	8,065	1,303,969
Law Enforcement	-	-	-	-	4,921,013	4,921,013
Parks & Recreation	-	-	-	-	212,220	212,220
Solid Waste Operations	-	-	-	-	4,798,547	4,798,547
Krutch Park	-	-	-	-	302,615	302,615
Committed to:						
Economic Stabilization	40,100,512	-	-	-	-	40,100,512
Other Capital Projects	-	-	81,245,508	-	-	81,245,508
Abandoned Vehicle Operations	-	-	-	-	1,449,339	1,449,339
City Inspections Operations	-	-	-	-	417,458	417,458
City Court Operations	-	-	-	-	1,052,759	1,052,759
Animal Control Operations	-	-	-	-	549,010	549,010
Beer Board	-	-	-	-	137,520	137,520
Finance & Accountability	131,498	-	-	-	-	131,498
Law Enforcement	-	-	-	-	3,643,576	3,643,576
Safety City	-	-	-	-	1,126,314	1,126,314
Storm Water Operations	-	-	-	-	962,046	962,046
Community Development	-	-	-	-	2,597,847	2,597,847
Assigned to:						
Administration	82,718	-	-	-	-	82,718
Appropriated Fund Balance	2,004,600	-	-	-	-	2,004,600
Community Development	332,754	-	-	-	-	332,754
Parks & Recreation	61,663	-	-	-	-	61,663
Unassigned	27,957,747	-	-	-	-	27,957,747
Total Fund Balances	$70,995,632	$48,855,587	$ 81,245,508	$ 1,314,603	$ 25,808,237	$ 228,219,567

NOTE 12 - RISK MANAGEMENT

Primary Government

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

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

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

Health Insurance Fund

On January 1, 2008, the City elected to self-insure its health insurance coverage. Utilizing a third party administrator, the City has found that it is better able to control its expenses through exercising greater control over certain health costs. In addition, the City has utilized some of the funding to promote wellness programs aimed at improving the overall health of those covered by the health plan. End of year reserves of $2.5 million were considered adequate to cover any costs incurred but not reported as of year-end.

	2014	2013
Claims liability, beginning of year	$ 1,000,000	$ 1,000,000
Provision for incurred claims	10,440,628	9,805,970
Payments made on claims	(8,940,628)	(9,805,970)
Claims liability, end of year	$ 2,500,000	$ 1,000,000

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of $17,600,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities as of June 30, 2014.

An analysis of claims activity for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Claims liability, beginning of year	$ 12,200,000	$ 10,600,000
Provision for incurred claims	9,527,971	4,840,907
Payments made on claims	(4,127,971)	(3,240,907)
Claims liability, end of year	$ 17,600,000	$ 12,200,000

NOTE 12 - RISK MANAGEMENT - Continued

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2014, 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 $5.1 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, 2014, the amount of these liabilities was $1,572,570. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Claims liability, beginning of year	$ 1,733,984	$ 1,827,920
Provision for incurred claims	12,105,053	12,256,762
Payments made on claims	(12,266,467)	(12,350,698)
Claims liability, end of year	$ 1,572,570	$ 1,733,984

Metropolitan Knoxville Airport Authority

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

NOTE 13 - JOINT VENTURES

Public Building Authority

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

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

Knoxville, Knox County, KUB Geographic Information Systems

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

Knoxville-Knox County Animal Center

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

NOTE 14 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

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

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

NOTE 14 - MANAGEMENT AGREEMENTS - Continued

Parking Garages - The City entered into an agreement with the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) on August 11, 2005 to manage and operate the State Street, Main Avenue, and Market Square Parking Garages and 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 15 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal Financial Assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2014 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, 2014:

	Spent to Date	Contractual Commitment Remaining at June 30, 2014
Bridge Maintenance Program	$ 900,196	$ 1,372,593
Drainage Improvements	919,638	4,084,017
Information systems Upgrades	233,868	381,223
Miscellaneous Equipment Acquisition	1,122,049	4,540
New Facilities & Renovation	2,480,547	287,549
Parks Improvements	3,577,958	2,347,515
Paving Program	6,741,322	3,690,712
Redevelopment Program	4,729,580	1,661,492
Roadway Improvements	3,712,199	2,748,314
Sidewalk Improvements	835,285	203,768
South Knoxville Waterfront	575,140	3,666,188
Traffice Improvements	493,858	1,458,550
Total	$ 26,321,640	$ 21,906,461

NOTE 15 - COMMITMENTS AND CONTINGENCIES - Continued

Component units

Knoxville Utilities Board

Purchased Gas Adjustments - In November 1990, KUB implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by KUB's Board of Commissioners. The rate-setting authority vested in the KUB Board by the City Charter meets the "self-regulated" provisions of 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 over-recovered costs was $1,278,144 at June 30, 2014.

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 and 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.

Under the PPA mechanism, the Division tracks the actual (under)/over recovered amount in the (under)/over recovered Purchased Power Costs accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any (under)/over recovered amounts are promptly passed on to the Division's customers. The amount of over recovered cost was $4,412,769 at June 30, 2014 and 4,927,581 at June 30, 2013.

Natural Gas Supply Contract Commitments - For the year ended June 30, 2014, the Gas Division of the Knoxville Utilities Board hedged 53% of its total gas purchases via gas supply contracts. As of June 30, 2014, the Gas Division had hedged the price on approximately 11% of its anticipated gas purchases for fiscal year 2015.

NOTE 15 - COMMITMENTS AND CONTINGENCIES - Continued

The Knoxville Utilities Board contracts separately for the purchase, transportation and storage of natural gas. Purchase commitments for the next five years are as follows:

	2015	2016	2017	2018	2019
Demand:					
Transportation	$ 17,294,624	$ 5,764,875	$ -	$ -	$ -
Storage	4,687,928	2,798,763	1,531,650	564,060	423,045
Demand total	$ 21,982,552	$ 8,563,638	$ 1,531,650	$ 564,060	$ 423,045
Commodity:					
Baseload	$ 11,299,792	$ 3,519,055	$ -	$ -	$ -

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 and Equitable contracts are based upon firm supply obligations and the applicable four month New York Mercantile Exchange ("NYMEX") strip prices at July 31, 2014.

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 June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. 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'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, 2014, 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.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

NOTE 16 - 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 $3,595,076 in aviation area revenue during 2014. 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 86% of total passengers during 2014. As of June 30, 2014, 76% of trade accounts receivable are due from these major airlines.

NOTE 17 - TRANSFERS

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

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

NOTE 17 – TRANSFERS - Continued

	Transfers From:														
	Governmental Activities										Business-type Activities	Internal Service Funds			
Transfers To:	General Fund	Debt Service	Capital Projects	State Street Aid	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Miscellaneous Special Revenue Grants	Solid Waste	Public Assembly Facilities	Risk Management	Health Insurance	City Buildings	Total
Primary Government:															
Governmental Activities:															
General Fund	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,329,170	$ 11,871	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,341,041
Capital Projects Fund	7,384,000	15,430,000	-	760,000	175,000	-	-	-	2,006,530	300,000	-	-	-	-	26,055,530
City Inspections	900,110	-	-	-	-	-	-	-	-	-	-	-	-	-	900,110
Miscellaneous Special Revenue Grants	-	-	350,059	-	-	-	-	-	-	-	-	-	-	-	350,059
Miscellaneous Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Storm Water	2,855,890	-	-	-	-	-	-	-	-	-	-	-	-	-	2,855,890
Solid Waste	9,479,650	-	-	-	-	-	-	-	-	-	-	-	-	-	9,479,650
Business-type Activities:															
Metro Parking	125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	125,000
Convention Center	4,665,466	-	-	-	-	-	-	-	-	-	-	-	-	1,237,181	5,902,647
Public Assembly Facilities	2,424,460	-	-	-	-	-	-	-	-	-	-	-	-	-	2,424,460
City Golf Courses	164,230	-	17,305	-	-	-	-	-	-	-	-	-	-	-	181,535
Internal Service Funds:															
Fleet Maintenance	60,000	42,000	-	-	-	-	-	-	-	-	20,000	-	-	-	122,000
Risk Management	549,140	-	-	-	-	-	-	-	-	-	-	-	-	-	549,140
Health Insurance	995,033	-	-	-	-	-	-	-	-	-	-	-	-	-	995,033
Equipment Replacement	558,400	60,000	270	-	-	1,421	-	1,420	1,421	-	1,240	3,220	3,209	-	630,601
	$ 30,161,379	$ 15,532,000	$ 367,634	$ 760,000	$ 175,000	$ 1,421	$ 2,329,170	$ 13,291	$ 2,007,951	$ 300,000	$ 21,240	$ 3,220	$ 3,209	$ 1,237,181	$ 52,912,696

NOTE 18 - RETIREMENT AND DISABILITY PLANS

Defined Benefit Pension Plans

City of Knoxville Pension System

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

NOTE 18 - 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 $1,450,000 for 2014.

At July 1, 2014 the Plan had 2,116 retirees and beneficiaries currently receiving benefits, 46 employees currently participating in the Delayed Retirement Option Program (DROP) and 88 deferred vested participants. Of the approximately 1,517 active employees in the Plan, 1,144 were fully vested at July 1, 2014. 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. The City of Knoxville Pension System (System) has adopted the provisions of GASB Statement No. 67, Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25, which is effective in fiscal year 2014. The new financial reporting requirements under GASB No. 67 are contained in the System's separate report, which can be obtained as noted above. The City will adopt employer financial reporting requirements for the Plan, as required by GASB Statement No. 68, in fiscal year 2015, as further described in Note 1.

Annual Pension Costs

Employer contributions represent a percentage of the monthly earnings of Plan members based on an actuarial valuation. The recommended contributions are determined using the entry age normal funding method. Unfunded actuarial accrued liabilities are being amortized (level dollar, closed) over a thirty year period of which 23 remain as of July 1, 2014. Projected covered payroll for the years beginning on July 1, 2014 and 2013 (without Board of Education amounts) amounted to approximately $69,852,912 and $67,782,302, respectively.

Funded Status

The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of July 1, 2014, the most recent actuarial valuation date, the plan was 75.68% funded. The actuarial accrued liability for benefits was $703.0 million, and the actuarial value of assets was $532.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $171.0 million. The covered payroll (annual payroll of active employees covered by the plan) was $69.9 million, and the ratio of the UAAL to the covered payroll was 244.8%.

NOTE 18 - 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, 2014, 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, 2014 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.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$20,682,720	101%	$(3,282,734)
June 30, 2014	13,420,853	101%	(3,114,962)
June 30, 2012	11,386,903	101%	(3,044,099)

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

	Plans A, B, G and H	Plans C and F
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, 2014:

Determination of Annual Pension Cost / Net Pension Obligation for 2014

Annual required contribution (with interest to middle of year)	$ 20,631,828
Interest on net pension obligation	(229,728)
Adjustment to annual required contribution	280,620
Annual pension cost	20,682,720
Contributions made	(20,850,492)
Increase in net pension obligation	(167,772)
Net pension (asset) obligation beginning of year	(3,114,962)
Net pension (asset) obligation end of year	$(3,282,734)

NOTE 18 - 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, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. 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.

NOTE 18 - 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, 2013, a contribution of $6,314,399 is required to be made in the Plan sponsor's fiscal year ending June 30, 2015. The annual required contribution was determined as part of the January 1, 2013 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, 2013, the Plan's actuarial funded ratio was 89.3%.

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, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, are required to be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in a recommended contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6%. 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.

NOTE 18 - 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 $770,880 in 2014.

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 $380,766 in 2014. Employee contributions totaled $509,673 in 2014.

NOTE 18 - 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 $93,540 in 2014.

NOTE 19 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) has established 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, 2014, the City and the retirees contributed $454,250 and $754,552, respectively.

NOTE 19 - 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, 2014, the City's annual OPEB cost of $1,208,802 was equal to the required contribution. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$1,208,802	100%	$ -
June 30, 2013	1,210,950	100%	-
June 30, 2012	1,341,716	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 $14.8 million. Since there are no plan assets, the unfunded actuarial accrued liability is $14.8 million. The covered payroll was $71.4 million and the ratio of the UAAL to covered payroll is 20.8%.

Actuarial Valuations, Methods and Assumptions

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

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

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

In the July 1, 2013 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, 2014 was 30 years.

Component Units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 604 former employees and 619 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, 2014, 399 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, and be enrolled in medical coverage on their last day.

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 Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017

The 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, 2014 were $4.1 million. The contribution to the Trust exceeded the annual required contribution (ARC), as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3.3 million. As of June 30, 2014, the employer OPEB obligation has been exceeded by $177,322.

The ARC for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3.5 million.

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46.9 million. The actuarial value of the Plan's assets was $43.4 million. As a result, the Plan's unfunded actuarial accrued liability was $3.5 million.

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

The Plan's actuarial funded ratio was 93%. The valuation also determined that the employer's ARC is $953,221 for the fiscal year ending June 30, 2016. See Required Supplementary Information for OPEB Schedule of Funding Progress.

Metropolitan Knoxville Airport Authority and Knoxville Area Transit

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

NOTE 20 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	$11,887,645
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	14,646,323
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	2,255,362
Subsidies paid by the City to Knoxville Area Transit	9,288,368

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CITY OF KNOXVILLE, TENNESSEE

Required Supplementary Information
June 30, 2014

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, 2014	$ 532,054,261	$ 703,025,179	$ 170,970,918	75.7%	$ 69,852,912	244.8%
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%

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

Valuation Date	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%

Note: The City obtains an actuarial study on OPEB liability every two years, therefore 2013 is the most current information available.

Schedule of Employer Contributions - City of Knoxville Other Postemployment Benefits Plan

Unaudited - See Accompanying Auditor's Report

Year Ended	Annual OPEB Cost	Annual Required Contribution	Percentage Contributed
June 30, 2014	$ 1,208,802	$ 1,208,802	100.0%
June 30, 2013	1,210,950	1,210,950	100.0%
June 30, 2012	1,341,716	1,341,716	100.0%
June 30, 2011	1,317,879	1,317,879	100.0%
June 30, 2010	1,413,425	1,413,425	100.0%
June 30, 2009	1,582,785	1,582,785	100.0%

CITY OF KNOXVILLE, TENNESSEE

Required Supplementary Information
June 30, 2014

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)
January 1, 2014	$ 188,770,336	$ 199,515,466	$ 10,745,130	94.6%	$ 47,107,350	22.8%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.4%
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.7%
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	-17.8%
January 1, 2010	203,704,898	190,679,453	(13,025,445)	106.8%	48,228,428	-27.0%

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, 2014	$ 43,409,955	$ 46,889,808	3,479,853	92.6%	$ 26,724,154	13.0%
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.

CITY OF KNOXVILLE, TENNESSEE

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds					
Assets	**State Street Aid**	**Community Development Block Grants**	**Abandoned Vehicles**	**City Inspections**	**City Court**	**Miscellaneous Grants**
Cash & cash equivalents	$ -	$ 158,470	$ 289	$ 325	$ 870,911	$ 148,985
Investments	2,467,920	-	1,479,633	478,878	169,544	-
Accounts receivable	838,766	11,753	1,669	9,237	32,090	701,319
Notes receivable	-	2,898,057	-	-	-	-
Inventories	-	29,925	-	-	-	-
Due from other funds	-	-	-	-	85,000	-
Due from governmental agencies	-	-	-	-	-	178,565
Total assets	$ 3,306,686	$ 3,098,205	$ 1,481,591	$ 488,440	$ 1,157,545	$ 1,028,869
Liabilities						
Accounts payable	$ 330,767	$ 100,499	$ 21,790	$ 3,086	$ 87,332	$ 213,833
Accrued liabilities	-	14,855	9,461	60,898	17,454	6,707
Customer deposits	-	34,973	-	-	-	-
Due to other funds	-	-	1,000	7,000	-	677,000
Due to component unit	-	-	-	-	-	-
Due to other governmental agencies	-	-	-	-	-	-
Total liabilities	330,767	150,327	32,251	70,984	104,786	897,540
Deferred inflows of resources						
Unavailable revenue - other	-	2,917,953	-	-	-	1,318
Total deferred inflows of resources	-	2,917,953	-	-	-	1,318
Fund balances						
Non-spendable	-	29,925	-	-	-	-
Restricted	2,975,919	-	-	-	-	130,011
Committed	-	-	1,449,340	417,456	1,052,759	-
Total fund balances	2,975,919	29,925	1,449,340	417,456	1,052,759	130,011
Total liabilities, deferred inflows of resources and fund balances	$ 3,306,686	$ 3,098,205	$ 1,481,591	$ 488,440	$ 1,157,545	$ 1,028,869

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
$ -	$ 393,700	$ 234,061	$ 627	$ -	$ 1,807,368	$ 274,469	$ 2,081,837
548,848	9,873,228	788,502	5,232,911	2,597,847	23,637,311	656,396	24,293,707
162	147,641	1,461	21,297	-	1,765,395	1,001	1,766,396
-	-	-	-	-	2,898,057	-	2,898,057
-	-	-	-	-	29,925	-	29,925
-	-	-	-	-	85,000	-	85,000
-	-	-	-	-	178,565	-	178,565
$ 549,010	$ 10,414,569	$ 1,024,024	$ 5,254,835	$ 2,597,847	$ 30,401,621	$ 931,866	$ 31,333,487
$ -	$ 67,432	$ 2,835	$ 373,568	$ -	$ 1,201,142	$ 5,185	$ 1,206,327
-	10,308	53,116	15,722	-	188,521	-	188,521
-	356,827	-	-	-	391,800	-	391,800
-	35,000	6,030	67,000	-	793,030	-	793,030
-	15,000	-	-	-	15,000	-	15,000
-	11,301	-	-	-	11,301	-	11,301
-	495,868	61,981	456,290	-	2,600,794	5,185	2,605,979
-	-	-	-	-	2,919,271	-	2,919,271
-	-	-	-	-	2,919,271	-	2,919,271
-	-	-	-	-	29,925	624,065	653,990
-	5,011,287	-	4,798,545	-	12,915,762	302,616	13,218,378
549,010	4,907,414	962,043	-	2,597,847	11,935,869	-	11,935,869
549,010	9,918,701	962,043	4,798,545	2,597,847	24,881,556	926,681	25,808,237
$ 549,010	$ 10,414,569	$ 1,024,024	$ 5,254,835	$ 2,597,847	$ 30,401,621	$ 931,866	$ 31,333,487

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, 2014

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Revenues						
Taxes, assessments, interest & penalties	$ 4,627,842	$ -	$ -	$ -	$ 484,913	$ -
Licenses, permits & inspection charges	-	-	-	1,687,767	-	-
Intergovernmental	-	1,424,596	-	-	-	1,826,476
Charges for services	-	-	347,860	-	1,583,717	-
Fines & forfeitures	-	-	-	-	1,164,023	-
Other	2,352	293,626	274,202	2,537	14,900	247
Total revenues	4,630,194	1,718,222	622,062	1,690,304	3,247,553	1,826,723
Expenditures						
Current:						
Administration	-	-	-	-	-	-
Finance	-	-	-	-	-	-
Community Development	-	1,718,222	-	-	-	-
Parks and Recreation	-	-	-	-	-	-
Engineering	3,977,538	-	763,542	-	-	78,788
Public Services	-	-	-	2,423,524	-	259,787
Law	-	-	-	-	957,217	-
Police	-	-	-	-	-	1,342,956
Fire	-	-	-	-	-	224,276
Total expenditures	3,977,538	1,718,222	763,542	2,423,524	957,217	1,905,807
Excess (deficiency) of revenues over (under) expenditures	652,656	-	(141,480)	(733,220)	2,290,336	(79,084)
Other financing sources (uses)						
Transfers in	-	-	-	900,110	-	-
Transfers out	(760,000)	-	(175,000)	(1,421)	(2,329,170)	(13,291)
Total other financing sources (uses)	(760,000)	-	(175,000)	898,689	(2,329,170)	(13,291)
Net changes in fund balances	(107,344)	-	(316,480)	165,469	(38,834)	(92,375)
Fund balances - beginning	3,083,263	29,925	1,765,820	251,987	1,091,593	222,386
Fund balances - ending	$ 2,975,919	$ 29,925	$ 1,449,340	$ 417,456	$ 1,052,759	$ 130,011

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
$ -	$ -	$ -	$ -	$ -	$ 5,112,755	$ -	$ 5,112,755
-	-	-	-	-	1,687,767	-	1,687,767
-	215,825	-	-	-	3,466,897	-	3,466,897
35,765	256,262	162,831	1,093,632	199,998	3,680,065	-	3,680,065
-	1,439,486	-	-	-	2,603,509	-	2,603,509
480	154,038	580	178,565	2,341	923,868	65,141	989,009
36,245	2,065,611	163,411	1,272,197	202,339	17,474,861	65,141	17,540,002
-	6,993	-	-	-	6,993	-	6,993
-	-	-	-	199,998	199,998	-	199,998
-	-	-	-	-	1,718,222	-	1,718,222
-	-	-	-	-	-	5,185	5,185
-	-	2,750,539	-	-	7,570,407	-	7,570,407
11,391	76,612	-	10,489,540	-	13,260,854	-	13,260,854
-	-	-	-	-	957,217	-	957,217
-	1,077,678	-	-	-	2,420,634	-	2,420,634
-	2,524	-	-	-	226,800	-	226,800
11,391	1,163,807	2,750,539	10,489,540	199,998	26,361,125	5,185	26,366,310
24,854	901,804	(2,587,128)	(9,217,343)	2,341	(8,886,264)	59,956	(8,826,308)
-	350,059	2,855,890	9,479,650	-	13,585,709	-	13,585,709
-	(2,007,951)	-	(300,000)	-	(5,586,833)	-	(5,586,833)
-	(1,657,892)	2,855,890	9,179,650	-	7,998,876	-	7,998,876
24,854	(756,088)	268,762	(37,693)	2,341	(887,388)	59,956	(827,432)
524,156	10,674,789	693,281	4,836,238	2,595,506	25,768,944	866,725	26,635,669
$ 549,010	$ 9,918,701	$ 962,043	$ 4,798,545	$ 2,597,847	$ 24,881,556	$ 926,681	$ 25,808,237

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Taxes, assessments, interest & penalties	$ 4,600,000	$ 4,600,000	$ 4,627,842	$ 27,842
Other	3,000	153,000	2,352	(150,648)
Total revenues	4,603,000	4,753,000	4,630,194	(122,806)
Expenditures				
Current:				
Engineering	3,843,000	3,993,000	3,977,538	15,462
Total expenditures	3,843,000	3,993,000	3,977,538	15,462
Excess (deficiency) of revenues over (under) expenditures	760,000	760,000	652,656	(107,344)
Other financing sources (uses)				
Transfers out	(760,000)	(760,000)	(760,000)	-
Total other financing sources (uses)	(760,000)	(760,000)	(760,000)	-
Net change in fund balances	$ -	$ -	(107,344)	$ (107,344)
Fund balance - beginning			3,083,263	
Fund balance - ending			$ 2,975,919	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 1,483,870	$ 1,483,870	$ 1,424,596	$ (59,274)
Other	150,000	238,358	293,626	55,268
Total revenues	1,633,870	1,722,228	1,718,222	(4,006)
Expenditures:				
Current:				
Community Development	1,633,870	1,722,228	1,718,222	4,006
Total expenditures	1,633,870	1,722,228	1,718,222	4,006
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Net changes in fund balances	$ -	$ -	-	$ -
Fund balances - beginning			29,925	
Fund balances - ending			$ 29,925	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Charges for services:	$ 430,000	$ 430,000	$ 347,860	$ (82,140)
Other	600,660	600,660	274,202	(326,458)
Total revenues	1,030,660	1,030,660	622,062	(408,598)
Expenditures				
Current:				
Engineering	855,660	855,660	763,542	92,118
Total expenditures	855,660	855,660	763,542	92,118
Excess (deficiency) of revenues over (under) expenditures	175,000	175,000	(141,480)	(316,480)
Other financing sources (uses)				
Transfers out	(175,000)	(175,000)	(175,000)	-
Net changes in fund balances	$ -	$ -	(316,480)	$ (316,480)
Fund balance - beginning			1,765,820	
Fund balance - ending			$ 1,449,340	

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, 2014

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Licenses, permits & inspection charges	$ 1,561,930	$ 1,561,930	$ 1,687,767	$ 125,837
Other	600	600	2,537	1,937
Total revenues	1,562,530	1,562,530	1,690,304	127,774
Expenditures				
Current:				
Public Services	2,462,640	2,461,190	2,423,524	37,666
Total expenditures	2,462,640	2,461,190	2,423,524	37,666
Excess (deficiency) of revenues over (under) expenditures	(900,110)	(898,660)	(733,220)	165,440
Other financing sources (uses)				
Transfers in	900,110	900,110	900,110	-
Transfers out	-	(1,450)	(1,421)	29
Net change in fund balances	$ -	$ -	165,469	$ 165,440
Fund balance - beginning			251,987	
Fund balance - ending			$ 417,456	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenue				
Taxes, assessments, interest & penalties	$ 662,820	$ 662,820	$ 484,913	$ (177,907)
Charges for services	2,152,480	2,152,480	1,583,717	(568,763)
Fines & forfeitures	1,471,650	1,471,650	1,164,023	(307,627)
Other	19,400	113,143	14,900	(98,243)
Total revenues	4,306,350	4,400,093	3,247,553	(1,152,540)
Expenditures				
Current:				
Law	1,022,180	1,115,923	957,217	158,706
Total expenditures	1,022,180	1,115,923	957,217	158,706
Excess (deficiency) of revenues over (under) expenditures	3,284,170	3,284,170	2,290,336	(993,834)
Other financing sources (uses)				
Transfers out	(3,284,170)	(3,284,170)	(2,329,170)	955,000
Total other financing sources (uses)	(3,284,170)	(3,284,170)	(2,329,170)	955,000
Net changes in fund balance	$ -	$ -	(38,834)	$ (38,834)
Fund balance - beginning			1,091,593	
Fund balance - ending			$ 1,052,759	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 45,000	$ 45,000	$ 35,765	$ (9,235)
Other	700	700	480	(220)
Total revenues	45,700	45,700	36,245	(9,455)
Expenditures				
Current:				
Public services	45,700	45,700	11,391	34,309
Total expenditures	45,700	45,700	11,391	34,309
Excess (deficiency) of revenues over (under) expenditures	-	-	24,854	24,854
Net change in fund balances	$ -	$ -	24,854	$ 24,854
Fund balances - beginning			524,156	
Fund balances - ending			$ 549,010	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 17,000	$ 17,000	$ 215,825	$ 198,825
Charges for services	388,800	385,500	256,262	(129,238)
Fines & forfeitures	1,809,300	1,809,300	1,439,486	(369,814)
Other	1,679,800	1,864,050	154,038	(1,710,012)
Total revenues	3,894,900	4,075,850	2,065,611	(2,010,239)
Expenditures				
Current:				
Administration	-	10,000	6,993	3,007
Public services	86,910	86,910	76,612	10,298
Police	1,785,960	1,954,980	1,077,678	877,302
Fire	15,500	16,000	2,524	13,476
Total expenditures	1,888,370	2,067,890	1,163,807	904,083
Excess (deficiency) of revenues over (under) expenditures	2,006,530	2,007,960	901,804	(1,106,156)
Other financing sources (uses)				
Transfers in	-	-	350,059	350,059
Transfers out	(2,006,530)	(2,007,960)	(2,007,951)	9
Total other financing sources (uses)	(2,006,530)	(2,007,960)	(1,657,892)	350,068
Net change in fund balances	$ -	$ -	(756,088)	$ (756,088)
Fund balances - beginning			10,674,789	
Fund balances - ending			$ 9,918,701	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 94,500	$ 94,500	$ 162,831	$ 68,331
Other	41,500	49,414	580	(48,834)
Total revenues	136,000	143,914	163,411	19,497
Expenditures				
Current:				
Engineering	2,991,890	2,999,804	2,750,539	249,265
Total expenditures	2,991,890	2,999,804	2,750,539	249,265
Excess (deficiency) of revenues over (under) expenditures	(2,855,890)	(2,855,890)	(2,587,128)	268,762
Other financing sources (uses)				
Transfers in	2,855,890	2,855,890	2,855,890	-
Total other financing sources (uses)	2,855,890	2,855,890	2,855,890	-
Net changes in fund balances	$ -	$ -	268,762	$ 268,762
Fund balance - beginning			693,281	
Fund balance - ending			$ 962,043	

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	$ 871,000	$ 871,000	$ 1,093,632	$ 222,632
Other	562,000	580,500	178,565	(401,935)
Total revenues	1,433,000	1,451,500	1,272,197	(179,303)
Expenditures				
Current:				
Public Services	10,612,650	10,631,150	10,489,540	141,610
Total expenditures	10,612,650	10,631,150	10,489,540	141,610
Excess (deficiency) of revenues over (under) expenditures	(9,179,650)	(9,179,650)	(9,217,343)	(37,693)
Other financing sources (uses)				
Transfers in	9,479,650	9,479,650	9,479,650	-
Transfers out	(300,000)	(300,000)	(300,000)	-
Total other financing sources (uses)	9,179,650	9,179,650	9,179,650	-
Net changes in fund balances	$ -	$ -	(37,693)	$ (37,693)
Fund balance - beginning			4,836,238	
Fund balance - ending			$ 4,798,545	

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2014

Assets		
Cash & cash equivalents	$	826
Investments		50,054,346
Accounts receivable		245,190
Taxes receivable		27,667,537
Notes receivable		1,136,300
Total assets	$	79,104,199
Liabilities		
Due to other funds	$	2,809,000
Total liabilities		2,809,000
Deferred inflows of resources		
Unavailable revenue - property taxes		27,439,612
Total deferred inflows of resources		27,439,612
Fund balances		
Restricted		48,855,587
Total fund balance		48,855,587
Total liabilities, deferred inflows of resources and fund balance	$	79,104,199

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, 2014

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Taxes, assessments, interest & penalties	$ 23,657,360	$ 23,657,360	$ 23,918,053	$ 260,693
Other	686,150	686,150	672,478	(13,672)
Total revenues	24,343,510	24,343,510	24,590,531	247,021
Expenditures				
Current:				
Debt service:				
Principal retirement	6,571,100	6,571,100	5,291,100	1,280,000
Interest payments on bonds & notes	2,216,980	2,216,980	1,744,678	472,302
Refunding bonds issuance costs	23,430	23,430	-	23,430
Total expenditures	8,811,510	8,811,510	7,035,778	1,775,732
Excess (deficiency) of revenues over (under) expenditures	15,532,000	15,532,000	17,554,753	2,022,753
Other financing sources (uses)				
Transfers out	(15,532,000)	(15,532,000)	(15,532,000)	-
Total other financing sources (uses)	(15,532,000)	(15,532,000)	(15,532,000)	-
Net changes in fund balances	$ -	$ -	2,022,753	$ 2,022,753
Fund balance - beginning			46,832,834	
Fund balance - ending			$ 48,855,587	

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

CITY OF KNOXVILLE, TENNESSEE

BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2014

Assets		
Cash & cash equivalents	$	1,198,976
Investments		81,237,019
Accounts receivable		2,397,013
Inventory		206,898
Prepaids		300
Due from other funds		2,199,000
Due from component units		-
Total assets	$	87,239,206
Liabilities		
Accounts payable	$	2,162,373
Accrued liabilities		871,674
Due to other funds		386,000
Due to other governmental agencies		8,824
Total liabilities		3,428,871
Deferred inflows of resources		
Unavailable revenue - other		2,564,827
Total deferred inflows of resources		2,564,827
Fund balance		
Committed		81,245,508
Total fund balance		81,245,508
Total liabilities, deferred inflows of resources and fund balance	$	87,239,206

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, 2014

	Actual		Total	Project	Variance With
	Prior Years	Current Year	to Date	Authorization	Final Budget
Revenues					
Intergovernmental	$ 7,225,671	$ 2,021,243	$ 9,246,914	$ 38,459,295	$ (29,212,381)
Other	12,844,946	2,630,238	15,475,184	9,258,386	6,216,798
Total revenues	20,070,617	4,651,481	24,722,098	47,717,681	(22,995,583)
Expenditures					
Current:					
Capital & grant projects	115,940,049	25,892,356	141,832,405	228,459,517	(86,627,112)
Total expenditures	115,940,049	25,892,356	141,832,405	228,459,517	(86,627,112)
Excess (deficiency) of revenues over (under) expenditures	(95,869,432)	(21,240,875)	(117,110,307)	(180,741,836)	63,631,529
Other financing sources (uses)					
Transfer in	104,707,845	26,055,530	130,763,375	180,741,836	(49,978,461)
Transfers out	(3,031,724)	(367,634)	(3,399,358)	-	(3,399,358)
Total other financing sources (uses)	101,676,121	25,687,896	127,364,017	180,741,836	(53,377,819)
Net changes in fund balance	$ 5,806,689	4,447,021	$ 10,253,710	$ -	$ 10,253,710
Fund balance - beginning		76,798,487			
Fund balance - ending		$ 81,245,508			

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, 2014

Assets	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Current assets				
Cash & temporary investments	$ 786,134	$ 187,749	$ 344,648	$ 1,318,531
Investments	1,682,303	9,201,362	-	10,883,665
Accounts receivable	228,088	8,507	6,960	243,555
Due from component unit	400,000	-	-	400,000
Inventories	-	-	35,242	35,242
Prepaid items	-	-	23,057	23,057
Total current assets	3,096,525	9,397,618	409,907	12,904,050
Noncurrent assets				
Land & site improvements	2,079,796	1,831,368	473,119	4,384,283
Building & building improvements	28,495,338	21,288,867	11,011	49,795,216
Equipment	4,450	2,294,030	553,712	2,852,192
Construction in progress	-	129,602	-	129,602
Less: accumulated depreciation	(13,324,902)	(17,401,812)	(488,761)	(31,215,475)
Total capital assets (net of accumulated depreciation)	17,254,682	8,142,055	549,081	25,945,818
Equity interest in joint venture	730,566	-	-	730,566
Total noncurrent assets	17,985,248	8,142,055	549,081	26,676,384
Total assets	21,081,773	17,539,673	958,988	39,580,434
Liabilities				
Current liabilities				
Accounts payable	13,491	157,560	89,330	260,381
Accrued liabilities	-	37,702	-	37,702
Customer deposits	-	103,465	-	103,465
Due to other funds	-	650,000	-	650,000
Compensated absences	-	169,100	-	169,100
Long-term debt due within one year	-	-	-	-
Total current liabilities	13,491	1,117,827	89,330	1,220,648
Total liabilities	13,491	1,117,827	89,330	1,220,648
Net position				
Net investment in capital assets	17,254,682	8,142,055	549,081	25,945,818
Unrestricted	3,813,600	8,279,791	320,577	12,413,968
Total net position	$ 21,068,282	$ 16,421,846	$ 869,658	$ 38,359,786

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, 2014

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	$ 1,546,009	$ 1,944,737	$1,317,457	$ 4,808,203
Total operating revenues	1,546,009	1,944,737	1,317,457	4,808,203
Operating expenses				
Personal services	-	2,145,718	-	2,145,718
Materials & supplies	-	175,524	4,800	180,324
Maintenance	-	1,153,877	-	1,153,877
Depreciation & amortization	678,629	586,262	21,436	1,286,327
Other services & charges	4,014,643	1,689,449	1,400,628	7,104,720
Total operating expenses	4,693,272	5,750,830	1,426,864	11,870,966
Operating income (loss)	(3,147,263)	(3,806,093)	(109,407)	(7,062,763)
Nonoperating revenue (expense)				
Interest income	3,955	8,151	-	12,106
Intergovernmental revenue	-	302,372	-	302,372
Other revenues	500	6,944	21,945	29,389
Interest expense	-	-	(70)	(70)
Total nonoperating revenue (expense)	4,455	317,467	21,875	343,797
Income (loss) before transfers and capital contributions	(3,142,808)	(3,488,626)	(87,532)	(6,718,966)
Transfers in	125,000	2,424,460	181,535	2,730,995
Transfers out	-	(21,240)	-	(21,240)
Change in net position	(3,017,808)	(1,085,406)	94,003	(4,009,211)
Fund balances - beginning	24,086,090	17,507,252	775,655	42,368,997
Fund balances - ending	$ 21,068,282	$ 16,421,846	$ 869,658	$ 38,359,786

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, 2014

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating activities				
Cash received from customers and users	$ 1,520,959	$ 1,962,521	$ 1,310,497	$ 4,793,977
Cash paid to suppliers	(6,273,252)	(3,255,479)	(1,425,999)	(10,954,730)
Cash paid to employees	-	(2,154,231)	-	(2,154,231)
Net cash provided by (used in) operating activities	(4,752,293)	(3,447,189)	(115,502)	(8,314,984)
Noncapital financing activities				
Transfers from other funds	(73,000)	3,424,460	136,535	3,487,995
Transfers to other funds	-	628,760	-	628,760
Tax and intergovernmental revenues	500	309,316	21,945	331,761
Net cash provided by (used in) noncapital financing activities	(72,500)	4,362,536	158,480	4,448,516
Capital and related financing activities				
Principal paid on general obligation bond maturities	-	-	(13,849)	(13,849)
Interest paid	-	-	(70)	(70)
Acquisition and construction of capital assets	(1,053,863)	(302,373)	-	(1,356,236)
Net cash provided by (used in) capital and related financing activities	(1,053,863)	(302,373)	(13,919)	(1,370,155)
Investing activities				
Sales/(purchases) of investments, net	3,217,126	(635,154)	-	2,581,972
Investment earnings	3,955	8,151	-	12,106
Land sold for redevelopment	2,500,840	-	-	2,500,840
Net change in equity investment in joint venture	94,655	-	-	94,655
Net cash provided by (used in) investing activities	5,816,576	(627,003)	-	5,189,573
Net increase (decrease) in cash and cash equivalents	(62,080)	(14,029)	29,059	(47,050)
Cash and cash equivalents				
Beginning of year	848,214	201,778	315,589	1,365,581
End of year	$ 786,134	$ 187,749	$ 344,648	$ 1,318,531

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

CITY OF KNOXVILLE, TENNESSEE

COMBINING STATEMENT OF CASH FLOWS - Continued
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ (3,147,263)	$ (3,806,093)	$ (109,407)	$ (7,062,763)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	678,629	586,262	21,436	1,286,327
Change in assets and liabilities				
(Increase) decrease in receivables	(25,050)	(859)	(6,960)	(32,869)
(Increase) decrease in prepayments	-	-	(17,986)	(17,986)
(Increase) decrease in inventories	275,705	-	(2,839)	272,866
Increase (decrease) in accounts payable	(2,534,314)	(236,629)	254	(2,770,689)
Increase (decrease) in accrued expenses	-	3,662	-	3,662
Increase (decrease) in compensated absences	-	(12,175)	-	(12,175)
Increase (decrease) in customer deposits	-	18,643	-	18,643
Total adjustments	(1,605,030)	358,904	(6,095)	(1,252,221)
Net cash provided by (used in) operating activities	$ (4,752,293)	$ (3,447,189)	$ (115,502)	$ (8,314,984)

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, 2014

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Assets						
Current assets						
Cash & temporary investments	$ 273,410	$ 1,666	$ 853	$ 525,107	$ 1,175,353	$ 1,976,389
Investments	37,180,372	29,789,289	14,266,391	17,005,539	-	98,241,591
Accounts receivable	23,527	4,958	-	3,276	-	31,761
Due from other funds	-	184,000	-	-	-	184,000
Due from component unit	-	1,331,000	-	-	-	1,331,000
Prepaids	-	-	-	1,149	-	1,149
Inventories	1,062,934	-	-	-	-	1,062,934
Total current assets	38,540,243	31,310,913	14,267,244	17,535,071	1,175,353	102,828,824
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	58,900,506	-	14,794	18,635,230	-	77,550,530
Construction in progress	664,000	-	-	-	-	664,000
Less: accumulated depreciation	(40,409,373)	-	(3,287)	(15,697,324)	-	(56,109,984)
Total capital assets (net of accumulated depreciation)	19,412,524	-	11,507	2,937,906	-	22,361,937
Equity interest in joint venture	-	-	-	-	2,321,560	2,321,560
Total noncurrent assets	19,412,524	-	11,507	2,937,906	2,321,560	24,683,497
Total assets	57,952,767	31,310,913	14,278,751	20,472,977	3,496,913	127,512,321
Liabilities						
Current liabilities						
Accounts payable	386,055	369,474	426,069	74,153	-	1,255,751
Accrued liabilities	57,359	11,096	2,507,129	-	-	2,575,584
Due to other funds	-	3,000	181,000	-	-	184,000
Compensated absences	114,373	50,406	5,510	-	-	170,289
Estimated claims liability	-	5,100,000	-	-	-	5,100,000
Total current liabilities	557,787	5,533,976	3,119,708	74,153	-	9,285,624
Noncurrent liabilities						
Estimated claims liability	-	12,500,000	-	-	-	12,500,000
Total noncurrent liabilities	-	12,500,000	-	-	-	12,500,000
Total liabilities	557,787	18,033,976	3,119,708	74,153	-	21,785,624
Net position						
Net investment in capital assets	19,412,524	-	11,507	2,937,906	-	22,361,937
Unrestricted	37,982,456	13,276,937	11,147,536	17,460,918	3,496,913	83,364,760
Total net position	$ 57,394,980	$ 13,276,937	$ 11,159,043	$ 20,398,824	$ 3,496,913	$ 105,726,697

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, 2014

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating revenues						
Charges for services	$ 14,284,293	$ 7,623,225	$16,876,629	$ 1,800,140	$ 1,660,240	$ 42,244,527
Total operating revenues	14,284,293	7,623,225	16,876,629	1,800,140	1,660,240	42,244,527
Operating expenses						
Personal services	2,370,449	807,445	423,903	-	-	3,601,797
Materials & supplies	1,965,760	17,288	21,907	22,514	-	2,027,469
Maintenance	458,329	1,094	-	-	-	459,423
Depreciation & amortization	4,628,140	-	986	1,497,059	-	6,126,185
Other services & charges	3,642,490	12,017,937	17,886,215	-	1,517,487	35,064,129
Total operating expenses	13,065,168	12,843,764	18,333,011	1,519,573	1,517,487	47,279,003
Operating income (loss)	1,219,125	(5,220,539)	(1,456,382)	280,567	142,753	(5,034,476)
Nonoperating revenue (expense)						
Interest income	93,139	(6,890)	11,413	20,457	95	118,214
Intergovernmental revenue	480,025	-	-	-	-	480,025
Other revenues	2,631	397,703	612,031	-	-	1,012,365
Gain (loss) on disposal of capital assets	346,321	-	-	1,014	-	347,335
Total nonoperating revenue (expense)	922,116	390,813	623,444	21,471	95	1,957,939
Income (loss) before transfers and capital contributions	2,141,241	(4,829,726)	(832,938)	302,038	142,848	(3,076,537)
Transfers in	122,000	549,140	995,033	630,601	-	2,296,774
Transfers out	-	(3,220)	(3,209)	-	(1,237,181)	(1,243,610)
Capital contributions	125,775	-	-	-	-	125,775
Change in net position	2,389,016	(4,283,806)	158,886	932,639	(1,094,333)	(1,897,598)
Total net position - beginning	55,005,964	17,560,743	11,000,157	19,466,185	4,591,246	107,624,295
Total net position - ending	$ 57,394,980	$ 13,276,937	$ 11,159,043	$ 20,398,824	$ 3,496,913	$ 105,726,697

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, 2014

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating activities						
Receipts from interfund services provided	$ 14,281,044	$ 8,355,137	$ 16,876,630	$ 1,823,473	$ 1,660,240	$ 42,996,524
Cash paid to suppliers	(5,649,133)	(18,382)	(658,641)	(23,663)	-	(6,349,819)
Cash paid to employees	(2,354,696)	(775,345)	(419,378)	-	-	(3,549,419)
Cash paid for interfund services used	(766,685)	-	-	-	(1,628,487)	(2,395,172)
Payments of claims and insurance	-	(6,385,337)	(16,420,638)	-	-	(22,805,975)
Net cash provided by (used in) operating activities	5,510,530	1,176,073	(622,027)	1,799,810	31,753	7,896,139
Noncapital financing activities						
Transfers from other funds	122,000	(1,691,080)	1,172,824	630,601	(1,269,181)	(1,034,836)
Tax and intergovernmental revenues	482,656	397,703	612,031	-	-	1,492,390
Net cash provided by (used in) noncapital financing activities	604,656	(1,293,377)	1,784,855	630,601	(1,269,181)	457,554
Capital and related financing activities						
Acquisition and construction of capital assets	(4,248,110)	-	-	(952,347)	-	(5,200,457)
Proceeds from sale of capital assets	346,321	-	-	1,014	-	347,335
Capital contributions	125,775	-	-	-	-	125,775
Net cash provided by (used in) capital and related financing activities	(3,776,014)	-	-	(951,333)	-	(4,727,347)
Investing activities						
Sales/(purchases) of investments, net	(3,457,505)	123,950	(2,556,909)	(976,223)	366,953	(6,499,734)
Investment earnings	93,139	(6,890)	11,413	20,457	95	118,214
Net change in equity investment in joint venture	-	-	-	-	619,744	619,744
Net cash provided by (used in) investing activities	(3,364,366)	117,060	(2,545,496)	(955,766)	986,792	(5,761,776)
Net increase (decrease) in cash and cash equivalents	(1,025,194)	(244)	(1,382,668)	523,312	(250,636)	(2,135,430)
Cash and cash equivalents						
Beginning of year	1,298,604	1,910	1,383,521	1,795	1,425,989	4,111,819
End of year	$ 273,410	$ 1,666	$ 853	$ 525,107	$ 1,175,353	$ 1,976,389

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

COMBINING STATEMENT OF CASH FLOWS - Continued
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	$ 1,219,125	$ (5,220,539)	$ (1,456,382)	$ 280,567	$ 142,753	$ (5,034,476)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	4,628,140	-	986	1,497,059	-	6,126,185
Change in assets and liabilities						-
(Increase) decrease in receivables	(3,249)	731,912	-	2,547	-	731,210
(Increase) decrease in inventories	(40,883)	-	-	-	-	(40,883)
(Increase) decrease in prepaids	-	-	-	(1,149)	-	(1,149)
Increase (decrease) in accounts payable	(308,356)	232,600	(636,734)	20,786	(111,000)	(802,704)
Increase (decrease) in accrued expenses	17,806	3,962	1,465,577	-	-	1,487,345
Increase (decrease) in compensated absences	(2,053)	28,138	4,526	-	-	30,611
Increase (decrease) in estimated liability for litigation and claims	-	5,400,000	-	-	-	5,400,000
Total adjustments	4,291,405	6,396,612	834,355	1,519,243	(111,000)	12,930,615
Net cash provided by (used in) operating activities	$ 5,510,530	$ 1,176,073	$ (622,027)	$ 1,799,810	$ 31,753	$ 7,896,139

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, 2014

	City Choice Plus	Employee Health Savings Fund	Total
Assets			
Cash	$ 176	$ 816,419	$ 816,595
State & municipal government securities	17,671	-	17,671
Accounts receivable	13,322	-	13,322
Due from other funds	-	26,000	26,000
Total current assets	$ 31,169	$ 842,419	$ 873,588
Liabilities			
Accounts payable	$ 5,169	$ -	$ 5,169
Health care claims liability	-	842,419	842,419
Due to other funds	26,000	-	26,000
Total liabilities	$ 31,169	$ 842,419	$ 873,588

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, 2014

	July 1, 2013	Additions	Deductions	June 30, 2014
City Choice Fund				
Assets				
Cash	$ 2,350	$ 521,140	$ 523,314	$ 176
State & municipal government securities	15,494	2,177	-	17,671
Accounts receivable	15,025	536,636	538,339	13,322
Total assets	$ 32,869	$ 1,059,953	$ 1,061,653	$ 31,169
Liabilities				
Accounts payable	$ 2,869	$ 525,614	$ 523,314	$ 5,169
Due to other funds	30,000	-	4,000	26,000
Total liabilities	$ 32,869	$ 525,614	$ 527,314	$ 31,169
Employee Health Savings Fund				
Assets				
Cash	$ 737,849	$ 816,419	$ 737,849	$ 816,419
Due from other funds	30,000	-	4,000	26,000
Total assets	$ 767,849	$ 816,419	$ 741,849	$ 842,419
Liabilities				
Health care claims liability	$ 767,849	$ 816,419	$ 741,849	$ 842,419
Total liabilities	$ 767,849	$ 816,419	$ 741,849	$ 842,419
Total All Agency Funds				
Assets				
Cash	$ 740,199	$ 1,337,559	$ 1,261,163	$ 816,595
State & municipal government securities	15,494	2,177	-	17,671
Accounts receivable	15,025	536,636	538,339	13,322
Due from other funds	30,000	-	4,000	26,000
Total assets	$ 800,718	$ 1,876,372	$ 1,803,502	$ 873,588
Liabilities				
Accounts payable	$ 2,869	$ 525,614	$ 523,314	$ 5,169
Health care claims liability	767,849	816,419	741,849	842,419
Due to other funds	30,000	-	4,000	26,000
Total liabilities	$ 800,718	$ 1,342,033	$ 1,269,163	$ 873,588

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, 2014

Assets	
Current assets:	
Cash & temporary investments	$ 352,040
Accounts receivable	9,628,092
Inventories	1,196,669
Total current assets	11,176,801
Noncurrent assets:	
Land & site improvements	1,970,380
Building & building improvements	32,637,878
Equipment	30,900,033
Less: accumulated depreciation	(19,699,581)
Total capital assets (net of accumulated depreciation)	45,808,710
Total assets	56,985,511
Liabilities	
Current liabilities:	
Accounts payable	282,712
Accrued liabilities	457,524
Due to primary government	5,967,000
Total liabilities	6,707,236
Deferred inflows of resources	
Unavailable revenue - other	1,640,295
Total deferred inflows of resources	1,640,295
Net position	
Net investment in capital assets	45,808,710
Unrestricted	2,829,270
Total net position	$ 48,637,980

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

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues	
Charges for services	$ 2,354,961
Total operating revenues	2,354,961
Operating expenses	
Personal services	13,261,216
Materials & supplies	7,744,331
Maintenance	253,798
Depreciation & amortization	3,321,605
Other services and charges	9,024,889
Total expenditures	33,605,839
Operating income (loss)	(31,250,878)
Nonoperating revenue (expense)	
Interest income	641
Intergovernmental revenue	31,439,149
Other revenues	220,800
Gain on disposal of capital assets	20,125
Total nonoperating revenue (expense)	31,680,715
Change in net position	429,837
Total net position - beginning	48,208,143
Total net position - ending	$ 48,637,980

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, 2014

Operating activities	
Cash received from customers and users	$ 2,354,961
Cash paid to suppliers	(17,226,405)
Cash paid to employees	(13,343,695)
Net cash provided by (used in) operating activities	(28,215,139)
Noncapital financing activities	
Transfers to primary government	367,000
Tax and intergovernmental revenues	31,047,019
Net cash provided by (used in) noncapital financing activities	31,414,019
Capital and related financing activities	
Acquisition of capital assets	(4,152,310)
Proceeds from sale of capital assets	20,125
Net cash provided by (used in) capital and related financing activities	(4,132,185)
Investing activities	
Sales/(purchases) of investments, net	1,199,028
Investment earnings	641
Net change in equity interest in joint venture	8,558
Net cash provided by (used in) investing activities	1,208,227
Net increase (decrease) in cash and cash equivalents	274,922
Cash and cash equivalents	
Beginning of year	77,118
End of year	$ 352,040

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

STATEMENT OF CASH FLOWS - Continued
KNOXVILLE AREA TRANSIT - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2014

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	$	(31,250,878)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		3,321,605
Change in assets and liabilities		
(Increase) decrease in inventories		(177,246)
Increase (decrease) in accounts payable		(26,141)
Increase (decrease) in accrued expenses		(82,479)
Total adjustments		3,035,739
Net cash provided by (used in) operating activities	$	(28,215,139)

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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Financial Trends

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

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Capital Asset Statistics by Function	143

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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental Activities										
Invested in capital assets, net of related debt	$ 137,765	$ 139,547	$ 162,108	$ 186,466	$ 205,877	$ 213,568	$ 220,028	$ 220,585	$ 223,777	$ 231,666
Restricted	31,119	32,847	35,779	37,487	38,911	39,449	43,399	46,675	61,997	49,782
Unrestricted	101,204	114,881	157,067	179,868	192,241	218,176	233,442	237,088	243,367	260,379
Total Governmental Activities Net Position	$ 270,088	$ 287,275	$ 354,954	$ 403,821	$ 437,029	$ 471,193	$ 496,869	$ 504,348	$ 529,141	$ 541,827
Business-type Activities										
Invested in capital assets, net of related debt	$ 18,712	$ 32,217	$ 31,546	$ 30,268	$ 28,212	$ 26,344	$ 26,075	$ 24,881	$ 28,494	$ 29,159
Unrestricted	8,838	9,350	12,266	16,682	17,782	24,590	33,712	38,728	39,323	40,223
Total Business-type Activities Net Position	$ 27,550	$ 41,567	$ 43,812	$ 46,950	$ 45,994	$ 50,934	$ 59,787	$ 63,609	$ 67,817	$ 69,382
Primary Government										
Invested in capital assets, net of related debt	$ 156,477	$ 171,764	$ 193,654	$ 216,734	$ 234,089	$ 239,912	$ 246,103	$ 245,466	$ 252,271	$ 260,825
Restricted	31,119	32,847	35,779	37,487	38,911	39,449	43,399	46,675	61,997	64,367
Unrestricted	110,042	124,231	169,333	196,550	210,023	242,766	267,154	275,816	282,690	286,017
Total Primary Government Net Position	$ 297,638	$ 328,842	$ 398,766	$ 450,771	$ 483,023	$ 522,127	$ 556,656	$ 567,957	$ 596,958	$ 611,209

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental Activities:										
General government	$ 12,218	$ 15,015	$ 11,671	$ 9,630	$ 8,833	$ 13,348	$ 13,495	$ 34,882	$ 23,591	$ 32,702
Public safety	65,384	69,949	60,882	78,172	80,936	81,637	83,059	85,416	88,381	89,816
Physical environment	49,678	70,289	40,686	42,048	44,421	45,244	46,977	48,046	49,230	51,368
Transportation	6,844	5,728	7,783	9,614	12,131	9,647	10,467	11,201	11,970	11,048
Economic Development	12,428	8,070	8,314	8,732	10,686	16,441	11,878	8,460	8,120	8,752
Parks & Recreation	10,484	10,760	10,068	11,634	11,893	12,858	12,308	11,827	10,195	10,345
Health & Sanitation	9,696	9,740	9,498	9,833	10,094	10,430	10,361	11,111	10,388	10,688
Interest on long-term debt	4,754	4,005	3,585	3,138	2,754	2,398	2,152	1,989	1,718	1,827
Other	1,830	1,683	-	-	-	-	-	-	-	-
Total governmental activities expenses	173,316	195,239	152,487	172,801	181,748	192,003	190,697	212,932	203,593	216,546
Business-type Activities:										
Metro parking	857	819	1,264	1,464	1,565	1,364	1,610	1,625	1,184	5,689
Public assembly facilities	3,974	3,718	3,902	4,174	4,356	4,847	6,539	4,535	5,212	5,751
Knoxville Convention Center	19,562	20,848	20,734	21,246	20,452	19,393	19,395	19,013	17,081	16,716
Municipal Golf Courses	-	-	306	886	1,390	1,368	1,811	1,440	1,413	1,427
Total business-type activities	24,393	25,385	26,206	27,770	27,763	26,972	29,355	26,613	24,890	29,583
Total primary government	$ 197,709	$ 220,624	$ 178,693	$ 200,571	$ 209,511	$ 218,975	$ 220,052	$ 239,545	$ 228,483	$ 246,129
Program Revenues										
Governmental Activities:										
Charges for Services:										
General government	$ 480	$ 519	$ 697	$ 629	$ 540	$ 651	$ 757	$ 817	$ 860	$ 2,339
Public safety	6,995	7,473	9,016	9,233	9,191	9,436	8,945	6,971	7,185	6,114
Physical environment	815	856	924	1,135	717	1,026	985	1,539	1,561	1,583
Transportation	674	665	830	857	688	760	955	640	551	635
Economic Development	-	-	78	-	-	955	665	428	260	355
Parks & recreation	408	634	666	801	694	689	537	531	494	583
Health & sanitation	26	30	48	43	47	54	49	40	38	36
Other	1,170	-	-	-	-	-	-	-	-	-
Operating grants and contributions	14,899	13,662	9,656	9,804	10,387	15,758	14,811	10,088	7,517	8,409
Capital grants and contributions	4,064	9,693	4,558	5,753	5,161	4,724	3,777	3,318	3,556	4,693
Total governmental activities program revenues	29,531	33,532	26,473	28,255	27,425	34,053	31,481	24,372	22,022	24,747
Business-type Activities:										
Charges for Services:										
Metro parking	1,397	698	1,308	1,716	2,188	1,690	1,565	1,418	1,685	1,546
Public assembly facilities	1,725	1,994	2,210	2,863	1,812	1,400	1,855	2,090	1,954	1,952
Knoxville Convention Center	5,048	4,814	5,975	6,409	5,396	5,797	5,171	4,962	5,386	4,755
Municipal Golf Courses	-	-	211	776	1,105	1,121	1,195	1,332	1,193	1,317
Operating grants and contributions	-	-	-	-	1,430	1,435	1,500	1,750	1,562	1,500
Capital grants and contributions	-	-	80	-	-	-	-	-	-	-
Total business-type activities program revenues	8,170	7,506	9,784	11,764	11,931	11,443	11,286	11,552	11,780	11,070
Total primary government program revenues	$ 37,701	$ 41,038	$ 36,257	$ 40,019	$ 39,356	$ 45,496	$ 42,767	$ 35,924	$ 33,802	$ 35,817
Net expense:										
Governmental Activities	$ 143,785	$ 161,707	$ 126,014	$ 144,546	$ 154,323	$ 157,950	$ 159,216	$ 188,560	$ 181,571	$ 191,799
Business-type Activities	16,223	17,879	16,422	16,006	15,832	15,529	18,069	15,061	13,110	18,513
Total primary government net expense	$ 160,008	$ 179,586	$ 142,436	$ 160,552	$ 170,155	$ 173,479	$ 177,285	$ 203,621	$ 194,681	$ 210,312

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property taxes, interest and penalties	$ 99,274	$ 104,290	$ 107,901	$ 109,619	$ 113,846	$ 117,760	$ 118,043	$ 121,124	$ 121,922	$ 123,072
Intergovernmental revenues	61,816	56,902	64,449	65,482	58,776	61,625	61,221	60,798	68,337	65,910
Other taxes	6,962	16,392	17,259	17,883	17,908	17,955	18,525	19,968	20,763	20,053
Other revenue	5,113	10,845	11,454	10,670	6,562	2,733	3,669	2,296	4,465	4,062
Transfers	(11,032)	(9,535)	(10,261)	(11,010)	(9,561)	(10,900)	(16,352)	(8,148)	(9,123)	(8,612)
Total governmental activities	162,133	178,894	190,802	192,644	187,531	189,173	185,106	196,038	206,364	204,485
Business-type Activities:										
Other taxes	3,978	7,085	6,517	6,820	6,418	5,047	5,218	5,420	5,211	5,395
Intergovernmental revenues	1,367	155	1,296	671	375	4,283	4,539	4,689	3,198	4,888
Grants & contributions	-	-	-	-	-	-	-	-	-	-
Other revenue	100	15,120	594	643	676	240	599	627	570	1,182
Transfers	11,032	9,535	10,261	11,010	9,561	10,900	16,352	8,148	9,123	8,612
Total business-type activities	16,477	31,895	18,668	19,144	17,030	20,470	26,708	18,884	18,102	20,077
Total primary government	178,610	210,789	209,470	211,788	204,561	209,643	211,814	214,922	224,466	224,562
Changes in Net Position										
Governmental activities	$ 18,348	$ 17,187	$ 64,788	$ 48,098	$ 33,208	$ 31,223	$ 25,890	$ 7,478	$ 24,793	$ 12,686
Business-type activities	254	14,016	2,246	3,138	1,198	4,941	8,639	3,823	4,992	1,564
Prior period adjustment	-	-	-	-	-	-	-	-	-	-
Total primary government	$ 18,602	$ 31,203	$ 67,034	$ 51,236	$ 34,406	$ 36,164	$ 34,529	$ 11,301	$ 29,785	$ 14,250

Continued from Previous Page

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011*	2012	2013	2014
General Fund										
Reserved	$ 1,298	$ 248	$ 1,366	$ 1,333	$ 1,303	$ 960	$ -	$ -	$ -	$ -
Unreserved	23,748	34,501	45,200	48,223	51,036	59,704	-	-	-	-
Nonspendable	-	-	-	-	-	-	425	385	300	324
Restricted	-	-	-	-	-	-	1,989	-	-	-
Committed	-	-	-	-	-	-	34,631	39,136	36,771	40,232
Assigned	-	-	-	-	-	-	231	311	2,648	2,482
Unassigned	-	-	-	-	-	-	27,987	19,892	30,436	27,958
Total general fund	$ 25,046	$ 34,749	$ 46,566	$ 49,556	$ 52,339	$ 60,664	$ 65,263	$ 59,724	$ 70,155	$ 70,996
All other governmental funds										
Nonspendable/Restricted (Reserved/Designated)	$ 35,609	$ 13,132	$ 15,017	$ 7,082	$ 5,312	$ 3,428	$ -	$ -	$ -	$ -
Unreserved, reported in:										
Special Revenue funds	(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	17,499	28,008	44,688	53,084	55,248	72,654	-	-	-	-
Nonspendable	-	-	-	-	-	-	656	739	737	673
Restricted	-	-	-	-	-	-	65,277	60,074	61,133	63,370
Committed	-	-	-	-	-	-	73,913	84,068	89,885	93,181
Total all other governmental funds	$ 79,546	$ 80,294	$ 104,173	$ 117,692	$ 120,957	$ 139,044	$ 139,846	$ 144,881	$ 151,755	$ 157,224

* 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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes, assessments, interest & penalties	$ 153,817	$ 160,146	$ 168,434	$ 169,632	$ 169,521	$ 168,880	$ 173,425	$ 180,543	$ 183,445	$ 184,128
Licenses, permits & inspection charges	2,312	2,342	2,565	2,281	1,973	1,726	1,708	1,975	1,994	2,027
Intergovernmental revenue	31,632	36,907	34,185	34,986	31,540	40,729	37,081	30,040	37,359	34,586
Charges for services	5,547	5,405	6,030	6,323	6,021	6,997	6,859	6,502	6,528	6,263
Fines & forfeitures	1,536	3,127	4,231	4,953	5,397	5,924	5,536	3,637	4,010	3,256
Other	8,714	12,727	9,303	10,711	8,800	7,568	6,207	5,370	5,170	5,524
Total revenues	203,558	220,654	224,748	228,886	223,252	231,824	230,816	228,067	238,506	235,784
Expenditures										
Current										
General government	11,715	12,974	12,461	16,914	14,310	13,958	14,267	15,983	15,701	16,242
Public safety	64,643	68,447	70,466	75,821	77,449	79,071	81,613	85,311	86,986	89,224
Physical environment	21,377	22,742	25,441	21,696	24,435	21,487	66,819	59,861	58,565	61,475
Solid waste	9,369	-	-	-	-	-	-	-	-	-
Parks & recreation	6,567	738	908	910	907	906	907	7,722	7,621	7,976
Economic development	26,423	41,325	41,810	48,007	51,701	60,222	13,790	23,043	12,961	11,896
Other	162	446	-	-	-	-	-	486	91	68
Capital Outlay	27,802	27,666	12,504	22,684	24,440	20,864	19,155	17,497	19,253	25,892
Debt Service										
Principal	10,973	10,646	9,773	8,540	7,408	5,396	5,577	4,853	5,413	5,291
Interest	4,592	4,004	3,585	3,138	2,754	2,439	2,188	2,116	1,730	1,745
Total expenditures	183,623	188,988	176,948	197,710	203,404	204,343	204,316	216,872	208,321	219,809
Excess of revenues over expenditures	19,935	31,666	47,800	31,176	19,848	27,481	26,500	11,195	30,185	15,975
Other Financing Sources (Uses)										
Net proceeds from issuance of debt	256	-	-	-	-	13,471	-	411	-	-
Transfers in	40,566	29,474	47,722	45,175	40,845	42,809	39,727	35,497	36,787	41,982
Transfers out	(55,642)	(50,689)	(59,826)	(60,611)	(54,645)	(57,350)	(60,612)	(47,607)	(49,667)	(51,648)
Total other financing sources (uses)	(14,820)	(21,215)	(12,104)	(15,436)	(13,800)	(1,070)	(20,885)	(11,699)	(12,880)	(9,666)
Net changes in fund balances	$ 5,115	$ 10,451	$ 35,696	$ 15,740	$ 6,048	$ 26,411	$ 5,615	$ (504)	$ 17,305	$ 6,309
Debt service as a percentage of noncapital expenditures	10.0%	9.1%	8.1%	6.7%	5.7%	4.3%	4.2%	3.5%	3.8%	3.6%

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

	Real Property (1)						Personal Property (1)		Public Utilities (2)		Total's			Assessed Value as a
	Estimated Actual Value:						Estimated	Assessed	Estimated	Assessed			Direct	Percentage
Fiscal Year	Commercial	Industrial	Residential & Farm	Exempt Properties	Total's	Assessed Taxable Value	Actual Value	Taxable Value	Actual Value	Taxable Value	Estimated Actual Value	Assessed Taxable Value	Tax Rate	of Actual Value
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%
2014	5,657,886	215,437	6,679,425	465,822	13,018,570	4,002,458	1,155,830	346,877	283,414	155,878	14,457,814	4,505,213	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

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

	City of Knoxville Tax Rate Distribution			Overlapping Knox County Tax Rate Distribution				Total Direct & Overlapping Rates
Fiscal Year	General Operations	Debt Service	Total	General Operations	Debt Service	School Construction	Total	
2005	2.22	0.82	3.04	1.36	0.25	1.35	2.96	6.00
2006	1.89	0.81	2.70	1.24	0.22	1.23	2.69	5.39
2007	1.89	0.81	2.70	1.24	0.22	1.23	2.69	5.39
2008	1.89	0.81	2.70	1.13	0.33	1.23	2.69	5.39
2009	2.24	0.81	3.05	1.10	0.36	1.23	2.69	5.74
2010	2.06	0.75	2.81	0.97	0.31	1.08	2.36	5.17
2011	2.06	0.75	2.81	0.97	0.31	1.08	2.36	5.17
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
2014	1.86	0.60	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)

		2014			2005		
Taxpayer	Type of Business	Taxable Assessed Value[1]	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value[1]	Rank	Percentage of Total Taxable Assessed Value
AT&T	Communications	$ 125,528	1	2.92%			
WAL-MART	Retail	123,649	2	2.87%	14,894	5	0.45%
Metro Knoxville HMA (TENNOVA)	Medical services	119,425	3	2.77%			
Fort Sanders Regional Medical Center	Medical services	98,009	4	2.28%	13,039	7	0.39%
Scripps Media	Media	87,207	5	2.03%			
West Town Mall	Retail	71,550	6	1.66%	29,875	2	0.90%
KROGER CO	Retail	65,852	7	1.53%			
DDRTC Turkey Creek LLC	Retail	50,194	8	1.17%			
Target	Retail	59,996	9	1.39%			
Hart TC I-II LLC	Property Management	54,374	10	1.26%			
Bell South Telecom	Telephone Utility				66,252	1	1.99%
Knoxville Center	Retail				21,824	3	0.66%
First American National Bank	Banking Services				19,058	4	0.57%
Parkway Property	Property Management				13,368	6	0.40%
Verizon Wireless	Cellular Communications				12,268	8	0.37%
Goody's Family Clothing	Department Stores				11,858	9	0.36%
Atlantic Research Corp.	Automotive Parts				11,738	10	0.35%
		$ 855,784		19.88%	$ 214,174		6.44%

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
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	105,918	103,636	97.85%	7,322	103,636	97.85%
2014	107,481	103,466	96.26%	-	103,636	96.42%

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

	Governmental Activities				Business Type Activities			
Fiscal Year	General Obligation Bonds	Notes Payable	Lease Purchase Agreement	Debt Participation Agreement	General Obligation Bonds	Total Primary Government[1]	% of Personal Income[2]	Per Capita[2]
2005	102,972	-	-	1,346	154,462	258,780	8.26%	1,450.56
2006	91,300	-	-	1,285	150,396	242,981	7.37%	1,361.24
2007	81,747	-	-	1,222	146,907	229,876	6.73%	1,287.10
2008	73,360	-	-	1,156	143,399	217,915	6.25%	1,219.45
2009	72,221	-	-	1,088	140,368	213,677	6.30%	1,195.06
2010	74,657	-	13,470	1,017	136,787	225,931	6.60%	1,263.07
2011	69,440	-	13,470	-	133,035	215,945	6.31%	1,207.25
2012	65,329	-	-	-	129,123	194,452	5.55%	1,075.74
2013	50,823	-	-	-	125,378	176,201	5.33%	974.77
2014	44,989	-	-	-	121,060	166,049	4.27%	906.03

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

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

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Taxable Value of Property	Per Capita
2005	257,434	28,722	228,712	7.66%	1,282.02
2006	241,696	30,572	211,124	6.32%	1,182.77
2007	228,654	32,941	195,713	5.76%	1,095.82
2008	216,759	34,623	182,136	5.20%	1,019.23
2009	212,589	36,259	176,330	4.88%	986.19
2010	211,444	36,397	175,047	4.18%	978.61
2011	202,475	42,532	159,943	3.83%	894.17
2012	194,452	40,732	153,720	3.62%	850.40
2013	176,201	45,811	130,390	3.03%	721.34
2014	166,049	46,833	119,216	2.65%	650.49

CITY OF KNOXVILLE, TENNESSEE
LEGAL DEBT MARGIN INFORMATION

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

CITY OF KNOXVILLE, TENNESSEE
PLEDGED-REVENUE COVERAGE
PRIMARY GOVERNMENT

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

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

Fiscal Year	Gross Revenue	Expenses (net of depreciation and interest)	Net Revenue Available for Debt Service	Debt Service	Revenue Bond Coverage
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
2014	752,561	629,663	122,898	61,316	2.00

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

Fiscal Year	Gross Revenue (net of grant receipts)	Expenses (net of depreciation and interest)	Net Revenue Available for Debt Service	Debt Service	Revenue Bond Coverage
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
2014	30,462	19,166	11,296	3,123	3.62

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2014
(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	$ 44,989	100.00%	$ 44,989
Overlapping Debt:			
Knox County	376,887	41.42%	156,107
Knox County Schools	255,510	41.42%	105,832
Total Overlapping Debt	632,397		261,939
Total Direct and Overlapping Debt	$ 677,386		$ 306,928

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]
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	23,824,000	37,354	35.4	29.9%	26.0%	18.6%	11.2%	56,516	7.0%
2011	178,874	23,832,000	39,555	38.9	28.8%	25.5%	19.5%	10.5%	56,817	6.4%
2012	180,761	24,365,000	41,127	34.0	28.3%	25.6%	15.0%	9.5%	57,812	5.9%
2013	180,761	33,088,000	[5]	33.0	31.1%	30.0%	17.1%	10.1%	58,940	7.1%
2014	183,270	32,846,000	[5]	32.9	27.2%	29.7%	18.3%	10.2%	59,516	6.6%

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)

	2014			2005		
Employer's Name	Employees	Rank	Percentage of Total Area Employment[1]	Employees	Rank	Percentage of Total Area Employment[2]
Covenant Health	9,122	1	10.82%	8,000	1	9.41%
Knox County Public Schools	7,066	2	8.38%	7,848	3	9.23%
University of Tennessee, Knoxville	6,550	3	7.77%	7,934	2	9.33%
Wal-Mart Stores	5,776	4	6.85%	4,600	4	5.41%
University of Tennessee Medical Center	4,061	5	4.82%	2,764	8	3.25%
K-VA-T Food Stores	3,857	6	4.58%			
Tennova Healthcare	3,124	7	3.71%			
County of Knox	2,991	8	3.55%			
City of Knoxville	2,864	9	3.40%	2,858	7	3.36%
State of Tennessee, Regional Offices	2,808	10	3.33%			
St. Mary's Health System (4)				3,461	5	4.07%
Baptist Health System of East Tennessee (4)				3,000	6	3.53%

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

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

	Full-time Equivalent Employees as of June 30,									
Department	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Administration	19.5	24.5	24.5	25.0	26.5	26.5	26.0	30.5	30.5	30.5
Finance and Accountability										
Finance	55.5	56.5	54.5	52.5	52.5	51.0	51.0	51.5	48.5	49.0
Information Systems	29.0	29.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Subtotal	84.5	85.5	84.5	82.5	82.5	81.0	81.0	81.5	78.5	79.0
Operations & Engineering										
Public Works	-	-	-	-	-	-	-	2.0	2.0	1.0
Engineering	88.0	88.0	90.0	89.5	89.5	88.5	88.5	90.5	89.0	88.5
Fleet Services	58.0	57.0	57.0	56.0	56.0	55.0	55.0	54.0	54.0	54.0
Inspections	30.0	31.0	31.0	31.0	31.0	29.0	29.0	29.0	29.0	29.0
Subtotal	176.0	176.0	178.0	176.5	176.5	172.5	172.5	175.5	174.0	172.5
Community and Neighborhood Services										
Public Services	308.0	309.0	307.0	307.0	305.0	305.0	305.0	305.0	305.0	305.0
Development Services	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0
Community Development	20.5	18.5	19.5	21.5	21.5	21.5	19.5	19.5	19.5	15.5
Recreation	60.5	60.5	59.0	58.0	57.5	55.0	55.0	53.0	53.0	51.5
Subtotal	392.0	391.0	389.5	390.5	388.0	385.5	383.5	381.5	381.5	377.0
Law	13.0	13.0	13.0	13.0	14.0	13.0	13.0	12.5	13.0	13.0
Police										
Sworn	414.0	414.0	414.0	416.0	416.0	416.0	416.0	416.0	416.0	416.0
Civilian	120.5	120.5	120.5	121.0	121.0	120.0	120.0	120.0	120.0	120.0
Emergency Management	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Subtotal	537.5	537.5	537.5	540.0	540.0	539.0	539.0	539.0	539.0	539.0
Fire										
Sworn	328.0	328.0	328.0	328.0	328.0	327.0	327.0	327.0	327.0	327.0
Civilian	11.0	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Subtotal	339.0	339.0	338.0	338.0	338.0	337.0	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	14.5	14.5
Civil Service	14.0	14.0	14.5	13.0	13.0	12.0	12.0	12.0	10.0	10.0
Public Assembly Facilities	36.0	36.0	35.5	35.5	35.5	36.0	35.5	36.0	36.0	34.5
Subtotal	71.0	71.0	71.0	69.5	69.5	69.0	68.5	69.0	68.0	66.5
GRAND TOTAL	1,632.5	1,637.5	1,636.0	1,635.0	1,635.0	1,623.5	1,620.5	1,626.5	1,621.5	1,614.5

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

Department	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Public Safety										
Police										
Arrests	14,706	16,656	15,176	20,492	24,008	16,702	16,648	15,898	14,376	11,484
Citations	84,428	64,705	64,683	95,121	131,619	156,053	135,680	107,501	105,635	96,147
Fire										
Fire Inspections	4,298	4,057	4,957	3,742	4,051	3,481	3,692	3,518	4,547	4,144
Alarms Attended	17,639	18,603	19,432	20,174	21,131	20,214	20,463	20,688	21,227	21,644
First Responder Calls	9,654	9,869	9,146	10,272	11,349	10,032	10,442	10,954	10,816	10,546
Engineering										
Miles of Streets Resurfaced	50	42	9	84	44	38	42	48	55	46
Parks & Recreation										
Recreation Center Participants	309,913	314,836	338,510	372,110	537,486	596,748	620,469	551,101	527,224	495,231
Service										
Pothole Repairs (by tons of asphalt)	483	515	414	349	383	496	561	398	430	357

Sources: Various city departments

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

Department	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
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	19	19
Operations & Engineering										
Street Lights	28,983	29,436	29,440	29,506	29,801	29,649	29,569	29,711	30,145	30,211
Miles of Streets maintained	1,264	1,264	1,264	1,274	1,274	1,277	1,277	1,277	1,278	1,278
Parks & Recreation										
Recreation Centers	14	14	14	13	13	13	12	12	12	12
Parks	79	79	79	81	81	80	81	81	82	82
Park Acreage	1,856	1,856	1,857	1,858	1,858	1,963	1,963	1,963	2,000	2,000
Swimming Pools	5	5	5	5	5	5	5	5	5	5
Tennis Courts	61	61	61	68	68	68	68	68	67	67
Miles of Greenway	38	40	42	42	43	44	66	66	85	86
Stormwater										
Storm Sewers (miles)	371	372	372	372	375	375	375	376	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, 2014

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CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2014

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2013	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2014
U.S. Department of Housing and Urban Development	**FEDERAL ASSISTANCE**						
Direct assistance							
	Community Development Block Grant	14.218	B-11-MC-47-0005	$ 3,059	$ 564,784	$ 561,725	$ -
	Community Development Block Grant	14.218	B-12-MC-47-0005	-	1,103,119	1,083,226	(19,893)
		14.218		3,059	1,667,903	1,644,951	(19,893)
	Home Grant 1999	14.239	M99-MC-47-0201	-	107,181	107,181	-
	Home Grant 2000	14.239	M00-MC-47-0201	-	123,494	123,494	-
	Home Grant 2009	14.239	M09-MC-47-0201	71,159	71,159	-	-
	Home Grant 2010	14.239	M10-MC-47-0201	334,872	334,872	50,080	50,080
	Home Grant 2011	14.239	M11-MC-47-0201	221,492	221,492	-	-
	Home Grant 2011	14.239	M12-MC-47-0201	19,931	1,191,732	1,171,801	-
		14.239		647,454	2,049,930	1,452,556	50,080
	Fair Housing 2011	14.400	FF204K114012	(41,274)	(29,229)	12,045	-
	Sustainable Communities Regional Planning Grant	14.703	TNRIP0033-10	661,717	1,101,951	1,729,667	1,289,433
Passed through from							
Tennessee Housing Development Agency	Neighborhood Stabilization Program (THDA)	14.228	B-08-MN-47-0002	34,130	34,130	-	-
	Emergency Shelter 2010	14.231	S-10-MC-47-005	15,000	19,332	4,332	-
	Emergency Shelter 2011	14.231	S-11-MC-47-005	20,394	-	20,394	40,788
	Emergency Shelter 2012	14.231	S-12-MC-47-005	83,753	63,359	-	20,394
	Emergency Shelter 2013	14.231	S-13-MC-47-005	-	104,683	113,533	8,850
		14.231		119,147	187,374	138,259	70,032
	Lead Hazard Control Grant	14.900	TNLHB0564-13	-	45,711	224,276	178,565
	Healthy Homes Grant	14.900	TNLHB0564-13(B)	-	-	-	-
		14.900		-	45,711	224,276	178,565
Total U.S. Department of Housing and Urban Development				1,424,233	5,057,770	5,201,754	1,568,217
U.S. Department of Justice							
Direct assistance							
	Grants to Encourage Arrests 2012 (OVW-Arrest)	16.590	2012-WE-AX-0025	9,254	4,088	27,617	32,783
	2010 Project Safe Neighborhoods	16.609	2010-GP-BX-0026	4,687	4,687	-	-
	2011 Project Safe Neighborhoods	16.609	2011-GP-BX-0061	10,559	16,540	19,558	13,577
		16.609		15,246	21,227	19,558	13,577
Office of Violence Against Children	Justice and Mental Health Collaboration	16.745	2010-MO-BX-0022	43,906	90,299	46,393	-
Passed through from							
Department of Finance and Administration:							
Office of Juvenile Justice and Delinquency Prevention	2010 ICAC Continuation Program	16.543	2010-MC-CX-K016	206,676	313,466	247,437	140,647
	2013 TN ICAC Task Force Grant	16.543	2013-MC-FX-K031	-	33,044	115,121	82,077
		16.543		206,676	346,510	362,558	222,724
	Knoxville Victim's Services (VOCA) 3 Yr. Grant	16.575	Z-12	14,537	49,826	51,088	15,799
	JAG State Family Justice Center Planning Facilitator	16.575	2013-COK-FJC	3,850	3,850	-	-
				18,387	53,676	51,088	15,799
	2010 Byrne/Justice Assistance Grant Program	16.579	2010-DJ-BX-0769	14,607	25,100	20,387	9,894
	2009 Byrne/Justice Assistance Grant Program through Knox County	16.579	2009-H0724-TN-DJ	19,832	30,980	11,148	-
	2011 Byrne/Justice Assistance Grant Program through Knox County	16.579	2011-H5094-TN-DJ	57,182	56,887	-	295
	2012 Byrne/Justice Assistance Grant Program	16.579	2012-DJ-BX-0080	73,758	93,410	74,535	54,883
		16.579		165,379	206,377	106,070	65,072
	Anti-Bullying Training and Multi-Media Program	16.738	2012-DJ-BX-0280	28,155	43,649	46,694	31,200
	JAG Family Justice Center TA Provider	16.738	Edison 22561	-	15,847	29,481	13,634
				28,155	59,496	76,175	44,834
	ARRA 2009 Internet Crimes Against Children	16.800	2009-SN-B9-K052	72,871	131,079	58,208	-
Passed through from Knox County	ARRA 2009 Byrne/Justice Assistance Grant	16.804	2009-SB-B9-2035	56,527	56,527	-	-
Total U.S. Department of Justice				616,401	969,279	747,667	394,789
U.S. Department of Labor							
Passed through from							
Senior Service America, Inc.	Senior Aides (Previous Fiscal Year)	17.235	AD-16177-07-60-A-24	82,866	82,866	-	-
	Senior Aides (Current Fiscal Year)	17.235	AD-16177-07-60-A-24	-	92,586	92,586	-
Total U.S. Department of Labor		See independent auditor's report.		82,866	175,452	92,586	-

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2014

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2013	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2014
U.S. Department of Transportation							
Direct assistance							
	2010 STP Funding for the Transit Center	20.507	TN-95-X038	$ 81,732	$ 97,560	$ 30,641	$ 14,813
	2010 Formula Grant	20.507	TN-90-X316	2	-	(2)	-
	2011 Formula Grant	20.507	TN-90-X335	118,617	178,641	82,882	22,858
	2011 Surface Transportation Grant	20.507	TN-95-X039-00	-	144,016	144,016	-
	2011 CMAQ Grant	20.507	TN-95-X040-00	301,970	489,517	187,547	-
	2012 Formula Grant	20.507	TN-90-0350-00	1,370,374	1,510,077	160,022	20,319
	2012 CMAQ Grant	20.507	TN-95-X056	-	1,500,660	3,600,000	2,099,340
	2013 Formula Grant	20.507	TN-90-X361-00	3,780,178	2,841,088	1,096,085	2,035,175
	2014 Formula Grant	20.507	TN-90-X2014	-	-	3,747,411	3,747,411
	ARRA Funding for the LEED Certified Knoxville Transit Center	20.507	TN-96-X003-00	13,114	13,114	-	-
		20.507		5,665,987	6,774,673	9,048,602	7,939,916
Passed through from							
Tennessee Department of Transportation	Jackson Avenue Ramps	20.205	BRZE-9109(103); Pin 106077.00	12,871	12,837	19,311	19,345
Tennessee Department of Transportation	Cumberland Avenue Streetscapes & Pedestrian Improvements	20.205	STP-M-9109(115); Pin 110692.00	522,179	109,736	735,322	1,147,765
Tennessee Department of Transportation	Upper Second Creek Greenway	20.205	State 060018; Pin 107380.00	27,884	29,782	22,560	20,662
Tennessee Department of Transportation	South Waterfront Pedestrian Bridge to U.T.	20.205	Contract 090266; TCSP-9TN(2)	71,580	86,499	24,037	9,118
Tennessee Department of Transportation	Access Improvements to I-275 Business Park	20.205	Contract 090268; Pin 110262.00	9,172	19,185	28,847	18,834
Tennessee Department of Transportation	Holbrook Bridge over Fountain Road	20.205	BRZE-9109(122); Pin 107700.00	113,849	58,647	12,975	68,177
Tennessee Department of Transportation	Knox-Blount Greenway Phase I	20.205	State 110043; Pin 115617.00	-	1,194	318,908	317,714
Tennessee Department of Transportation	N. Central Street Streetscape Improvements	20.205	47LPLM-F3-082; State 110195	14,128	19,577	27,407	21,958
Tennessee Department of Transportation	Park City Sidewalk Network Completion	20.205	CM-9109(148); State 110045	34,675	-	21,810	56,485
Tennessee Department of Transportation	Washington Pike and Millertown Pike Widening	20.205	STP-M-9109(64); State 070099	28,674	9,082	7,943	27,535
Tennessee Department of Transportation	Downtown Knoxville Wayfinding Project	20.205	STP-M-9109(151); State 110056	37,244	57,145	57,177	37,276
Tennessee Department of Transportation	COK Greenway Corridor Feasibility & Assessment	20.205	STP-M-9109(162); State 120271	-	-	130,404	130,404
Tennessee Department of Transportation	South Waterfront Enhancement Grant for the Riverwalk	20.205	STP-EN-9109(138); Pin 108784.02	68,694	341,791	291,774	18,677
Tennessee Department of Transportation	Transportation Planning Grant through MPC	20.205	Edison ID: 38616	-	-	66,220	66,220
		20.205		940,950	745,475	1,764,695	1,960,170
Governor's Highway Safety	12/13 GHSO (Knoxville's Traffic & DUI Enforcement)	20.600	Z-13-GHS171	10,188	31,105	20,917	-
	2013-2014 GHSO (Knoxville's Traffic & DUI Enforcement) Grant	20.607	Z-14-GHS189	-	52,464	89,092	36,628
Total U.S. Department of Transportation				6,617,125	7,603,717	10,923,306	9,936,714
U.S. Department of Environmental Protection							
Direct assistance	EPA Grant for Brownfields Assessment for the South Waterfront	66.818	BF-95443509-0	-	20,903	22,983	2,080
	EPA Grant for Brownfields Assessment for the Downtown North	66.818	BF-95443509-1	11,998	199,507	299,636	112,127
Total U.S. Department of Environmental Protection		66.818		11,998	220,410	322,619	114,207
U.S. Department of Homeland Security							
Passed through from							
Tennessee Emergency Management Agency	2013 Hazardous Materials Emergency Planning Grant	20.703	34101-23713	5,999	5,999	-	-
	DOE 2013 Offsite Emergency Planning and Response	81.214	34101-21413	-	16,000	16,000	-
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm	97.036	FEMA-1974-DR-TN	522,335	346,106	-	176,229
	Public Assistance/Disaster Grant for June 22, 2011 Storm	97.036	FEMA-4005-DR-TN	100,402	61,915	-	38,487
		97.036		622,737	408,021	-	214,716
Tennessee Emergency Management Agency	2010 Emergency Management Performance Grant	97.042	34101-22510	-	149,273	149,273	-
Tennessee Emergency Management Agency	2010 Metropolitan Medical Response System	97.067	2010-SS-T0-0027	148,370	148,370	-	-
	2011 Metropolitan Medical Response System	97.067	EMW-2011-SS-00069	87,502	182,811	194,191	98,882
Passed through Knox County	FY2011 Homeland Security Grant Program	97.067	EMW-2011-SS-00069	210	5,623	5,413	-
	FY2013 Homeland Security Grant Program	97.067	EMW-2013-SS-00008	-	-	13,342	13,342
		97.067		236,082	336,804	212,946	98,882
Total U.S. Department of Homeland Security				864,818	916,097	378,219	326,940
Total Federal Assistance				$ 9,617,441	$ 14,942,725	$ 17,666,151	$ 12,340,867

See independent auditor's report.

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2014

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/2013	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/2014
	STATE ASSISTANCE						
Tennessee Department of Environment and Conservation	Household Hazardous Waste - Fifth Year Funding		GG-08-23533-00	$ 13,968	$ 13,968	$ -	$ -
	FY2013-2014 Household Hazardous Waste		GG-13-39508-00	-	68,579	78,788	10,209
Tennessee Emergency Management Agency	Public Assistance/Disaster Grant for April 24, 2011 Hail Storm		FEMA-1974-DR-TN	87,899	61,077	-	26,822
	Public Assistance/Disaster Grant for June 22, 2011 Storm		FEMA-4005-DR-TN	16,976	10,926	-	6,050
Tennessee Department of Transportation	2013-2014 State Operating Grant		47-UROP-S3-010	-	3,113,898	3,113,898	-
Criminal Justice Program	2011-2013 East TN ICAC Task Force Program		2012-VA-GX-0025	113,992	113,992	-	-
Criminal Justice Program	2014 East TN ICAC Task Force Program		Edison 35787	-	148,420	229,424	81,004
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	2,575	2,575	-	-
Tennessee Department of Transportation	FTA-TN-90-X335		47-S307-S3-014	545,556	530,699	10,362	25,219
Tennessee Department of Transportation	FTA-TN-90-X350-00		GG-13-33857-00 (round one)	511,781	-	20,003	531,784
Tennessee Department of Transportation	FTA-TN-90-X361		475307-S3-018	472,523	-	137,011	609,534
Tennessee Department of Transportation	FTA-TN-90-X3		contract pending	-	-	468,427	468,427
Total State Assistance				$ 1,813,720	$ 4,112,584	$ 4,057,913	$ 1,759,049
Total Federal and State Assistance				$ 11,431,161	$ 19,055,309	$ 21,724,064	$ 14,099,916

See independent auditor's report.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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, 2014.

These 2014 loan funding balances are also included in the federal expenditures presented in the schedule.

Cluster / Program Title	CFDA Number	FY 14 Loan Funding	Outstanding Balance
Community Development Block Grants	14.218	$ 381,685	$ 2,898,057
Empowerment Zone	14.244	8,000	1,726,307
HOME Investment Partnerships Program	14.239	1,146,631	10,533,873
Total Loans		$1,536,316	$15,158,237

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, 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 29, 2014. 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, 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs and referenced as item 2014-1, that we consider to be a significant deficiency.

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.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 29, 2014

CROSSLIN
&ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014. 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 $1,503,047 in federal awards which is not included in the schedule for the year ended June 30, 2014. 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, 2014.

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 2014-2. 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 s*ignificant 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 2014-2 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 29, 2014

CITY OF KNOXVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

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, 2014 are:

CFDA Number	Name of Federal Program
14.218	Community Development Block Grants Program
14.703	Sustainable Communities Regional Planning Grant Program
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: $529,985

Auditee qualified as low-risk auditee? _x_ yes ___ no

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

Finding 2014-1: 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, 2014 to the general ledger was not fully completed and reviewed by the City on a timely basis. It was noted during the audit process that certain items (wire transfers) 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: The City reconciles cash and investments on a daily basis. A reconciliation of the bank statement and general ledger is done monthly. We think the finding stems from confusion over the timing of certain items. We will work to improve and clarify this timing and record certain transactions more promptly.

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

Finding 2014-2: **Sub-Recipient Reporting**

Program: Community Development Block Grants/Entitlement Grants (CFDA #14.218) and Sustainable Communities Regional Planning Grants (CFDA #14.703).

Criteria: Federal regulation 2 CFR 170 implemented the Federal Funding Accountability and Transparency Act (FFATA) and requires that recipients report, on the Federal web site, each action that obligates $25,000 or more in Federal funds by the end of the month following the month in which the subaward was made.

Condition: During the audit, we noted that the City did not report subaward information for these programs as required by FFATA.

Questioned Cost: There are no questioned costs identified.

Context: The required reporting of sub-recipient award information was not submitted to the Federal web side for sub-recipients awarded $25,000 or more in federal funds.

Effect: City grant information was not available or not timely available for public access through the Web site established to improve transparency of governmental spending. The federal grantor agency could issue sanctions or disallowances related to noncompliance.

Cause: Administrative oversight during the subaward and sub-recipient monitoring processes.

Recommendation: We recommend that procedures be established to assure the City report subaward information as required by FFATA.

Management's Response: Procedures will be established to ensure that grant funded sub-awards over $25,000 will be reported in FFATA. The Community Development Administrator will ensure that the information required (sub-awards over $25,000) is reported in the FFATA system when the contracts with sub-grantees are executed.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

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, 2014 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.

Current Status: This finding has been repeated in the current year as item 2014-1.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
YEAR ENDED JUNE 30, 2014

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.

Current Status: This finding has been corrected and was not a finding for the 2014 fiscal year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
YEAR ENDED JUNE 30, 2014

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.

Current Status: This finding has been corrected and was not a finding for the 2014 fiscal year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
YEAR ENDED JUNE 30, 2014

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.

Current Status: This finding has been corrected and was not a finding for the 2014 fiscal year.

Corrective Action Plan

Finding 2014-1:	**Cash Reconciliation Process**
Name of contract person:	Jim York, Finance Director
Corrective action:	The City reconciles cash and investments on a daily basis. A reconciliation of the bank statement and general ledger is done monthly. We think the finding stems from confusion over the timing of certain items. We will work to improve and clarify this timing and record certain transactions more promptly.
Anticipated Completion Date:	December 31, 2014

Findings 2014-2:	**Sub-Recipient Reporting**
Name of contact person:	Jim York, Finance Director
Corrective action:	Procedures will be established to ensure that grant funded sub-awards over $25,000 will be reported in FFATA. The Community Development Administrator will ensure that the information required (sub-awards over $25,000) is reported in the FFATA system when the contracts with sub-grantees are executed.
Anticipated Completion Date:	December 31, 2014