

December 31, 2004

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, 2004. 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 also pleased to again report that the financial condition of the City remains strong.

The report has been prepared in conformance with the principles and standards for financial reporting as set forth by the Governmental Accounting Standards Board (GASB) and complies with the requirements of GASB Statement Number 34. The report also meets the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133.

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

## **REPORTING ENTITY**

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 of whom are elected at large. The mayor and council members are elected on a non-partisan basis and are elected to four-year terms. The City Council is responsible, among other things, for passing ordinances, determining policies, and adopting the budget. The mayor is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments.

This report covers all funds of the City of Knoxville. The City provides a full range of services, including, but not limited to, police and fire protection; solid waste collection and disposal; the construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. In addition, the City of Knoxville has financial accountability over the Knoxville Utilities Board (KUB), the Metropolitan Knoxville Airport Authority (MKAA), Knoxville Area Transit (KAT) and the City Employees' Pension Fund. The financial statements of KUB, MKAA and KAT are included in the body of this report, noted as Component Units on the Government Wide Statements. The financial statements of the City Employees' Pension Fund are included in the body of this report, noted separately as the sole Fiduciary Component Unit.

## **REPORT CONTENTS**

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

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

## ECONOMIC CONDITION AND OUTLOOK

The overall economic health of the metropolitan Knoxville area remains positive. The City serves as the economic hub of entire upper East Tennessee area, and its trade sector is one of the strongest in the state. Knox County has the fourth highest per capita sales tax rate in the state, at roughly 125% of the state average. Seventy-six percent of the taxable sales within the County occur inside the corporate limits of Knoxville. The following table displays local sales tax collections (in thousands) to the City over the past five years.

<u>Year</u>	<u>Collections</u>	<u>% Growth</u>
FY 99/00	\$29,478	2.53%
FY 00/01	\$29,953	1.61%
FY 01/02	\$28,819	-3.79%
FY 02/03	\$29,031	0.74%
FY 03/04	\$30,529	5.16%

The local sales tax is a situs based revenue. That is, the point of sale location determines the governmental entity receiving the proceeds. In recent years, there have been several situs reclassifications that have shifted revenues between the City of Knoxville and Knox County. In FY 98/99, the City of Knoxville benefited from a change, which shifted funds from the County, accompanied by a large one-time correction of prior revenues. In FY 01/02, the situation was reversed with a \$2.2 million shift from the City to the County. These shifts account for the large variations seen in the growth pattern for annual collections. A similar, albeit smaller, shift also occurred in FY 02/03 and FY 03/04. Were it not for these reclassifications, the City and County would tend to mirror each other. In FY 99/00, sales tax collections on a countywide basis increased by 5.30%. Growth in subsequent years was 1.69%, 1.34%, 0.68% and 5.53%.

As noted above, the City experienced a 5.16% growth in local sales tax. This compares to an overall growth of 5.53% in Knox County as a whole. Overall growth in state sales taxes, which factors out rate differentials, shows the overall County growth at 7.36%. This compares to a statewide growth rate of 7.56%.

The presence of the University of Tennessee along with TVA lends stability to the area, making the local economy less cyclical than either the national or state economy. This contributes to a low unemployment rate, which averaged 3.6% (Knoxville MSA) and 3.0% (Knox County) in FY2004. This compares very favorably to the national unemployment rate of 5.8% and the state rate of 5.5% as well as the other major metropolitan areas of the state (Chattanooga – 3.7%, Memphis – 6.0%, and Nashville – 4.2%). The fiscal year end civilian labor force in the Knoxville MSA was 384,500 and the metropolitan area hopes to gain 35,000 new jobs over the next five years through its economic development initiative *Jobs Now!* Job growth has been positive in the recent past and is forecast to continue in the near term, although some shifting among sectors is anticipated. Trade and service sectors are forecasted to grow at a strong rate, and the finance, real estate, communication, and transportation sectors are also expected to do well, while manufacturing is expected to decline.

Knoxville is at the intersection of two major interstate highways (I-40 and I-75) and near the terminus of a third interstate (I-81). Because of its central location in the eastern United States, the Knoxville area serves thousands of industrial and commercial customers in a concentrated eight-state area. It is within 500 miles of approximately one-half of the population of the United States. The County for many years has been known as one of the South's leading wholesale markets. Located within the County are 922 wholesale establishments, 1,913 retail establishments and 5,022 service establishments.

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

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

Tourism also plays a vital role in the economic development of area. In 2000, travelers spent more than \$549 million in Knox County, ranking it fifth in the state for visitor expenditures. Knoxville supports an active tourism and convention trade. The newly constructed 500,545 square foot convention center on the World's Fair Park site opened in June 2002. The center 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. Knoxville's multitude of annual events include the Dogwood Arts Festival, Tennessee Valley Fair, Boomsday, Christmas in the City and many cultural activities.

Knox County is the principal Gateway to the Great Smoky Mountains National Park, located 40 miles to the southeast. There are over 500,000 acres that make up the nation's most visited National Park, extending over the States of Tennessee and North Carolina. More than 9.2 million people visited the National Park in 2003.

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

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

Knoxville consistently is ranked among the best places to live in the country. According to the latest edition of Places Rated Almanac, Knoxville's quality of life ranked first among mid-sized urban regions and 13<sup>th</sup> among all 343 metropolitan areas rated in the book. Knoxville was ranked 13<sup>th</sup> for the "Best Places for Business and Careers" in Forbes magazine 2004 and 3<sup>rd</sup> on the best Cities for Relocating Families list of Worldwide ERC and Primary Relocation. Knoxville was also noted as "Top Mid-Market with populations between 250,000 and 750,000" by the Southern Business and Development Magazine

June 2003 and 14<sup>th</sup> among the “Top Logistic Cities in the Southeast”. The City has also been cited nationally for its low tax rate.

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

The Metropolitan Knoxville Airport Authority (MKAA) has also contributed to area growth. McGhee Tyson Airport completed a \$70 million renovation and expansion project of its main terminal and concourses in the fall of 2000. The airport is served by two major and ten regional passenger airlines that combine for 61 daily departures connecting to fifteen hub airports with non-stop service. The direct and indirect economic impact of the airport is estimated by the MKAA to be approximately \$1 billion annually. This figure includes payroll, local spending, transportation cost savings, capital spending and other benefits.

In addition, Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's main campus with over 27,000 students, including its teaching hospital and veterinary school. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are six hospitals including the only two trauma centers for a 27-county area. The presence of the Tennessee Valley Authority, UT-Battelle, and BWXT-Bechtel serve as a magnet for technology-based corporations in the East Tennessee area. The growing trend toward allowing technology transfer to private industry is also benefiting the region. The development of the multi-billion dollar spallation neutron source project at the Oak Ridge National Laboratory is also expected to enhance economic activity and lure newer companies to the area.

## **MAJOR INITIATIVES**

### **For the Year ended June 30, 2004:**

Economic development has been the primary focus during the past year. The Market Square Redevelopment Plan has been the major capital project, resulting in the makeover of the square's public space and a facelift of the facades of its historic buildings. Capital funding was provided for downtown development, historic preservation, road improvements, numerous drainage projects, and parks and greenways,

### **For the Future:**

The focus in FY 04/05 is continued economic development, and increased operational efficiency. Major projects include the implementation of a new financial system, the development of a 311 call center, improved training, and improvements designed to reduce energy costs. Capital projects scheduled for the year include the Market Square Development Phase 2, work on a new transit center, renovation of the World's Fair Park and surrounding areas, and the beginning of the Market Square Phase 3 project. Funding is also provided to increase job creation efforts in the City of Knoxville and the Knoxville MSA.

## **FINANCIAL INFORMATION**

Management of the City of Knoxville is responsible for establishing and maintaining an internal control structure. This structure is designed to protect the assets of the government from loss, theft or misuse. The system also attempts to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

## **BUDGETING CONTROLS**

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

## **DEBT ADMINISTRATION**

Total general obligation indebtedness of the City increased by \$21.6 million in fiscal year 2003/2004. The City issued \$83.5 million in general obligation debt during the year, of which \$34 million represented new money. The balance was a debt refunding designed to save costs. The City has no plans to issue additional debt in fiscal year 2004/2005.

The total amount of general obligation debt outstanding as of June 20, 2004 is \$261.3 million. Of this amount, \$158.2 million represents proprietary fund debt on the Convention Center and the Locust Street Garage. In addition to the above debt, the City has responsibility for \$1.4 million in debt relating to its portion of Animal Welfare Center, this debt being issued by Knox County.

Several indicators are useful in evaluating the City's debt position. These include the ratio of net general obligation bonded debt to assessed valuation and the amount of general obligation debt per capita. The debt ratio for the City of Knoxville (excluding component unit debt) at the end of fiscal year 2004 is as follows:

<u>General Obligation Debt</u>	<u>Amount (in thousands)</u>		<u>Ratio of Amount to Assessed Valuation 100%</u>		<u>Ratio of Amount to Estimated Actual Value</u>		<u>Debt per Capita</u>	
	<u>FY 03/04</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 02/03</u>
Net direct bonded debt	\$234,489	\$225,451	7.98%	7.71%	2.50%	2.48%	\$1,348	\$1,296
Overlapping debt of Knox County	\$177,989	165,084	6.05%	5.64%	2.29%	1.82%	\$1,023	949
<b>Total</b>	<b>\$412,478</b>	<b>\$390,535</b>	<b>14.03%</b>	<b>13.35%</b>	<b>4.79%</b>	<b>4.30%</b>	<b>\$2,371</b>	<b>\$2,255</b>

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

<u>Debt Type</u>	<u>Fitch/ICBA</u>		<u>S &amp; P</u>		<u>Moody's</u>	
	<u>FY 03/04</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 02/03</u>	<u>FY 03/04</u>	<u>FY 02/03</u>
General Obligation Bonds	AA+	AA+	AA	AA	Aa2	Aa2
Revenue Bonds:						
Water and Electric (KUB)	N/A	N/A	AA	AA	Aa3	Aa3
Gas (KUB)	N/A	N/A	AA	AA	Aa3	Aa3

## CASH MANAGEMENT

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

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

The average yield on investments, excluding the pension fund investments, was 1.25%. Average weighted maturities in days ranged between 49 and 100 days. Duration was very short.

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

## RISK MANAGEMENT

The City of Knoxville's risk management program is responsible for the administration of the City's self-insured liability and worker's compensation programs. The risk management division is also responsible for the administration of the City's commercial insurance and OSHA programs. An increase in net assets

of \$211 thousand was reported for the Risk Management fund as of June 30, 2004, due mainly to supplemental funding coming from the City's General Fund. Total net assets in this fund equal \$216 thousand as of June 30, 2004.

## **OTHER INFORMATION**

### ***Independent Audit***

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee selected HG&A Associates, P.C., Certified Public Accountants to perform the fiscal year 2004 audit.

### ***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, 2003. This was the eighteenth 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, 2004. This marks the sixteenth 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 Jim York, Katherine Latvala, and Jerry Campbell of the City's Finance Department, Melissa Peters, the City's Internal Auditor, the City's independent auditors, HG&A Associates, P.C., and the City Council audit committee comprised of Marilyn Roddy, Rob Frost, Barbara Pelot, Bob Becker and Joe Hultquist. 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 to the annual survey has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvilleans.

Sincerely,

Christopher P. Kinney  
Sr. Director of Finance & Accountability

# 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, 2003

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

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, Tennessee for its comprehensive annual financial report for the fiscal year ended June 30, 2003. 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.



*Nancy L. Zelle*

President

*Jeffrey R. Emer*

Executive Director

## **OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE**

### **MAYOR**

**Bill Haslam**

### **CITY COUNCIL**

**Joe Bailey  
Bob Becker  
Rob Frost**

**Mark Brown, Vice Mayor  
Steve Hall  
Joe Hultquist**

**Barbara Pelot  
Marilyn Roddy  
Chris Woodhull**

### **CITY JUDGE**

**John Rosson**

### **CITY RECORDER**

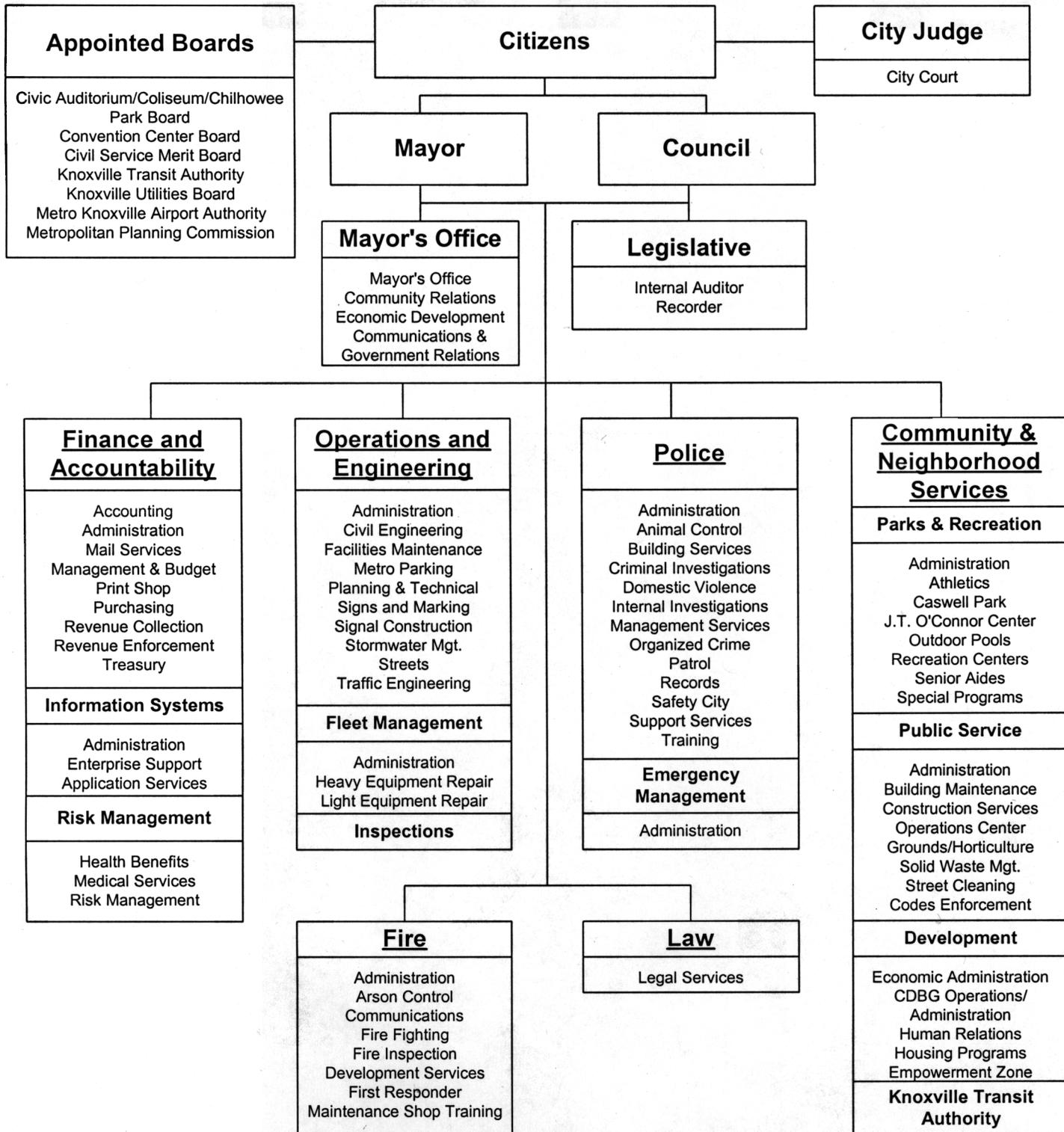
**Cindy Mitchell**

## **PRINCIPAL DIRECTORS AND ADMINISTRATORS**

**Airport - Bill Marrison, President**  
**Civil Service Merit Board - Karen R. Day, Executive Secretary**  
**Communications and Government Relations Department – Margie Nichols, Sr. Director**  
**Community & Neighborhood Services Department - Samuel P. Anderson, Sr. Director**  
**Community Relations - Thomas E. Strickland, Jr., Director**  
**Economic Development – William Lyons, Sr. Director**  
**Engineering Division – Samuel L. Parnell, Jr. - Director**  
**Finance & Accountability Department - Chris Kinney, Sr. Director**  
**Fire Department - Edward Cureton, Chief**  
**Fleet Service Division - Mel Cummings, Director**  
**Information Systems Division - Janet Wright, Director**  
**Knoxville Utilities Board – Mintha Roach, President**  
**Knoxville Area Transit (KAT) - Mark Hairr, General Manager**  
**Law Department – Morris Kizer, Sr. Director**  
**Operations and Engineering Department - Jerry Ledbetter, Sr. Director**  
**Police Department – Sterling P. Owen IV, Chief**  
**Public Assembly Division-Robert Polk, Director**  
**Public Service Division - Robert Whetsel, Director**  
**Special Events Division - Mickey Mallonnee, Director**

# City of Knoxville

## Organizational Structure





HG&A ASSOCIATES, P.C.

Certified Public Accountants

### Independent Auditors' Report

The Honorable Mayor and  
Members of City Council  
City of Knoxville  
Knoxville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City of Knoxville, Tennessee, and the component unit financial statements of Knoxville Area Transit and the City of Knoxville Pension System as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Knoxville, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of the Knoxville Utilities Board or the Metropolitan Knoxville Airport Authority. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as they relate to the amounts included for the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority in the component unit column of the statement of net assets and statement of activities, is based on the work 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Knoxville, Tennessee, as of June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004 on our consideration of the City of Knoxville'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Managements Discussion and Analysis on pages 3 to 18 and the schedules of funding progress of the pension plans on pages 74 to 75 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Knoxville's basic financial statements. The combining and individual fund financial statements and schedules of the City of Knoxville, Tennessee on pages 76 to 105 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such accompanying information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements and the combining, individual fund and account group financial statements taken as a whole.

The statistical information listed in the forgoing table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

*HG+A Associates, P.C.*

December 15, 2004

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Knoxville is including this Management Discussion and Analysis (MD & A) to enhance the reader's understanding of the City's financial position. This section is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page "i" and with the financial statements that follow. All amounts are expressed in thousands, unless otherwise specified, for the results of operations for the Fiscal Year ending June 30, 2004.

## DISCUSSION OF BASIC FINANCIAL STATEMENTS

Like previous comprehensive annual financial reports, there are three sections to the City's new financial report – *Introductory, Financial and Statistical*. However, with the implementation of the new reporting model, some changes have been made. The first section, *The Introductory Section*, contains the City's Letter of Transmittal, a facsimile of the Certificate of Achievement, an organization chart, and a list of officials. Next, *The Financial Section* is composed of the independent auditor's opinion, Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. Finally, *The Statistical Section* discloses data designed to further enhance the readers understanding of the City's financial health.

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 STATEMENTS

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

1. Governmental Activities
2. Business-Type Activities

### Component Units

1. Knoxville Utilities Board
2. Metropolitan Knoxville Airport Authority
3. Knoxville Area Transit

## STATEMENT OF NET ASSETS

The Statement of Net Assets presents the consolidated financial condition of the City at a moment of time. This statement presents assets, liabilities and total net assets categorized as either primary government or component units. Primary government activities are further delineated as either governmental or business-type. Under GASB Statement 34, the City presents a valuation of its infrastructure assets and its debt structure on one page.

## STATEMENT OF ACTIVITIES

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 presented with the total revenues and

expenses. Those activities of the governmental funds 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 by either user fees and/or operational transfers.

## **GOVERNMENTAL FUNDS STATEMENTS**

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

### **Major Governmental Funds**

1. General
2. Debt Service
3. Capital Projects

### **Non-Major Governmental Funds/ Other/ Special Revenue Funds**

1. State Street Aid
2. Community Development Block Grants
3. Abandoned Vehicles
4. City Inspections
5. City Court
6. Community Improvement
7. Miscellaneous Grants
8. Animal Control
9. Miscellaneous Special Revenue Funds
10. Miscellaneous Community Development Funds
11. Storm Water
12. Solid Waste
13. City Judges' Retirement
14. Coster Redevelopment
15. Krutch Park Trust
16. Knoxville Civic Revitalization
17. City Choice Plus

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

### ***BALANCE SHEET***

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

### ***STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES***

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, it is necessary to provide a reconciliation. Reconciliation statements are provided following both the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. Also, a Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – GAAP Basis for the General Fund is provided in this section.

## **PROPRIETARY FUNDS STATEMENTS**

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

### **Business-Type Activities**

1. Knoxville Convention Center
2. Other Business-Type Activities/  
Nonmajor Enterprise Funds
  - a. Metro Parking Fund
  - b. Public Assembly Facilities Fund

### **Governmental Activities/ Internal Service Funds**

1. Office Services Fund
2. Fleet Maintenance Fund
3. Risk Management Fund
4. Employee Health Insurance Fund
5. Equipment Replacement Fund
6. City Buildings Fund

### **STATEMENT OF NET ASSETS**

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

### **STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS**

This statement isolates operating revenues and operating expenses from other changes in net assets to allow for the measurement of how sufficiently a given activity is self-supporting. Non-operating items are also included immediately following operating income/loss.

### **STATEMENT OF CASH FLOWS**

The cash flow statement is provided to allow for the assessment of the adequacy of a proprietary fund's cash flows.

## **FIDUCIARY COMPONENT UNIT STATEMENTS**

Fiduciary activities are excluded from the government-wide statements because the resources reported in fiduciary funds are not available to support the government's programs and activities. The City Employees' Pension Fund is the City of Knoxville's sole fiduciary component unit.

### **STATEMENT OF FIDUCIARY NET ASSETS**

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

### **STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

This statement notes all changes in net assets without distinguishing earnings related changes from other types of changes. These changes to net assets are simply noted as additions and deletions.

## **NOTES TO FINANCIAL STATEMENTS AND OTHER INFORMATION**

Completing the document are notes to the financial statements which provide additional information to provide a more informed understanding of the information provided in the government-wide and fund financial statements. Following the notes, this document provides required supplementary information regarding Knoxville's progress in funding its obligation to provide pension benefits to its employees. The combining statements for nonmajor governmental funds, nonmajor enterprise funds and internal service funds, schedules for the Debt Service and Capital Projects Funds, schedules regarding Capital Assets, and other supplementary information are also provided for further clarification.

## CONDENSED COMPARATIVE DATA & OVERALL ANALYSIS

### GOVERNMENT-WIDE STATEMENTS

Our analysis below focuses on the total primary government, which includes both governmental and business-type activities.

#### STATEMENT OF NET ASSETS AT JUNE 30, 2004

A condensed version of the Statement of Net Assets at June 30, 2004 follows:

**Condensed Financial Information  
Statement of Net Assets  
Primary Government  
For Fiscal Year Ending June 30**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003 restated	2004	2003 restated	2004	2003 restated
Current and other assets:						
Cash and investments	\$106,845	\$77,494	\$4,854	\$6,033	\$111,699	\$83,527
Other assets	129,425	119,274	2,611	2,567	132,036	121,841
Capital assets	<u>242,575</u>	<u>232,777</u>	<u>178,807</u>	<u>183,676</u>	<u>421,382</u>	<u>416,453</u>
<b>Total assets</b>	<b>\$478,845</b>	<b>\$429,545</b>	<b>\$186,272</b>	<b>\$192,276</b>	<b>\$665,117</b>	<b>\$621,821</b>
Other liabilities	\$120,467	\$113,678	\$1,239	\$3,597	\$121,706	\$117,275
Noncurrent liabilities	<u>106,626</u>	<u>82,988</u>	<u>157,737</u>	<u>162,389</u>	<u>264,363</u>	<u>245,377</u>
<b>Total liabilities</b>	<b>\$227,093</b>	<b>\$196,666</b>	<b>\$158,976</b>	<b>\$165,986</b>	<b>\$386,069</b>	<b>\$362,652</b>
Net assets:						
Invested in capital assets, net of debt	\$157,139	\$155,214	\$21,070	\$52,821	\$178,209	\$208,035
Restricted	26,801	16,999	0	0	26,801	16,999
Unrestricted	<u>67,800</u>	<u>60,666</u>	<u>6,226</u>	<u>(26,531)</u>	<u>74,026</u>	<u>34,135</u>
<b>Total net assets</b>	<b>\$251,740</b>	<b>\$232,879</b>	<b>\$27,296</b>	<b>\$26,290</b>	<b>\$279,036</b>	<b>\$259,169</b>

#### **Governmental Activities**

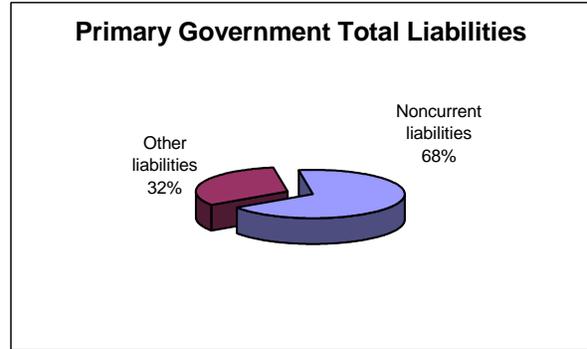
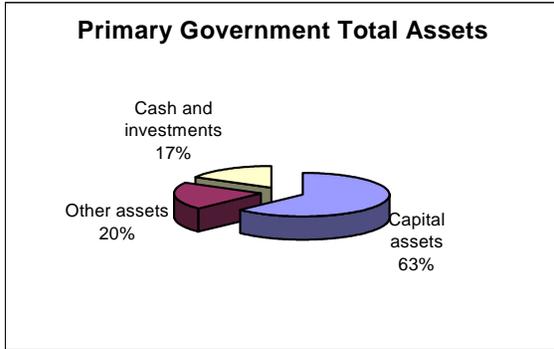
Under Governmental Activities, assets have increased by eleven percent and liabilities have increased fifteen percent over 2003 levels, resulting in an increase of eight percent in total net assets.

#### **Business-Type Activities**

Under Business-Type Activities, assets have decreased by three percent and liabilities have decreased four percent over 2003 levels, resulting in an increase of four percent in total net assets. The Knoxville Convention Center represents the largest portion of both the capital assets and noncurrent liabilities in this category. Permanent bond financing for the convention complex totals \$156.1 million with a final maturity of June 30, 2032.

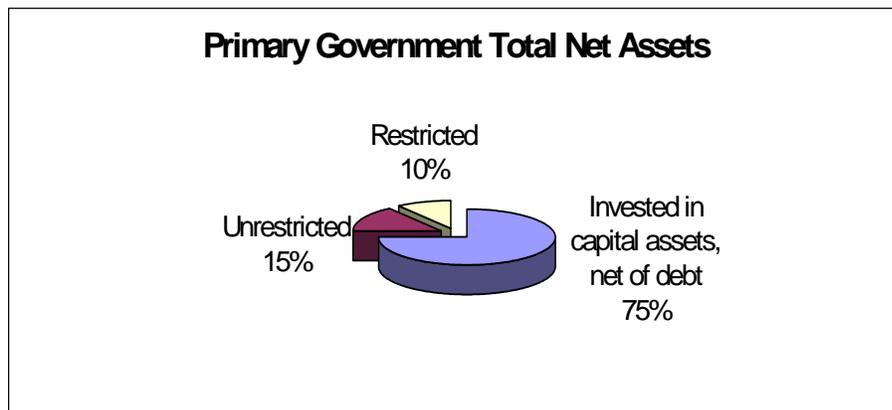
**Total Primary Government**

The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 63% of \$665 million in total assets. Taxes and governmental receivables constitute 20%. Current liquidity, as shown by cash and investments, composes the remaining 17% in total assets.



Sixty-eight percent of the total government liabilities are in long-term debt outstanding. Of this long-term debt, approximately \$160 million, or 61% was used to finance the new convention complex.

A portion of the City's total net assets is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. Within the business-type activities are bond proceeds and debt service reserves. The unrestricted net assets of the City's governmental activities represent 15% of total net assets.



**STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004**

A summary version of the Statement of Activities follows.

Condensed Financial Information  
Primary Government  
Changes in Net Assets  
For Fiscal Year Ending June 30

	Governmental Activities		Business-Type Activities		Total Government	
	2004	2003 restated	2004	2003 restated	2004	2003 restated
Revenues:						
Program revenues:						
Charges for services	\$17,162	\$12,206	\$6,557	\$7,001	\$23,719	\$19,207
Operating grants & contributions	9,033	8,770	0	0	9,033	8,770
Capital grants & contributions	890	1,574	0	11,998	890	13,572
General revenues:						
Taxes	151,034	158,527	6357	0	157,391	158,527
Interest	1,037	1,908	57	81	1,094	1,989
Other	3,257	4,472	4	241	3,261	4,713
<b>Total revenues</b>	<b>\$182,413</b>	<b>\$187,457</b>	<b>\$12,975</b>	<b>\$19,321</b>	<b>\$195,388</b>	<b>\$206,778</b>
Expenses:						
General government	\$13,200	\$10,331	\$0	\$0	\$13,200	\$10,331
Public safety	66,325	67,423	0	0	66,325	67,423
Highways and streets	27,910	28,920	0	0	27,910	28,920
Solid waste	9,209	9,729	0	0	9,209	9,729
Recreation	6,542	4,217	0	0	6,542	4,217
Economic development	6,924	7,872	0	0	6,924	7,872
Capital & grant projects	5,791	6,273	0	0	5,791	6,273
Interest on long-term debt	3,199	4,706	0	0	3,199	4,706
Other	13,412	13,721	23,009	25,034	36,421	38,755
<b>Total expenses</b>	<b>\$152,512</b>	<b>\$153,192</b>	<b>\$23,009</b>	<b>\$25,034</b>	<b>\$175,521</b>	<b>\$178,226</b>
Increase (decrease) in net assets before transfers	\$29,901	\$34,265	(\$10,034)	(\$5,713)	\$19,867	\$28,552
Transfers	(11,040)	(8,356)	11,040	8,356	0	0
Changes in net assets	18,861	25,909	1,006	2,643	19,867	28,552
Beginning net assets	232,879	288,662	26,290	23,647	259,169	312,309
Prior period adjustment	0	(81,692)	0	0	0	(81,692)
<b>Ending net assets</b>	<b>\$251,740</b>	<b>\$232,879</b>	<b>\$27,296</b>	<b>\$26,290</b>	<b>\$279,036</b>	<b>\$259,169</b>

**Governmental Activities**

As shown on the Government-Wide Statement of Activities for the year ending June 30, 2004, other than the activity noted as Other, primarily representing various grant projects, only the City Court was self-supporting. The City Court generated revenue in excess of its current expenditures. Any excess revenue above and beyond actual expenditures in the City Court is transferred to the General Fund to finance general operations. Federal grant revenue proceeds of \$2.0 million were earmarked for the City's Community Development division. Public safety operations and capital project outlays accounted for approximately 44% and 4% respectively of the City's total governmental operations of \$152.5 million. All other City of Knoxville sections and operations are financed by either local and state taxes, grants, or various shared revenues.

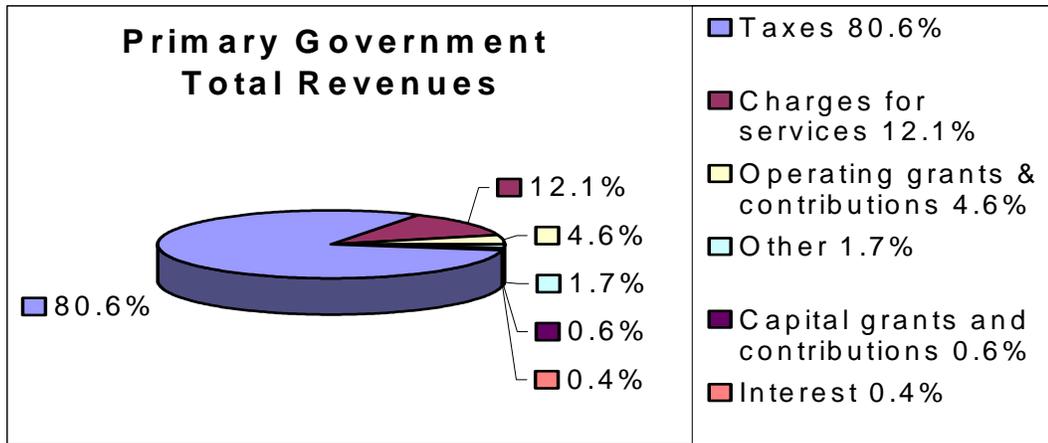
Comparative beginning net assets in the 2003 statement of activities have been adjusted by \$81.7 million to correctly recognize property taxes that met recognition requirements as a receivable under generally accepted accounting principals, but that should have been included as deferred revenue on the statement of net assets because the levy date was after the end of the fiscal year. Tax revenues were increased by \$1.6 million. As a result, the effect on 2004 beginning net assets was a decrease of \$80.1 million.

**Business-type Activities**

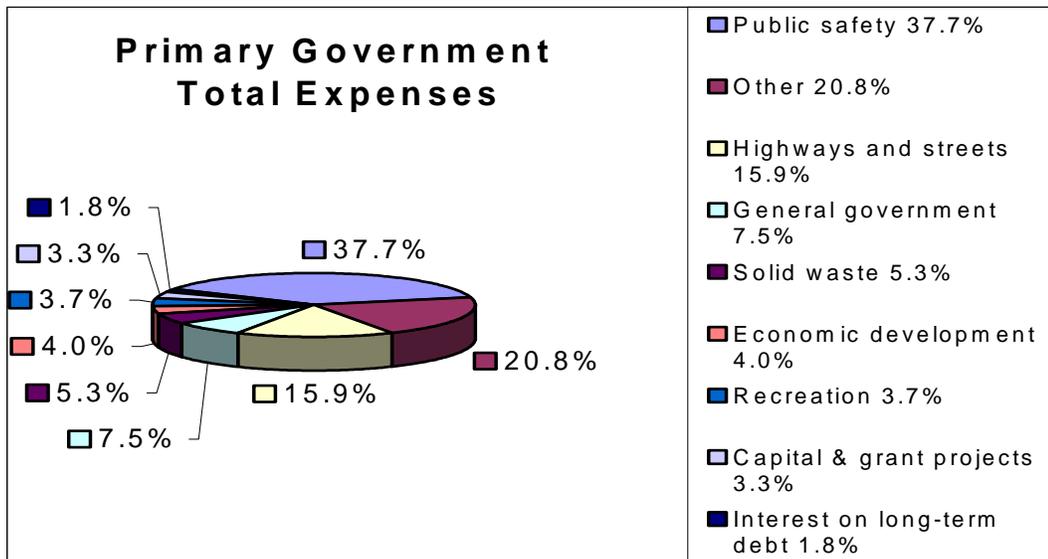
The City's business-type activities include public parking and public assembly facilities. The City also operates the current Knoxville Convention Center and the Knoxville Municipal Auditorium complexes. Home of the University of Tennessee's main campus, Knoxville attracts thousands of visitors yearly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

**Total Government**

Primary Government Revenues exceeded \$195 million. The largest portion of these revenues (80.6%) is from taxes.



Total primary government expenses totaled slightly more than \$175 million, 37.7% of which was directed toward public safety.



**COMPONENT UNITS**

The Government Accounting Standards Board (GASB 14) requires that certain organizations affiliated with the primary government be 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 the Knoxville Area Transit Fund. A summary of the City's component unit operations follows:

**Condensed Financial Information  
Component Units  
For Fiscal Year Ending June 30**

	Knoxville Utililites Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2004	2003	2004	2003	2003	2003	2004	2003
Program Revenues	\$526,856	\$496,355	\$22,355	\$30,774	\$19,584	\$16,321	\$568,795	\$543,450
Program Expenses	506,234	468,235	27,610	27,417	17,852	14,648	551,696	510,300
Total General Revenues	2,484	3,718	162	564	637	414	3,283	4,696
Change in Net Assets	23,106	31,838	(5,093)	3,921	2,369	2,087	20,382	37,846
Net Assets at Year End	\$609,793	\$586,687	\$94,297	\$99,390	\$17,212	\$14,843	<b>\$721,302</b>	<b>\$700,920</b>

**GOVERNMENTAL FUNDS STATEMENTS**

**BALANCE SHEET AT JUNE 30, 2004**

The Government fund balance as of June 30, 2004 is \$99.5 million. Of this total governmental fund balance, the general fund balance is approximately \$20.2 million, of which \$18.2 is unreserved. This general fund balance of \$20,192 is nine percent more than last year's ending balance of \$18,498.

**STATEMENT OF REVENUE, EXPENDITURES & CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2004**

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, 2004, 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**

<u>Revenues</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Percent of Total 2004</u>	<u>Increase (Decrease) from 2003</u>	<u>Percent of Increase (Decrease)</u>
Taxes, assessments, interest & penalties	\$135,130	\$133,667	74.36%	\$1,463	1.09%
Licenses, permits and inspection charges	2,110	1,838	1.16%	272	14.80%
Intergovernmental revenue	30,995	31,210	17.10%	(215)	-0.69%
Charges for services	4,906	4,240	2.70%	666	15.71%
Fines and forfeitures	3,302	2,315	1.82%	987	42.63%
Other	<u>5,276</u>	<u>9,187</u>	<u>2.90%</u>	<u>(3,911)</u>	<u>-42.57%</u>
<b>Total</b>	<b>\$181,719</b>	<b>\$182,457</b>	<b>100.00%</b>	<b>(\$738)</b>	<b>-0.40%</b>

A comparison of revenues between FY 02/03 and FY 03/04 shows the total general government revenues decreased by approximately \$738 thousand or 0.4%. The largest dollar change occurs in the "Other" category of revenue.

The increase in the tax category is due to slightly higher assessed values, and an increase in the overall collection rate. The latter has been a point of emphasis in recent years. Midway through FY 02/03 the City increased the cost for building permits. In FY 03/04 we were able to capture a full year of the increased fees. This accounts for the jump in license and permit revenue.

The decline within the intergovernmental category is attributable to reductions in state shared revenue enacted by the state legislature. These reductions materially affect such items as state shared sales taxes and the City's share of the Hall Income Tax, the latter being a tax on dividends, including capital gains distributions, and interest earnings, and have a smaller impact on several other revenues. The General Fund is the fund most impacted by the reductions. The City began receiving, in FY 03/04, a portion of the incremental sales tax growth generated within the designated Tourism Development Zone. This money is used to help pay a portion of the debt on the City's Convention Center. The amount generated from this source in the past year was approximately \$1.3 million, which was just slightly less than the other losses in the intergovernmental revenue category.

Charges for service were up when compared to FY 02/03. The increase occurs primarily in two areas. The first is in the Stormwater Fund, in which revenues from charges increase by \$144,000. This is attributable to the implementation of new Stormwater fees. The second area of increase is in City Court costs, classified here as charges. The latter is up due to an increase in the number of citations being written and processed. This also accounts for the increase seen in fines and forfeitures.

The "Other" revenue category shows a decline for various reasons. Income from parking meters, reported in this category, continued to decline due to ongoing construction in the downtown area resulting in the availability of fewer parking spaces. The decline in interest rates resulted in a major

reduction in interest revenues. This was coupled with a reduction in available funds from investment, primarily in the capital funds, also served to lower interest earnings.

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, 2004, and the percentage of increases and decreases in relation to prior year amounts.

**Condensed Financial Information**  
**Total Governmental Funds - Expenditures**  
**For Fiscal Years Ending 06/30/04 and 06/30/03**

<u>Expenditures</u>	<u>FY 03/04</u>	<u>FY 02/03</u>	<u>Percent of Total FY 03/04</u>	<u>Increase (Decrease) from 02/03</u>	<u>Percentage Change from 02/03</u>
Administration	\$1,839	\$1,838	1.05%	\$1	0.05%
Finance	3,415	3,868	2.20%	(453)	-11.71%
Law	1,451	1,413	0.80%	38	2.69%
Information systems	2,700	2,781	1.46%	(81)	-2.91%
Legislative	744	1,104	0.63%	(360)	-32.61%
City court	661	669	0.38%	(8)	-1.20%
Civil service	1,126	863	0.49%	263	30.48%
Elections	103	27	0.02%	76	281.48%
Police	39,193	40,698	23.15%	(1,505)	-3.70%
Fire	24,423	23,356	13.29%	1,067	4.57%
Emergency management	272	274	0.16%	(2)	-0.73%
Public service	14,519	16,202	9.22%	(1,683)	-10.39%
Streets	2,608	2,622	1.49%	(14)	-0.53%
Engineering	6,676	6,140	3.49%	536	8.73%
Solid waste disposal	9,193	9,675	5.50%	(482)	-4.98%
Development services	2,687	3,949	2.25%	(1,262)	-31.96%
Parks and recreation	5,977	5,967	3.39%	10	0.17%
Metropolitan Planning Commission	693	729	0.41%	(36)	-4.94%
Knoxville Zoological Park	855	900	0.51%	(45)	-5.00%
Community agency grants	1,973	2,789	1.59%	(816)	-29.26%
Community Action Committee	438	460	0.26%	(22)	-4.78%
Waterfront operations	560	520	0.30%	40	7.69%
Mass transit	5,518	5,506	3.13%	12	100.00%
Community development	2,307	1,979	1.13%	328	16.57%
Other	5,344	4,752	4.05%	592	12.46%
Capital and grant projects	23,317	19,547	17.44%	3,770	19.29%
Debt service:					
Principal retirement	19,304	12,158	6.92%	7,146	58.78%
Interest on bonds and notes	2,973	4,796	2.73%	(1,823)	-38.01%
Payment on City-County bldg lease	0	179	0.52%	(179)	-100.00%
Other services and charges	139	27	0.21%	112	414.81%
<b>Total Expenditures</b>	<b>\$181,008</b>	<b>\$175,788</b>	<b>108.16%</b>	<b>5,220</b>	<b>2.97%</b>

Overall general government expenditures for FY 03/04 increased by more than \$5 million or 2.97% when compared to FY 02/03. This increase is primarily due to increases in capital expenditures and debt retirement. These increases were partially offset by spending for on-going operations.

A significant cost change, which is reflected in the expenditures of most departments, is the increased costs of health care and risk management expenses. The latter shows in increases for worker's compensation costs, and liability and property insurance premiums. For example, the City's health care premiums increased by 15% beginning in January 2004. This followed a 26% increase in January 2003.

Expenditures for debt service show an overall increase of \$5.3 million due to the payoff of a line of credit. This line was part of a major debt refunding and new money issue. A portion of the new money was used to retire the outstanding line.

## **PROPRIETARY FUNDS STATEMENTS**

### ***STATEMENT OF NET ASSETS AT JUNE 30, 2004***

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

### ***STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004***

A summary of the revenues, expenses, and interfund transfers indicates that there is an increase in total proprietary fund net assets, including internal service funds, of \$3.4 million after transfers.

### ***STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2004***

The three main business type activities of the City are the Convention Center, the Main and State Street parking garages, and the Public Assembly Facilities operations. As expected, operations experienced a net operating loss. Both parking garages operate at a profit, if interest on debt is excluded. Main Avenue garage has debt outstanding, and a subsidy is required to cover a portion of the debt service.

Public Assembly Facilities also operated at a loss. This is due the inclusion of Chilhowee Park. This park is not expected to generate a profit due to the public nature of the area. The Auditorium/Coliseum does generate positive cash flow from operations.

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

**Condensed Financial Information  
Proprietary Funds  
For Fiscal Year Ending June 30**

<b>Proprietary Funds</b>	<b>Revenues</b>		<b>Expenses</b>		<b>Net Interfund Transfers</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
I. Business-type Activities						
A. Knoxville Convention Center	\$10,119	\$4,359	\$18,563	\$20,328	\$9,442	\$6,585
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,021	998	738	847	0	120
2. Public Assembly Facilities	1,835	1,966	3,613	3,686	1,598	1,651
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	478	423	462	439	0	0
2. Fleet Maintenance	9,666	10,167	8,851	9,132	0	86
3. Risk Management	5,874	4,863	6,653	6,935	990	1,855
4. Employee Health Insurance	11,582	9,597	11,709	10,166	1,005	856
5. Equipment Replacement	2,155	1,933	2,080	2,221	129	226
6. City Buildings	1,350	1,385	1,207	1,245	0	0
<b>TOTAL</b>	<b>\$44,080</b>	<b>\$35,691</b>	<b>\$53,876</b>	<b>\$54,999</b>	<b>\$13,164</b>	<b>\$11,379</b>

	<b>Capital Contributions</b>		<b>Change in Net Assets</b>		<b>Net Assets at Year End</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
I. Business-type Activities						
A. Knoxville Convention Center	\$0	\$11,436	\$998	\$2,052	\$12,023	\$11,025
B. Other (Non-major enterprise funds)						
1. Metro Parking	0	0	283	271	6,839	6,556
2. Public Assembly Facilities	0	562	(180)	493	8,804	8,984
II. Governmental Activities						
A. Internal Service Funds						
1. Office Services	0	0	16	(16)	22	6
2. Fleet Maintenance	0	40	815	1,161	15,966	15,151
3. Risk Management	0	0	211	(217)	216	5
4. Employee Health Insurance	0	0	878	287	2,656	1,778
5. Equipment Replacement	0	0	204	(62)	12,011	11,807
6. City Buildings	0	0	143	140	283	140
<b>TOTAL</b>	<b>\$0</b>	<b>\$12,038</b>	<b>\$3,368</b>	<b>\$4,109</b>	<b>\$58,820</b>	<b>\$55,452</b>

**FIDUCIARY COMPONENT UNIT STATEMENTS**

The Pension Trust Fund is reported as the sole fiduciary component unit. The City's defined benefit plan consists of contributions for general government, uniformed, utility and school board employees. The following table notes the contribution rates:

	<b>Condensed Financial Information Pension Trust Fund Contribution Rates</b>		
	<b>FY 03/04 Contribution Rates</b>	<b>FY 04/05 Contribution Rates</b>	<b>Estimated FY 05/06 Contribution Rates</b>
General Government Employees:			
Defined Contribution (G1)	1.50%	3.91%	7.25%
Defined Benefit (G2)	0.00%	2.41%	5.75%
Police and Fire Employees	5.16%	9.49%	11.00%
Board of Education Employees	0.00%	0.00%	0.00%

**STATEMENT OF FIDUCIARY NET ASSETS AT JUNE 30, 2004 and  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004**

The City's Pension Fund remains fully funded at year-end. The fund, like similar funds, was hard hit by the decline in the stock market. It is expected that net outflows will exceed contributions, before investment income, in the near term. The loss in investments will result in increased contributions by the City in the future. These increases have been budgeted.

**BUDGET VARIANCES IN THE GENERAL FUND**

The following table shows the Budget Appropriation Changes for the previous two years.

	<b>Budget Appropriation Changes For Fiscal Year Ending June 30</b>									
	Encumbrances		Capital and Redevelopment		Contractual Services		Other		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>Governmental Activities:</b>										
Abandoned Vehicles	\$0	\$0	\$0	\$0	\$0	\$0	\$114	\$0	\$114	\$0
General Fund	2,136	2,777	0	2,458	100	585	519	917	2,755	6,737
Debt Services	0	0	0	0	0	0	8,225	375	8,225	375
Capital Projects	0	0	(1,232)	4,338	0	0	0	2,090	(1,232)	6,428
City Court	2	0	0	0	0	0	960	776	962	776
Community Dev. Block Grant	0	0	0	0	0	0	1,815	0	1,815	0
State Street Aid	0	0	0	0	0	0	8	0	8	0
Storm Water	45	0	0	0	0	0	4	34	49	34
Solid Waste	2,700	3,906	0	0	0	0	0	0	2,700	3,906
<b>TOTAL</b>	<b>\$4,883</b>	<b>\$6,683</b>	<b>(\$1,232)</b>	<b>\$6,796</b>	<b>\$100</b>	<b>\$585</b>	<b>\$11,645</b>	<b>\$4,192</b>	<b>\$15,396</b>	<b>\$18,256</b>
<b>Business-type Activities</b>										
Knoxville Convention Center	\$194	\$1	\$0	\$0	\$0	(\$200)	\$0	\$0	\$194	(\$199)
Metro Parking Fund	0	0	5	0	0	0	0	0	5	0
Public Assembly Facilities Fund	371	0	0	0	0	0	0	0	371	0
Office Services Fund	0	0	0	0	34	0	0	0	34	0
Fleet Maintenance	504	1,623	0	0	0	0	0	0	504	1,623
Risk Management	181	201	0	0	0	0	0	0	181	201
Employee Health Insurance	56	0	0	0	0	0	0	0	56	0
Equipment Replacement	202	145	0	0	0	0	75	577	277	722
Other	24	148	0	0	0	0	89	48	113	196
<b>TOTAL</b>	<b>\$1,532</b>	<b>\$2,118</b>	<b>\$5</b>	<b>\$0</b>	<b>\$34</b>	<b>(\$200)</b>	<b>\$164</b>	<b>\$625</b>	<b>\$1,735</b>	<b>\$2,543</b>
<b>Total Budgetary Changes</b>	<b>\$6,415</b>	<b>\$8,801</b>	<b>(\$1,227)</b>	<b>\$6,796</b>	<b>\$134</b>	<b>\$385</b>	<b>\$11,809</b>	<b>\$4,817</b>	<b>\$17,131</b>	<b>\$20,799</b>

City Council members approved several amendments to the originally adopted budget throughout the year, totaling \$16.2 million. Forty percent of these amendments, or \$6.4 million, related to the validation of prior year's contractual encumbrances, of which \$2.7 million was for the City's refuse collection contract. Other budget amendments provided additional grant funding for various non-profit agencies, and various capital projects.

## CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

As of June 30, 2004 the primary government of the City had invested \$421.4 million in capital assets as reflected by the following table. The total amount represents an overall increase primarily due to continued improvements and expansion in infrastructure. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets. This accounts for the growth in the past year. There are several major projects that are just beginning which will increase future assets, primarily the construction of a new downtown parking garage.

### Capital Assets at Year-End (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Land and site improvements	\$39,369	\$38,166	\$6,042	\$6,042	\$45,411	\$44,208
Buildings and improvements	38,952	38,924	206,457	206,110	245,409	245,034
Equipment, furniture & fixtures	53,673	55,439	3,006	3,006	56,679	58,445
Infrastructure	176,314	173,825	0	0	176,314	173,825
Construction in progress	50,100	32,574	0	17	50,100	32,591
Less accumulated depreciation	(115,833)	(106,151)	(36,698)	(31,499)	(152,531)	(137,650)
<b>Total</b>	<b>\$242,575</b>	<b>\$232,777</b>	<b>\$178,807</b>	<b>\$183,676</b>	<b>\$421,382</b>	<b>\$416,453</b>

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. Further detail can be provided by referring to Note 7 of the Notes to Financial Statements, as well as the section concerning Capital Assets Used in the Operation of Governmental Funds.

### Change in Capital Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Beginning balance	\$338,928	\$312,191	\$215,175	\$182,101	\$554,103	\$494,292
Additions	27,927	32,025	347	193,521	28,274	225,546
Deletions	(8,447)	(5,288)	(17)	(160,447)	(8,464)	(165,735)
Balance before depreciation	358,408	338,928	215,505	215,175	573,913	554,103
Accumulated depreciation	(115,833)	(106,151)	(36,698)	(31,499)	(152,531)	(137,650)
<b>Balance after depreciation</b>	<b>\$242,575</b>	<b>\$232,777</b>	<b>\$178,807</b>	<b>\$183,676</b>	<b>\$421,382</b>	<b>\$416,453</b>

#### **Debt Administration:**

As of the year-end, the City's Total Primary Government had \$262.7 million in debt outstanding. Included in this amount is \$1.4 million, representing the City's portion in the joint construction of a new City/County animal shelter. During FY 03/04, the City issued \$34 million in new debt. Proceeds from this debt have been used to retire an outstanding line of credit, and will also be used to construct a new parking garage in the downtown area. The balance of the proceeds will fund various other city projects. At the same time the City did a high to low coupon refunding. The present value savings from this refunding were approximately \$4.5 million, with estimated annual savings of approximately \$300,000. The City also retired approximately \$14 million in debt, which results, upon comparison to FY 02/03, an increase of approximately \$21.6 million in total outstanding debt.

### Outstanding Debt at Year - End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
<b>Current</b>						
Bonds, notes and capital leases due within one year	\$10,901	\$9,342	\$3,569	\$2,926	\$14,470	\$12,268
<b>Noncurrent</b>						
Bonds, notes and capital leases due in more than one year	95,725	73,646	154,168	159,463	249,893	233,109
<b>Subtotal</b>	<b>\$106,626</b>	<b>\$82,988</b>	<b>\$157,737</b>	<b>\$162,389</b>	<b>\$264,363</b>	<b>\$245,377</b>
Unamortized premiums, discounts and gains on refunding	(2,114)	0	447	466	(1,667)	466
<b>TOTAL</b>	<b>\$104,512</b>	<b>\$82,988</b>	<b>\$158,184</b>	<b>\$162,855</b>	<b>\$262,696</b>	<b>\$245,843</b>

The City currently maintains a Fitch/ICBA rating of AA+, which was the same as last year's rating. Standard and Poor's rates the City's general obligation bonds AA while the City carries a Moody's rating of Aa2. For additional information on the long-term debt of the City, please refer to Note 9 of the Notes to Financial Statements, as well as in the Schedule of Long-Term Bonds and Notes Payable.

## OTHER POTENTIALLY SIGNIFICANT MATTERS

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes \$111.1 million or 84.6% of the total 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, personality, and public utility. The growth rate for assessed value on real estate has been fairly moderate during the mid to late 1990's and early 2000's. We expect this moderate growth to continue into the new fiscal year, with the forecast for overall growth in real property being 1.76%. Within this grouping the highest anticipated growth is in commercial property. Residential property growth is expected to be slightly lower than the overall average, while the value of industrial property is expected to decline. For FY 04/05 the projected assessed value of real property is \$2.52 billion. Personal property growth has been higher than real property in the recent past and we expect that to continue in the new year. This growth is, however, more than offset by a reduction in the equalization ratio, which will effectively lower assessed values below the FY 02/03 level. The equalization ratio also impacts taxes on public utilities. We are also forecasting no growth in this segment, but a lowering in the total assessed values due to the change in the equalization ratio. Historically, the city has collected an average of 93.6 % of real property taxes.

Local option sales tax revenues make up approximately \$30.5 million or 21.2% of total General Fund revenues. Knoxville, like the rest of the nation, has witnessed a slower growth in sales based revenues during the past year. We have, however, fared better than most cities in the state and region. We expect a modest upturn in the economy in FY 04/05, which will be reflected in sales tax growth. The second largest revenue category to the General Fund is intergovernmental revenue, and accounts for \$17.2 million or 11.9% of total revenue. This category of revenue experienced a decline in FY 03/04, primarily due to a drop in proceeds from the Hall Income tax. No additional cuts were enacted in 2004 and we expect some growth in this category of revenue in the upcoming year. This growth is due to expected improvements in the overall economy, particularly in the state shared sales tax.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system are expected to grow in the next fiscal year. The category of miscellaneous revenue includes interest earnings. The decrease in interest rates, combined with lower balances available for investment, will result in continued declines in this revenue source.

Health care benefits are accounted for in a separate internal service fund. The City's Employee Health Insurance Fund is funded by both employer and employee contributions. Premiums for medical care are projected to increase by 10% in January 2005, when the current contract is renewed. Therefore, the cost once borne by the City for employee's health costs must now be shared. Due to the skyrocketing cost of health benefits, individuals must now provide 10% of their coverage, family coverage is now increased to 30%, and retirees must provide 60% of the total premiums. The City is continuing to examine various methods, which may help lower these increases in the future. Particular emphasis will be given to wellness programs and disease prevention.

The City attempts to plan for future changes in revenues and expenditures. As part of this planning we believe it is appropriate to disclose some potential problem areas. The City is facing the prospect of limited revenue growth in the future. Of particular concern is the state revenue situation. The state continues to experience financial difficulty. In its budget for FY 02/03 the state imposed a nine percent reduction in state shared revenue. The reduction was not spread evenly among all shared revenues, but was higher in sales taxes and income taxes. This tends to hit the larger municipalities, including Knoxville, slightly harder. While no additional reductions were implemented in 2004, we do not expect these cuts to be restored and believe there is a possibility of additional cuts in the future. At this time we cannot assess the likelihood of such a scenario, but we will continue to evaluate our options should such an event occur. It is likely that services would be reduced in such a situation.

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

The City currently provides a defined benefit pension plan. The recent market performance has resulted in portfolio losses and has affected growth assumptions. This will require the City to increase its contributions to the retirement system in the upcoming year. This is factored into the upcoming budget.

On the plus side, we expect that the new Convention Center will have a significant economic impact on the City. The City received funds from the state in FY 03/04 to help offset future debt payments on the facility. The downtown area is also experiencing a rebirth, and should continue to grow in the future. The relocation of two major employers to the downtown area should further provide an economic stimulus to the area.

## **FINANCIAL CONTACT**

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
**June 30, 2004**  
**(in thousands)**

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit
<b>ASSETS</b>						
Cash and temporary investments	\$ 4,916	\$ 555	\$ 5,471	\$ 88,308	\$ 4,619	\$ -
Investments	80,739	4,299	85,038	87,702	21,177	766
Receivables (net of allowance for uncollectibles):						
Accounts	19,145	938	20,083	52,540	1,810	3,198
Taxes on real and personal property	93,947	-	93,947	-	-	-
Notes	9,914	-	9,914	284	-	-
TVA conservation program	-	-	-	4,202	-	-
Net assets held by convention center manager:	-	1,383	1,383	-	-	-
Other	-	-	-	12	-	-
Internal balances	1,437	(1,437)	-	-	-	-
Due from component units	2,306	-	2,306	-	-	-
Inventory	2,031	-	2,031	5,030	-	693
Prepaid items	645	-	645	12,435	522	181
Investment in capital lease	-	861	861	-	-	-
Deferred charges	-	866	866	348	2,085	-
Restricted assets:						
Temporarily restricted:						
Bond funds	-	-	-	8,846	393	-
Unused bond proceeds	21,190	-	21,190	30,128	-	-
Receivables	-	-	-	-	485	-
Other	-	-	-	323	69	-
Other assets	-	-	-	6,176	1,637	-
Capital assets:						
Land and site improvements	39,369	6,042	45,411	-	139,207	-
Building and building improvements	38,952	206,457	245,409	-	118,400	5,013
Utility plant in service	-	-	-	1,088,168	-	-
Equipment, furniture and fixtures	53,673	3,006	56,679	-	7,263	23,127
Infrastructure	176,314	-	176,314	-	-	-
Construction in progress	50,100	-	50,100	58,341	3,545	744
Less accumulated depreciation	(115,833)	(36,698)	(152,531)	(388,510)	(97,446)	(13,656)
Total assets	<u>\$ 478,845</u>	<u>\$ 186,272</u>	<u>\$ 665,117</u>	<u>\$ 1,054,333</u>	<u>\$ 203,766</u>	<u>\$ 20,066</u>
<b>LIABILITIES AND NET ASSETS</b>						
Liabilities:						
Accounts payable	\$ 5,966	\$ 365	\$ 6,331	\$ 35,981	\$ 1,093	\$ 195
Matured principal and interest on bonds	-	-	-	923	-	-
Accrued liabilities	9,454	782	10,236	17,944	621	353
Due to primary government	-	-	-	-	-	2,306
Due to other governmental agencies	1,674	-	1,674	-	-	-
Unearned revenue	97,793	92	97,885	-	-	-
Customer deposits, plus accrued interest	-	-	-	8,125	-	-
Estimated liability for litigation and claims	5,592	-	5,592	1,782	-	-
Liabilities payable from restricted assets:						
Bonds and notes due within one year	-	-	-	-	405	-
Accrued interest	-	-	-	-	373	-
Noncurrent liabilities:						
Bonds, notes, debt agreements and capital leases due within one year	10,901	3,569	14,470	98,795	-	-
Bonds, notes, debt agreements and capital leases due in more than one year	95,725	154,168	249,893	275,994	106,977	-
Other noncurrent liabilities	-	-	-	4,996	-	-
Total liabilities	<u>227,105</u>	<u>158,976</u>	<u>386,081</u>	<u>444,540</u>	<u>109,469</u>	<u>2,854</u>
Net assets:						
Invested in capital assets, net of related debt	157,139	21,070	178,209	418,416	66,222	15,228
Restricted for:						
Debt service	26,801	-	26,801	4,385	-	-
Other	-	-	-	323	948	-
Unrestricted	<u>67,800</u>	<u>6,226</u>	<u>74,026</u>	<u>186,669</u>	<u>27,127</u>	<u>1,984</u>
Total net assets	<u>251,740</u>	<u>27,296</u>	<u>279,036</u>	<u>609,793</u>	<u>94,297</u>	<u>17,212</u>
Total liabilities and net assets	<u>\$ 478,845</u>	<u>\$ 186,272</u>	<u>\$ 665,117</u>	<u>\$ 1,054,333</u>	<u>\$ 203,766</u>	<u>\$ 20,066</u>

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



Net (Expense) Revenue and Changes in Net Assets

Primary Government			Metropolitan		
Governmental Activities	Business-type Activities	Total	Knoxville Utilities Board	Knoxville Airport Authority	Knoxville Area Transit
\$ (2,966)	\$ -	\$ (2,966)	\$ -	\$ -	\$ -
(2,948)	-	(2,948)	-	-	-
(1,472)	-	(1,472)	-	-	-
(2,730)	-	(2,730)	-	-	-
(534)	-	(534)	-	-	-
5,214	-	5,214	-	-	-
(1,155)	-	(1,155)	-	-	-
(103)	-	(103)	-	-	-
(36,541)	-	(36,541)	-	-	-
(25,442)	-	(25,442)	-	-	-
(228)	-	(228)	-	-	-
(14,214)	-	(14,214)	-	-	-
(8,523)	-	(8,523)	-	-	-
(4,401)	-	(4,401)	-	-	-
(8,474)	-	(8,474)	-	-	-
(799)	-	(799)	-	-	-
(5,470)	-	(5,470)	-	-	-
(693)	-	(693)	-	-	-
(855)	-	(855)	-	-	-
(1,973)	-	(1,973)	-	-	-
(438)	-	(438)	-	-	-
(975)	-	(975)	-	-	-
(5,518)	-	(5,518)	-	-	-
(576)	-	(576)	-	-	-
4,512	-	4,512	-	-	-
(4,787)	-	(4,787)	-	-	-
(3,199)	-	(3,199)	-	-	-
(139)	-	(139)	-	-	-
<u>(125,427)</u>	<u>-</u>	<u>(125,427)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	259	259	-	-	-
-	(1,886)	(1,886)	-	-	-
-	<u>(14,825)</u>	<u>(14,825)</u>	-	-	-
-	<u>(16,452)</u>	<u>(16,452)</u>	-	-	-
<u>(125,427)</u>	<u>(16,452)</u>	<u>(141,879)</u>	-	-	-
-	-	-	20,622	-	-
-	-	-	-	(5,255)	-
-	-	-	-	-	1,732
-	-	-	<u>20,622</u>	<u>(5,255)</u>	<u>1,732</u>
78,309	-	78,309	-	-	-
1,453	-	1,453	-	-	-
10,024	-	10,024	-	-	-
40,740	1,382	42,122	-	-	-
-	1,451	1,451	-	-	-
-	3,524	3,524	-	-	-
1,006	-	1,006	-	-	-
347	-	347	-	-	-
5,787	-	5,787	-	-	-
898	-	898	-	-	-
5,285	-	5,285	-	-	-
1,864	-	1,864	-	-	-
4,044	-	4,044	-	-	-
1,156	-	1,156	-	-	-
121	-	121	-	-	-
1,190	-	1,190	-	-	631
905	4	909	-	-	-
1,439	-	1,439	-	-	-
1,037	57	1,094	2,484	149	6
(277)	-	(277)	-	13	-
<u>(11,040)</u>	<u>11,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>144,288</u>	<u>17,458</u>	<u>161,746</u>	<u>2,484</u>	<u>162</u>	<u>637</u>
18,861	1,006	19,867	23,106	(5,093)	2,369
312,951	26,290	339,241	586,687	99,390	14,843
<u>(80,072)</u>	<u>-</u>	<u>(80,072)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 251,740</u>	<u>\$ 27,296</u>	<u>\$ 279,036</u>	<u>\$ 609,793</u>	<u>\$ 94,297</u>	<u>\$ 17,212</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2004**  
**(in thousands)**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and temporary investments	\$ 58	\$ 1,187	\$ 932	\$ 1,579	\$ 3,756
Investments	9,761	19,243	10,919	17,566	57,489
Receivables (net of allowance for uncollectibles):					
Accounts	12,748	44	976	5,316	19,084
Taxes on real and personal property	68,851	25,096	-	-	93,947
Notes	-	2,440	-	7,474	9,914
Due from other funds	1,107	6,235	-	100	7,442
Due from component units	2,306	-	-	-	2,306
Inventory	236	-	-	-	236
Prepaid items	-	131	12	3	146
Restricted assets:					
Temporarily restricted:					
Unused bond proceeds	-	-	21,190	-	21,190
Total assets	\$ 95,067	\$ 54,376	\$ 34,029	\$ 32,038	\$ 215,510
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 2,018	\$ -	\$ 2,378	\$ 1,328	\$ 5,724
Accrued liabilities	1,765	285	-	130	2,180
Due to other funds	-	-	-	2,472	2,472
Due to other governmental agencies	1,674	-	-	-	1,674
Deferred revenue	69,418	24,719	-	9,845	103,982
Total liabilities	74,875	25,004	2,378	13,775	116,032
Fund balances:					
Reserved for:					
Encumbrances	736	-	353	40	1,129
Incompleted contracts	981	-	22,455	4,010	27,446
Inventories	236	-	-	-	236
Prepaid items	-	131	12	3	146
Notes receivable	-	2,440	-	2,132	4,572
Debt service	-	26,801	-	-	26,801
Unreserved, reported in:					
General fund	18,239	-	-	-	18,239
Special revenue funds	-	-	-	12,078	12,078
Capital projects funds	-	-	8,831	-	8,831
Total fund balances	20,192	29,372	31,651	18,263	99,478
Total liabilities and fund balances	\$ 95,067	\$ 54,376	\$ 34,029	\$ 32,038	\$ 215,510

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

CITY OF KNOXVILLE, TENNESSEE  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
 TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
 June 30, 2004  
 (in thousands)

Total governmental fund balances	\$	99,478
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
<i>Accounting basis differences:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the balance sheet of the governmental funds.		228,113
Long-term liabilities, including debt, are not due and payable in the current period and therefore are not reported as liabilities in the balance sheet of the governmental funds:		
Bonds and notes		(106,626)
Accrued liabilities:		
Compensated absences		(5,980)
Accrued interest on long-term debt		(958)
Revenues that have been deferred in the balance sheet of the governmental funds because they were not available to pay current liabilities of the period are recognized as revenue in the statement of activities and therefore are not included in the statement of net assets.		6,189
<i>Consolidation differences:</i>		
Internal service funds are used to charge the costs of office services, fleet management, risk management, health insurance and equipment replacement to individual funds. The assets and liabilities, plus amounts of expenses related to business-type funds, of the internal service funds are included in governmental activities in the statement of net assets:		
Internal service fund assets and liabilities		31,154
Net assets related to business-type funds		370
Governmental net assets	\$	251,740

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the year ended June 30, 2004**  
**(in thousands)**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes, assessments, interest and penalties	\$ 111,054	\$ 24,076	\$ -	\$ -	\$ 135,130
Licenses, permits and inspection charges	264	-	-	1,846	2,110
Intergovernmental revenue	15,280	1,269	890	13,556	30,995
Charges for services	1,167	-	-	3,739	4,906
Fines and forfeitures	330	-	-	2,972	3,302
Other	1,135	330	262	3,549	5,276
<b>Total revenue</b>	<b>129,230</b>	<b>25,675</b>	<b>1,152</b>	<b>25,662</b>	<b>181,719</b>
<b>Expenditures:</b>					
Current:					
Administration	1,839	-	-	-	1,839
Finance	3,415	-	-	-	3,415
Law	1,451	-	-	-	1,451
Information systems	2,700	-	-	-	2,700
Legislative	744	-	-	-	744
City court	-	-	-	661	661
Civil service	846	-	-	280	1,126
Elections	103	-	-	-	103
Police	35,434	-	-	3,759	39,193
Fire	24,423	-	-	-	24,423
Emergency management	272	-	-	-	272
Public service	14,519	-	-	-	14,519
Streets	-	-	-	2,608	2,608
Engineering	5,004	-	-	1,672	6,676
Solid waste disposal	-	-	-	9,193	9,193
Development services	695	-	-	1,992	2,687
Parks and recreation	5,966	-	-	11	5,977
Metropolitan Planning Commission	693	-	-	-	693
Knoxville Zoological Park management agreement	855	-	-	-	855
Community agency grants	1,973	-	-	-	1,973
Community Action Committee	438	-	-	-	438
Waterfront operations	560	-	-	-	560
Mass transit	4,513	-	-	1,005	5,518
Community development	-	-	-	2,307	2,307
Other	-	-	-	5,344	5,344
Capital and grant projects	-	-	23,317	-	23,317
Debt service:					
Principal retirement	-	19,304	-	-	19,304
Interest on bonds and notes	-	2,973	-	-	2,973
Other services and charges	-	139	-	-	139
<b>Total expenditures</b>	<b>106,443</b>	<b>22,416</b>	<b>23,317</b>	<b>28,832</b>	<b>181,008</b>
Excess (deficiency) of revenues over expenditures	22,787	3,259	(22,165)	(3,170)	711
Other financing sources (uses):					
Proceeds from issuance of debt	-	138	42,829	-	42,967
Transfers in	3,360	9,981	6,412	9,884	29,637
Transfers out	(24,453)	(3,547)	(9,981)	(4,820)	(42,801)
<b>Total other financing sources (uses)</b>	<b>(21,093)</b>	<b>6,572</b>	<b>39,260</b>	<b>5,064</b>	<b>29,803</b>
Net change in fund balance	1,694	9,831	17,095	1,894	30,514
Fund balance at beginning of year	18,498	19,541	14,556	16,369	68,964
Fund balance at end of year	\$ 20,192	\$ 29,372	\$ 31,651	\$ 18,263	\$ 99,478

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

**CITY OF KNOXVILLE, TENNESSEE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2004**  
**(in thousands)**

Net change in fund balances of total governmental funds	\$	30,514
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<i>Accounting basis differences:</i>		
Governmental funds report capital outlays as expenditures.		19,290
The cost of capital assets is allocated over their estimated useful lives as depreciation expense in the statement of changes in net assets.		(6,700)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal by reducing the proceeds by the cost, less related accumulated depreciation of each asset disposed.		(422)
Revenues in the statement of activities that do not provide financial resources are not reported as revenues in the statement of revenues, expenditures and changes in fund balances of governmental funds.		(2,396)
Proceeds from debt issues are an other financing source in the statement of revenues, expenditures and changes in fund balances of governmental funds. Debt issues increase long-term liabilities in the statement of net assets.		(42,967)
Premiums from issuance of debt and gains from early retirement of debt are amortized over the term of related debt and are included as interest expense in the statement of activities.		25
Repayment of debt principal is an expenditure in the statement of revenues, expenditures and changes in fund balances of governmental funds. Repayments of debt principal reduces long-term debt in the statement of net assets.		19,304
Interest that has been accrued on outstanding debt from the last payment date through the balance sheet date and recorded as an expense in the statement of activities. In the statement of revenues, expenditures and changes in fund balances of governmental funds interest expenditures are only reported when due.		(251)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances of governmental funds:		
Compensated absences		102
The revenue and expenses of certain activities of internal service funds are reported with governmental activities in the statement of activities:		
Revenues for goods and services billed to other government organizations		3,277
Expenses		(3,274)
Investment earnings		235
Transfers		2,124
Change in net assets of governmental activities	\$	<u><u>18,861</u></u>

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GAAP BASIS**  
**GENERAL FUND**  
**For the year ended June 30, 2004**  
**(in thousands)**

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues:</b>				
Taxes, assessments, interest and penalties	\$ 106,947	\$ 106,947	\$ 111,054	\$ 4,107
Licenses, permits and inspection charges	281	281	264	(17)
Intergovernmental revenue	16,704	16,704	15,280	(1,424)
Charges for services	950	950	1,167	217
Fines and forfeitures	258	258	330	72
Other	5,580	8,335	1,135	(7,200)
Total revenue	<u>130,720</u>	<u>133,475</u>	<u>129,230</u>	<u>(4,245)</u>
<b>Expenditures:</b>				
Current:				
Administration	1,817	1,865	1,839	(26)
Finance	3,089	3,674	3,415	(259)
Law	1,382	1,451	1,451	-
Information systems	2,816	2,991	2,700	(291)
Legislative	774	956	744	(212)
Civil service	916	917	846	(71)
Elections	200	283	103	(180)
Police	36,611	36,579	35,434	(1,145)
Fire	24,589	24,742	24,423	(319)
Emergency management	316	328	272	(56)
Public service	15,474	15,047	14,519	(528)
Engineering	4,521	5,132	5,004	(128)
Development services	847	969	695	(274)
Parks and recreation	5,896	6,141	5,966	(175)
Metropolitan Planning Commission	693	693	693	-
Knoxville Zoological Park management agreement	855	855	855	-
Community agency grants	1,517	1,973	1,973	-
Community Action Committee	438	438	438	-
Waterfront operations	448	560	560	-
Mass transit	4,455	4,513	4,513	-
Other	1,350	1,350	-	(1,350)
Total expenditures	<u>109,004</u>	<u>111,457</u>	<u>106,443</u>	<u>(5,014)</u>
Excess of revenues over expenditures	<u>21,716</u>	<u>22,018</u>	<u>22,787</u>	<u>769</u>
Other financing sources (uses):				
Transfers in	2,435	2,435	3,360	925
Transfers out	(24,151)	(24,453)	(24,453)	-
Total other financing sources (uses)	<u>(21,716)</u>	<u>(22,018)</u>	<u>(21,093)</u>	<u>925</u>
Net change in fund balances	-	-	1,694	1,694
Fund balance at beginning of year	18,498	18,498	18,498	-
Fund balance at end of year	<u>\$ 18,498</u>	<u>\$ 18,498</u>	<u>\$ 20,192</u>	<u>\$ 1,694</u>

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2004**  
**(in thousands)**

	Business-type Activities			Governmental Activities
	Knoxville Convention Center	Other Business-type Activities	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and temporary investments	\$ 50	\$ 505	\$ 555	\$ 1,160
Investments	-	4,299	4,299	23,250
Accounts receivable				
Net assets held by convention center managers	1,383	-	1,383	-
Other	652	286	938	61
Inventory	-	-	-	1,795
Prepaid items	-	-	-	499
Total current assets	2,085	5,090	7,175	26,765
Noncurrent assets:				
Investment in capital lease	-	861	861	-
Deferred charges	853	13	866	-
Capital assets:				
Land and site improvements	2,952	3,090	6,042	-
Building and building improvements	180,065	26,392	206,457	196
Equipment, furniture and fixtures	2,616	391	3,007	49,589
Less accumulated depreciation	(18,598)	(18,101)	(36,699)	(35,323)
Net capital assets	167,035	11,772	178,807	14,462
Total noncurrent assets	167,888	12,646	180,534	14,462
Total assets	\$ 169,973	\$ 17,736	\$ 187,709	\$ 41,227
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable	\$ 260	\$ 105	\$ 365	\$ 242
Accrued liabilities	-	148	148	336
Accrued interest	623	11	634	-
Due to other funds	933	134	1,067	3,903
Current maturities of general obligation bonds	3,175	394	3,569	-
Deferred revenue	-	92	92	-
Estimated liability for litigation and claims	-	-	-	5,592
Total current liabilities	4,991	884	5,875	10,073
General obligation bonds (net of discount), less current maturities	152,959	1,209	154,168	-
Total liabilities	157,950	2,093	160,043	10,073
Net assets:				
Invested in capital assets, net of related debt	10,901	10,169	21,070	14,462
Unrestricted	1,122	5,474	6,596	16,692
Total net assets	12,023	15,643	27,666	31,154
Total liabilities and net assets	\$ 169,973	\$ 17,736	\$ 187,709	\$ 41,227
<b>Reconciliation of net assets to statement of net assets</b>				
Net assets of total business-type proprietary funds			\$ 27,666	
Losses of internal service funds related to business-type activities			(370)	
Business-type net assets included in the statement of net assets			\$ 27,296	

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the year ended June 30, 2004**  
**(in thousands)**

	Business-type Activities			Governmental
	Knoxville Convention Center	Other Business-type Activities	Total	Internal Service Funds
Operating revenues:				
Charges for services	\$ 3,748	\$ 2,809	\$ 6,557	\$ 30,230
Operating expenses:				
Personal services	-	1,745	1,745	2,662
Material and supplies	-	188	188	4,063
Maintenance	-	50	50	493
Depreciation and amortization	4,507	692	5,199	5,317
Other services and charges	9,098	1,599	10,697	18,413
Total operating expenses	13,605	4,274	17,879	30,948
Operating loss	(9,857)	(1,465)	(11,322)	(718)
Non-operating revenues (expenses):				
Interest income	10	47	57	235
Intergovernmental revenues	6,357	-	6,357	-
Other revenues	4	-	4	193
Gain on disposal of capital assets	-	-	-	433
Interest expense	(4,958)	(77)	(5,035)	-
Net non-operating revenues (expenses)	1,413	(30)	1,383	861
Income (loss) before contributions and transfers	(8,444)	(1,495)	(9,939)	143
Transfers in	9,442	1,598	11,040	2,136
Transfers out	-	-	-	(12)
Change in net assets	998	103	1,101	2,267
Net assets at beginning of year	11,025	15,540	26,565	28,887
Net assets at end of year	\$ 12,023	\$ 15,643	\$ 27,666	\$ 31,154
<b>Reconciliation of changes in net assets to statement of activities</b>				
Total changes in net assets of business-type proprietary funds			\$ 1,101	
Expenses of internal service funds related to business-type activities			(95)	
Changes in business-type net assets included in the statement of activities			\$ 1,006	

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the year ended June 30, 2004**  
**(in thousands)**

	Business-type Activities			Governmental
	Knoxville Convention Center	Other Business Type Activities	Total	Internal Service Funds
<b>Cash flows from operating activities:</b>				
Receipts from customers and users	\$ 3,954	\$ 2,579	\$ 6,533	\$ -
Receipts from interfund services provided	-	-	-	30,350
Payments to suppliers	(12,469)	(1,378)	(13,847)	(7,429)
Payments of claims and insurance	-	-	-	(15,426)
Payments to employees	-	(1,773)	(1,773)	(2,697)
Payments for interfund services used	(39)	(464)	(503)	(408)
Net cash provided (used) by operating activities	<u>(8,554)</u>	<u>(1,036)</u>	<u>(9,590)</u>	<u>4,390</u>
<b>Cash flows from noncapital financing activities:</b>				
Transfers from other funds	9,442	1,598	11,040	2,136
Transfers to other funds	-	-	-	(12)
Advances from other funds	933	133	1,066	939
Repayment of advances from other funds	-	(84)	(84)	(178)
Tax revenues	6,356	-	6,356	-
Net cash provided by noncapital financing activities	<u>16,731</u>	<u>1,647</u>	<u>18,378</u>	<u>2,885</u>
<b>Cash flows from capital and related financing activities:</b>				
Principal paid on general obligation bond maturities	(4,290)	(381)	(4,671)	-
Interest paid	(4,962)	(84)	(5,046)	-
Proceeds from sale of capital assets	-	-	-	582
Principal received from capital lease	-	17	17	-
Acquisition and construction of capital assets	-	(329)	(329)	(3,182)
Net cash used by capital and related financing activities	<u>(9,252)</u>	<u>(777)</u>	<u>(10,029)</u>	<u>(2,600)</u>
<b>Investing activities:</b>				
Purchase of investments	-	(411)	(411)	(9,177)
Proceeds from sales of investments	-	476	476	3,431
Investment earnings	10	51	61	301
Net cash provided (used) by investing activities	<u>10</u>	<u>116</u>	<u>126</u>	<u>(5,445)</u>
Net decrease in cash	(1,065)	(50)	(1,115)	(770)
Cash at beginning of the year	1,115	555	1,670	1,930
Cash at end of the year	<u>\$ 50</u>	<u>\$ 505</u>	<u>\$ 555</u>	<u>\$ 1,160</u>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>				
Operating loss	\$ (9,857)	\$ (1,465)	\$ (11,322)	\$ (718)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	4,507	692	5,199	5,317
Amortization of bond issuance costs	43	4	47	-
Other income	4	-	4	193
(Increase) decrease in assets:				
Receivables	(1,182)	(5)	(1,187)	(78)
Inventory	-	-	-	(653)
Prepayments	-	-	-	(173)
Increase (decrease) in liabilities:				
Accounts payable	(2,069)	(10)	(2,079)	(323)
Accrued expenses	-	(25)	(25)	(37)
Deferred revenue	-	(227)	(227)	-
Estimated liability for litigation and claims	-	-	-	862
Net cash provided (used) by operating activities	<u>\$ (8,554)</u>	<u>\$ (1,036)</u>	<u>\$ (9,590)</u>	<u>\$ 4,390</u>
<b>Noncash investing, capital and financing transactions:</b>				
Accounts payable for acquisition of capital assets	\$ -	\$ -	\$ -	\$ 84
Increase in fair value of investments	\$ -	\$ -	\$ -	\$ 13

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY COMPONENT UNIT**  
**June 30, 2004**  
**(in thousands)**

	City Employees' Pension Fund <hr style="width: 100%;"/>
<b>ASSETS</b>	
Cash	\$ 1
Investments (held by trustee):	
Cash equivalents	9,217
United States government securities	64,500
State and municipal government securities	11,760
International securities	95,051
Corporate bonds and debentures	36,835
Equity securities	241,503
Receivables:	
Pending sales proceeds	7,122
Other	9
Accrued interest and dividends	979
Capital assets:	
Equipment, furniture and fixtures	80
Less accumulated depreciation	<u>(57)</u>
Total assets	<u>\$ 467,000</u>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities:	
Accounts payable	\$ 570
Investment purchases pending	<u>10,005</u>
Total liabilities	10,575
Net assets:	
Net assets held in trust for pension benefits	<u>456,425</u>
Total liabilities and net assets	<u>\$ 467,000</u>

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

**CITY OF KNOXVILLE, TENNESSEE**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY COMPONENT UNIT**  
**For the year ended June 30, 2004**  
**(in thousands)**

	City Employees' Pension Fund
<b>ADDITIONS</b>	
Employee contributions	\$ 2,881
Employer contributions	1,664
Investment income	<u>72,104</u>
Total additions	<u>76,649</u>
 <b>DEDUCTIONS</b>	
Benefits	28,718
Refunds	470
Depreciation	13
Administration	<u>2,963</u>
Total deductions	<u>32,164</u>
Net increase	44,485
Net assets held in trust for pension benefits at beginning of year	<u>411,940</u>
Net assets held in trust for pension benefits at end of year	<u>\$ 456,425</u>

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

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

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

All component units are discretely presented and are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the City. The governing bodies of each of these component units are appointed by the City Council, except for the Pension Board. Pension Board directors are elected by eligible City employees. 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. City of Knoxville Pension System (Pension) operates a defined benefit plan for employees of the City, KAT and MKAA. The Pension receives significant contributions from the City. Changes to the pension plan recommended by the Pension Board must be approved by the City.
4. 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.

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

Knoxville Utilities Board  
626 South Gay Street  
Knoxville, Tennessee 37929

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

City of Knoxville Pension Board  
917B E Fifth Avenue  
Knoxville, Tennessee 37917

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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*  
*Metropolitan Planning Commission*

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

***Related and Jointly Governed Organizations***

The following related agencies provide services within the City:

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

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

***Government-wide and Fund Financial Statements***

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

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

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

***Measurement Focus, Basis of Accounting, and Basis of Presentation***

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

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

The City reports the following major proprietary fund:

**Knoxville Convention Center** – This fund accounts for the operations of the Knoxville Convention Center.

Additionally, the City reports the following fund type:

**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.

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

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

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, and net assets or equity***

***Deposits and investments***

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

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

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

***Receivables***

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

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

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Inventories and prepaid items***

Inventories in proprietary fund types are stated at the lower of average cost or replacement value. Inventories in the governmental fund types are stated at cost. Proprietary fund inventories consist of expendable supplies held for consumption. Inventories of governmental funds are reported under the consumption method of accounting.

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

***Restricted assets***

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

***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 construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Total interest expense incurred by the Knoxville Convention Center was \$4,958. Because there was no construction during 2004, no interest was capitalized. Total interest expense incurred by the Metropolitan Knoxville Airport Authority was \$4,287 of which \$18 was capitalized as part of construction.

Depreciation on property, plant and equipment in the enterprise funds and component units 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.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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 the result of employee resignation or retirement and is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it (i.e. the fund that pays the employee's salary or wages).

***Long-term obligations***

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

***Master plans***

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

***Passenger facility charges***

The collection of passenger facility charges has been approved by the Federal Aviation Administration to be used for qualifying capital improvement projects of the Metropolitan Knoxville Airport Authority. Passenger facility charges, along with related interest earnings, are recorded as deferred until used or authorized for use under a Federal Aviation Administration-approved application to use. Once authorized to use, the passenger facilities charges are recognized as nonoperating revenue in the year collected by the air carriers. During 2004 all passenger facilities charges were authorized for use and at June 30, 2004 there was no deferred revenue related to passenger facilities charges.

***Fund equity***

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

***Environmental cleanup matters***

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

***Use of estimates***

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

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

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

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

Reconciliations between the governmental fund balance sheet and the government-wide statement of net assets and between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are shown on pages 23 and 25, respectively.

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The City is required by its charter to adopt annual budgets for those operating funds that are under the direct control of City Council. This includes all governmental funds except the miscellaneous grants fund, animal control fund, miscellaneous special revenue funds, miscellaneous community development funds, city judges' retirement fund, Krutch park fund, Knoxville civic revitalization fund and city choice fund. 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 taxpayers an opportunity to comment on the proposed budgets before they become law.

The Mayor is authorized to transfer budgeted amounts within departments within any fund. All other transfers or supplemental appropriations must be enacted by City Council. Other management is not authorized to make such changes. Appropriations lapse at each fiscal year end. Encumbered appropriations are reappropriated in the ensuing year's budget. The following supplemental and reductions in appropriations were enacted by City Council during the fiscal year 2004.

General fund	\$ 2,755
Special revenue funds	5,648
Debt Service	8,225
Capital projects funds	(1,232)

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

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

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

	<u>Revenues, Transfers In and Capital Contributions</u>			<u>Expenses and Transfers Out</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 21,805	\$ 19,561	\$ (2,244)	\$ 21,839	\$ 18,563	\$ 3,276
Metro Parking	709	1,021	312	714	738	(24)
Public Assembly Facilities	3,947	3,433	(514)	3,947	3,613	334
Knoxville Area Transit (Component unit)	24,728	20,221	(4,507)	24,728	17,852	6,876
<i>Internal Service Funds</i>						
Office Services	472	478	6	472	462	10
Fleet Management	9,530	9,666	136	9,530	8,851	679
Risk Management	6,755	6,876	121	6,755	6,665	90
Employee Health Insurance	12,902	12,587	(315)	12,902	11,709	1,193
Equipment Replacement	2,027	2,284	257	2,074	2,080	(6)
City Buildings	1,361	1,350	(11)	1,361	1,207	154

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

Deposits - Deposits are included in the City's financial statements as "Cash", "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.

Deposits are classified into three categories of credit risk based upon the following:

**Category 1** includes deposits which are insured or collateralized by securities held by the City/component unit or its agent in the City's/component unit's name.

**Category 2** includes deposits which are collateralized by securities held by the pledging institution's trust department or agent in the City's/component unit's name.

**Category 3** includes deposits which are uncollateralized, which includes deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's/component unit's name.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

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

	<u>Revenues, Transfers In and Capital Contributions</u>			<u>Expenses and Transfers Out</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
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Office Services	472	478	6	472	462	10
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**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

Deposits - Deposits are included in the City's financial statements as "Cash", "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.

Deposits are classified into three categories of credit risk based upon the following:

**Category 1** includes deposits which are insured or collateralized by securities held by the City/component unit or its agent in the City's/component unit's name.

**Category 2** includes deposits which are collateralized by securities held by the pledging institution's trust department or agent in the City's/component unit's name.

**Category 3** includes deposits which are uncollateralized, which includes deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's/component unit's name.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

**Investments** - 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 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 is exempted from sharing in any realized gains and losses of the fund.

The City is not authorized to enter into reverse repurchase agreements. The Pension Trust Fund investment policies allow its agents to invest in government securities, certificates of deposit, bankers' acceptances, repurchase agreements, bonds and notes (with "A" or better ratings) and common stocks and common stock equivalents. The Pension Trust Fund is required to maintain a minimum of 25% of its carrying value in fixed income accounts. State statutes and Pension Trust Fund investment policies allow the Pension Trust Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The Pension Trust Fund lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102%. Although the average term of the loans is one week, either the Pension Trust Fund or the borrower can terminate securities loans on demand. Cash collateral is invested in the lending agent's short-term investment pool. The relationship between maturities of the investment pool and the Pension Trust Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Pension Trust Fund cannot determine. The Pension Trust Fund cannot pledge, sell, or otherwise access collateral assets received unless the borrower defaults.

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".

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end:

**Category 1** includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

**Category 2** includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

**Category 3** includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

The City's deposits and investments at June 30, 2004 are summarized as follows:

	Category			
	1	2	3	Total
<b>Deposits:</b>				
Bank balances	\$ 9,450	\$ -	\$ -	\$ 9,450
Carrying amounts	\$ 5,404	\$ -	\$ -	\$ 5,404
Undeposited cash funds				67
Total cash and deposits - carrying amount				\$ 5,471

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

	Category			Carrying Value	Fair Value
	1	2	3		
<b>Investments:</b>					
United States Government obligations	\$ -	\$ 19,529	\$ -	\$ 19,529	\$ 19,529
Common stocks	-	342	-	342	342
Negotiable certificates of deposit	-	1,500	-	1,500	1,500
State and municipal obligations	-	2,249	-	2,249	2,249
Total classified investments	\$ -	\$ 23,620	\$ -	\$ 23,620	\$ 23,620
Investment in state treasurer's investment pool				82,608	82,608
Total investments				\$ 106,228	\$ 106,228

Component unit deposits and investments at June 30, 2004 are summarized as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City of Knoxville Pension System
	(all category 1)	(all category 1)		(all category 1)
<b>Deposits:</b>				
Bank balances	\$ 186,959	\$ 5,275	\$ -	\$ 1
Carrying amounts:				
Deposits (outstanding checks) in financial institutions	\$ (9,120)	\$ 4,954	\$ -	\$ 1
Certificates of deposit	92,299	-	-	-
Money market	2,000			
Super NOW Account	84,453	-	-	-
Total deposits - carrying value	\$ 169,632	\$ 4,954	\$ -	\$ 1

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City of Knoxville Pension System</u>	<u>Total Carrying Amount</u>	<u>Total Fair Value</u>
<b>Investments:</b>	<u>(all category 1)</u>	<u>(all category 1)</u>		<u>(all category 2)</u>		
Cash equivalents	\$ -	\$ 58	\$ -	\$ 9,217	\$ 9,275	\$ 9,275
United States						
government securities	24,388	21,177	-	14,969	60,534	60,534
Equity securities	-	-	-	221,033	221,033	221,033
Corporate bonds	-	-	-	36,002	36,002	36,002
State and municipal						
government securities	-	-	-	11,760	11,760	11,760
International securities	-	-	-	95,051	95,051	95,051
Total classified Investments	<u>24,388</u>	<u>21,235</u>	-	<u>388,032</u>	<u>433,655</u>	<u>433,655</u>
Investments not categorized:						
Investments held by broker- dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States						
government securities	-	-	-	38,012	38,012	38,012
Equity securities	-	-	-	20,470	20,470	20,470
Corporate bonds	-	-	-	833	833	833
Third parties holding cash collateral:						
United States						
government securities	-	-	-	11,519	11,519	11,519
Investments in state treasurer's investment pool	<u>21,056</u>	<u>-</u>	<u>766</u>	<u>-</u>	<u>21,822</u>	<u>21,822</u>
Total investments	<u>\$ 45,444</u>	<u>\$ 21,235</u>	<u>\$ 766</u>	<u>\$ 458,866</u>	<u>\$ 526,311</u>	<u>\$ 526,311</u>
Total deposits and investments	<u>\$ 215,076</u>	<u>\$ 26,189</u>	<u>\$ 766</u>	<u>\$ 458,867</u>		

The City of Knoxville Pension System also has a credit risk exposure for cash held in its securities lending short-term collateral investment pools (not included in the City of Knoxville Pension System financial statements) for \$60,295 held by broker dealers and \$11,698 held by third parties. The contract with the Pension System's custodian requires it to indemnify the Pension System if the borrowers fail to return the borrowed securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan. Because collateral exceeds the fair value of securities lent, it has no credit risk exposure to the borrowers at June 30, 2004.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City of Knoxville Pension System</u>
Deposits and investments are classified in the statement of net assets as follows:				
Cash and cash equivalents	\$ 88,308	\$ 4,619	\$ -	\$ 1
Investments	87,702	21,177	766	458,866
Bond funds	8,846	393	-	-
Unused bond proceeds	30,128	-	-	-
Other temporarily restricted assets	<u>323</u>	<u>-</u>	<u>-</u>	<u>-</u>
	215,307	26,189	766	458,867
Less accrued interest	<u>231</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deposits and investments	<u>\$ 215,076</u>	<u>\$ 26,189</u>	<u>\$ 766</u>	<u>\$ 458,867</u>

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2004, including the applicable allowance for uncollectible accounts, consisted of the following:

	<u>Intergovern- mental</u>	<u>Interest and Dividends</u>	<u>Grants</u>	<u>Fines and Court Costs</u>	<u>Customers</u>	<u>Other</u>	<u>Allowance for Doubtful Accounts</u>	<u>Total</u>
General fund	\$ 12,315	-	-	19	-	414	-	12,748
Debt service fund	-	44	-	-	-	-	-	44
Capital projects fund	818	65	-	-	-	93	-	976
Other governmental activities	832	-	2,255	12,735	78	12	(10,596)	5,316
Knoxville Convention Center	-	-	-	-	-	652	-	652
Other business-type activities	-	-	-	-	286	-	-	286
Internal service funds	<u>48</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>6</u>	<u>-</u>	<u>61</u>
Total primary government	14,013	109	2,255	12,754	371	1,177	(10,596)	20,083
Component units:								
Knoxville Utilities Board	-	-	-	-	53,252	-	(712)	52,540
Metropolitan Knoxville Airport Authority	-	189	1,489	-	132	-	-	1,810
Knoxville Area Transit	-	-	3,062	-	136	-	-	3,198
Knoxville Employees' Pension Plan	<u>-</u>	<u>979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,131</u>	<u>-</u>	<u>8,110</u>
Total reporting entity	<u>\$ 14,013</u>	<u>\$ 1,277</u>	<u>\$ 6,806</u>	<u>\$ 12,754</u>	<u>\$ 53,891</u>	<u>\$ 8,308</u>	<u>\$ (11,308)</u>	<u>\$ 85,741</u>

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

	<u>Knoxville Utilities Board</u>	<u>Metropolitan Knoxville Airport Authority</u>	<u>Knoxville Area Transit</u>	<u>City of Knoxville Pension System</u>
Deposits and investments are classified in the statement of net assets as follows:				
Cash and cash equivalents	\$ 88,308	\$ 4,619	\$ -	\$ 1
Investments	87,702	21,177	766	458,866
Bond funds	8,846	393	-	-
Unused bond proceeds	30,128	-	-	-
Other temporarily restricted assets	323	-	-	-
	<u>215,307</u>	<u>26,189</u>	<u>766</u>	<u>458,867</u>
Less accrued interest	<u>231</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deposits and investments	<u>\$ 215,076</u>	<u>\$ 26,189</u>	<u>\$ 766</u>	<u>\$ 458,867</u>

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2004, including the applicable allowance for uncollectible accounts, consisted of the following:

	<u>Intergovern- mental</u>	<u>Interest and Dividends</u>	<u>Grants</u>	<u>Fines and Court Costs</u>	<u>Customers</u>	<u>Other</u>	<u>Allowance for Doubtful Accounts</u>	<u>Total</u>
General fund	\$ 12,315	-	-	19	-	414	-	12,748
Debt service fund	-	44	-	-	-	-	-	44
Capital projects fund	818	65	-	-	-	93	-	976
Other governmental activities	832	-	2,255	12,735	78	12	(10,596)	5,316
Knoxville Convention Center	-	-	-	-	-	652	-	652
Other business-type activities	-	-	-	-	286	-	-	286
Internal service funds	48	-	-	-	7	6	-	61
Total primary government	<u>14,013</u>	<u>109</u>	<u>2,255</u>	<u>12,754</u>	<u>371</u>	<u>1,177</u>	<u>(10,596)</u>	<u>20,083</u>
Component units:								
Knoxville Utilities Board	-	-	-	-	53,252	-	(712)	52,540
Metropolitan Knoxville Airport Authority	-	189	1,489	-	132	-	-	1,810
Knoxville Area Transit	-	-	3,062	-	136	-	-	3,198
Knoxville Employees' Pension Plan	-	979	-	-	-	7,131	-	8,110
Total reporting entity	<u>\$ 14,013</u>	<u>\$ 1,277</u>	<u>\$ 6,806</u>	<u>\$ 12,754</u>	<u>\$ 53,891</u>	<u>\$ 8,308</u>	<u>\$ (11,308)</u>	<u>\$ 85,741</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 6 - LEASES RECEIVABLE**

*Public Assembly Facilities Fund*

The Public Assembly Facilities Fund leases a portion of the exhibition center to an adjoining hotel. Components of the Public Assembly Facilities investment in the capitalized lease at June 30, 2004, are as follows:

Total minimum lease payments receivable	\$1,825
Less unearned income	<u>964</u>
Net investment in lease receivable	<u>\$ 861</u>

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

*Metropolitan Knoxville Airport Authority*

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2028. As of June 30, 2004, minimum future base rentals to be received on noncancelable leases are as follows:

<u>Years ended June 30</u>	
2005	\$ 6,107
2006	4,775
2007	3,986
2008	3,954
2009	3,962
Thereafter	<u>19,877</u>
	<u>\$ 42,661</u>

Under the terms of one of the Metropolitan Knoxville Airport Authority leases, payments in future years increase significantly. The Authority recognizes income from this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately \$750 are included in other assets in the accompanying statement of net assets as of June 30, 2004.

Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$983 for the year ended June 30, 2004.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Cost				Accumulated Depreciation			
	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance	Beginning Balance	Depreciation	Retirements	Ending Balance
<b>Primary Government</b>								
<b>Governmental activities:</b>								
<i>Nondepreciable:</i>								
Land and site improvements	\$ 38,166	\$ 1,494	\$ 291	\$ 39,369	\$ -	\$ -	\$ -	\$ -
Construction in progress	32,574	20,576	3,050	50,100	-	-	-	-
<i>Depreciable:</i>								
Buildings and building improvements	38,924	128	100	38,952	15,820	343	30	16,133
Equipment, furniture and fixtures	55,439	3,240	5,006	53,673	37,393	6,562	4,796	39,159
Infrastructure	173,825	2,489	-	176,314	52,938	7,603	-	60,541
	<u>\$ 338,928</u>	<u>\$ 27,927</u>	<u>\$ 8,447</u>	<u>\$ 358,408</u>	<u>\$ 106,151</u>	<u>\$ 14,508</u>	<u>\$ 4,826</u>	<u>\$ 115,833</u>
<b>Business-type activities:</b>								
<i>Nondepreciable:</i>								
Land and site improvements	\$ 6,042	\$ -	\$ -	\$ 6,042	\$ -	\$ -	\$ -	\$ -
Artwork	765	-	-	765	-	-	-	-
Construction in progress	17	-	17	-	-	-	-	-
<i>Depreciable:</i>								
Buildings and building improvements	206,110	347	-	206,457	30,893	5,028	-	35,921
Equipment, furniture and fixtures	2,241	-	-	2,241	606	171	-	777
	<u>\$ 215,175</u>	<u>\$ 347</u>	<u>\$ 17</u>	<u>\$ 215,505</u>	<u>\$ 31,499</u>	<u>\$ 5,199</u>	<u>\$ -</u>	<u>\$ 36,698</u>

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

Governmental Activities	Business-type activities
Administration	Knoxville Convention Center
Finance	Metro Parking
Information systems	Public Assembly Facilities
Legislative	
Civil service	
Police	
Fire	
Emergency management	
Public service	
Streets	
Engineering	
Solid waste disposal	
Parks and recreation	
Waterfront operations	
Community development	
Internal service funds (charged to various functions based on usage)	
<u>\$ 14,508</u>	<u>\$ 5,199</u>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**

(amounts expressed in thousands)

**NOTE 7 – CAPITAL ASSETS (continued)**

Capital asset activity for component units for the year ended June 30, 2004 was as follows:

Component Units	Cost				Accumulated Depreciation			
	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance	Beginning Balance	Depreciation	Retirements	Ending Balance
<b>Knoxville Utilities Board:</b>								
Production plant	\$ 734	\$ -	\$ -	\$ 734				
Pumping and treatment plant	128,675	8,513	313	136,875				
Distribution and collection plant	817,477	47,352	4,120	860,709				
General plant	88,429	6,778	5,357	89,850				
Total Knoxville Utilities Board	<u>\$ 1,035,315</u>	<u>\$ 62,643</u>	<u>\$ 9,790</u>	<u>\$ 1,088,168</u>	<u>\$ 365,421</u>	<u>\$ 31,170</u>	<u>\$ 8,081</u>	<u>\$ 388,510</u>
<b>Metropolitan Knoxville Airport Authority:</b>								
<i>Nondepreciable:</i>								
Land	\$ 20,619	\$ 803	\$ -	\$ 21,422	\$ -	\$ -	\$ -	\$ -
Construction in progress	1,203	2,948	606	3,545	-	-	-	-
<i>Depreciable:</i>								
Land improvements	117,408	377	-	117,785	54,784	5,689	-	60,473
Buildings and building improvements	118,170	230	-	118,400	26,265	4,428	-	30,693
Equipment, furniture and fixtures	7,370	166	273	7,263	5,845	698	263	6,280
	<u>\$ 264,770</u>	<u>\$ 4,524</u>	<u>\$ 879</u>	<u>\$ 268,415</u>	<u>\$ 86,894</u>	<u>\$ 10,815</u>	<u>\$ 263</u>	<u>\$ 97,446</u>
<b>Knoxville Area Transit:</b>								
<i>Nondepreciable:</i>								
Construction in progress	\$ 195	\$ 549	\$ -	\$ 744	\$ -	\$ -	\$ -	\$ -
<i>Depreciable:</i>								
Buildings and building improvements	5,013	-	-	5,013	1,823	125	-	1,948
Equipment, furniture and fixtures	20,098	3,826	797	23,127	10,693	1,797	782	11,708
	<u>\$ 25,306</u>	<u>\$ 4,375</u>	<u>\$ 797</u>	<u>\$ 28,884</u>	<u>\$ 12,516</u>	<u>\$ 1,922</u>	<u>\$ 782</u>	<u>\$ 13,656</u>
<b>Knoxville Employees' Pension Plan:</b>								
<i>Depreciable:</i>								
Equipment, furniture and fixtures	\$ 80	\$ -	\$ -	\$ 80	\$ 44	\$ 13	\$ -	\$ 57

Estimated cost to complete the Metropolitan Knoxville Airport Authority's construction was approximately \$5 million at June 30, 2004. The work will be funded through proceeds from bond issuance, passenger facility charges, and Airport Authority funds. The Airport Authority paid the Public Building \$5 thousand to manage its construction projects.

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables consist primarily of pooled cash balances. Also included in interfund receivables and payables are City Court fines and costs totaling \$107 that is due to the general fund and various special revenue funds and proceeds from confiscated property of \$78 that is due to the general fund from the miscellaneous grants fund.

A detailed listing of interfund receivables and payables at June 30, 2004 are as follows:

	<u>Due From</u>		<u>Due to</u>		<u>Internal</u>		<u>Component</u>		<u>Primary</u>
	<u>Other Funds</u>		<u>Other Funds</u>		<u>Balances</u>		<u>Units</u>		<u>Government</u>
<b>Governmental activities</b>									
<i>General Fund</i>	\$ 1,107	\$	-	\$	1,107	\$	2,306	\$	-
<i>Special Revenue Funds:</i>									
State Street Aid	-		215		(215)		-		-
Community Development Block Grants	-		102		(102)		-		-
Abandoned Vehicles	-		2		(2)		-		-
City Inspections	-		28		(28)		-		-
City Court	-		1,002		(1,002)		-		-
Miscellaneous Grants	-		79		(79)		-		-
Animal Control Fund	1		-		1		-		-
Miscellaneous Special Revenue Funds	93		-		93		-		-
Miscellaneous Community Development	-		481		(481)		-		-
Storm water	-		171		(171)		-		-
Solid Waste	-		392		(392)		-		-
City Judges' Retirement	6		-		6		-		-
<i>Debt Service Fund</i>	6,235		-		6,235		-		-
<i>Governmental activity internal service funds</i>	-		-		(3,533)		-		-
Total governmental activities	<u>7,442</u>		<u>2,472</u>		<u>1,437</u>		<u>2,306</u>		<u>-</u>
<b>Business-type activities</b>									
<i>Enterprise Funds:</i>									
Knoxville Convention Center	-		933		(933)		-		-
Metro Parking	-		134		(134)		-		-
<i>Business-type internal service funds</i>	-		-		(370)		-		-
Total business-type activities	<u>-</u>		<u>1,067</u>		<u>(1,437)</u>		<u>-</u>		<u>-</u>
<b>Internal Service Funds</b>									
Fleet Management	<u>-</u>		<u>3,903</u>				<u>-</u>		<u>-</u>
<b>Component Units:</b>									
Knoxville Area Transit	-		-		-		-		2,306
City Employees' Pension Fund	<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>
Total component units	<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>2,306</u>
	\$ <u>7,442</u>	\$	\$ <u>7,442</u>	\$	\$ <u>-</u>	\$	\$ <u>2,306</u>	\$	\$ <u>2,306</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT**

Bonds and notes payable at June 30, 2004, are comprised of the following issues:

<b>Primary Government</b>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<i>General Obligation Bonds:</i>			
General Obligation Refunding Bonds, Series 1997A maturing in 2005 at a 4.9% rate of interest	\$ 885	\$ -	\$ 885
General Obligation Refunding Bonds, Series 1999A maturing through 2008 at varying rates of interest ranging from 4.25% to 4.5%	3,011	1,589	4,600
General Obligation Public Improvement Bonds, Series 2000A maturing through 2020 at varying rates of interest ranging from 5.0% to 5.6%	15,760	-	15,760
General Improvement Bonds, Series 2004A maturing through 2024 at varying rates of interest ranging from 2.0% to 4.0%	34,000	-	34,000
General Obligation Refunding Bonds, Series 2004B maturing through 2017 at varying rates of interest ranging from 4.0% to 5.5%	49,450	-	49,450
General Obligation Bonds Series IIIF through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	-	41,750	41,750
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970	59,970
General Obligation Public Improvement Bond Series 2002A maturing through 2024 at varying rates of interest ranging from 3.5% to 5.0%	-	54,875	54,875
	<u>          </u>	<u>          </u>	<u>          </u>
Total general obligation bonds	\$ <u>103,106</u>	\$ <u>158,184</u>	\$ <u>261,290</u>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

**Component Units:**

*Knoxville Utilities Board:*

	<u>Bonds</u>		<u>Notes</u>		<u>Total</u>
Electric Revenue Bonds Series S to V, maturing through 2030 at varying rates of interest ranging from 2.0% to 5.12%	\$ 110,680	\$	-	\$	\$ 110,680
Water Revenue Bonds Series N to Q maturing through 2030 at varying rates of interest ranging from 2.0% to 5.2%	37,530		-		37,530
Gas Revenue Bonds Series H to K, maturing through 2029 at varying rates of interest ranging from 2.0% to 5.2%	79,990		-		79,990
Waste Water Revenue Bonds Series S to T, maturing through 2029 at varying rates of interest ranging from 3.5% to 5.13%	55,320		-		55,320
Bond anticipation notes	<u>-</u>		<u>90,075</u>		<u>90,075</u>
	<u>\$ 283,520</u>	\$	<u>90,075</u>	\$	<u>\$ 373,595</u>

*Metropolitan Knoxville Airport Authority:*

Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. \$16,870 bears interest at 5.79%. The remaining principal bears interest at a variable rate (1.17% at June 30, 2004).	\$ 17,275	\$	-	\$	\$ 17,275
Local Government Public Improvement Bonds, 2001 Series III-A maturing through 2028. \$56,195 bears interest at 4.738%. The remaining principal bears interest at a variable rate (1.13% at June 30, 2004).	<u>90,870</u>		<u>-</u>		<u>90,870</u>
	<u>\$ 108,145</u>	\$	<u>-</u>	\$	<u>\$ 108,145</u>

Each of the Divisions of the Knoxville Utilities Board have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. The bond covenants require that the remaining revenue shall be used to establish a Renewal and Replacement Fund, and/or maintain certain working fund requirements before payment of tax equivalents or other distributions may be made to the City of Knoxville. As of June 30, 2004, these requirements had been satisfied.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

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

<b>Primary Government</b>	General Obligation Bonds			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest
2005	\$ 10,841	\$ 5,133	\$ 3,569	\$ 4,954
2006	10,430	4,112	3,715	4,815
2007	9,620	3,629	3,885	4,673
2008	8,380	3,190	4,000	4,517
2009	7,270	2,810	3,785	4,357
2010 - 2014	24,050	10,049	20,820	19,380
2015 - 2019	20,085	5,110	25,125	14,738
2020 - 2024	12,430	1,450	27,245	9,175
2025 - 2029	-	-	38,805	2,851
2030 - 2032	-	-	27,235	563
	\$ 103,106	\$ 35,483	\$ 158,184	\$ 70,023
Unamortized premium and deferred gain on refunding	2,114		14	
Unamortized discounts	-		(461)	
<b>Total</b>	<b>\$ 105,220</b>		<b>\$ 157,737</b>	

<b>Component Units</b>	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest
2005	\$ 8,705	\$ 16,528	\$ 90,075	\$ 464
2006	12,945	16,787	-	-
2007	13,495	16,227	-	-
2008	14,065	15,638	-	-
2009	14,675	15,021	-	-
2010 - 2014	79,450	64,444	-	-
2015 - 2019	80,105	45,312	-	-
2020 - 2024	95,375	25,056	-	-
2025 - 2028	72,850	6,831	-	-
	\$ 391,665	\$ 221,844	\$ 90,075	\$ 464
Unamortized discount and deferred loss on refunding	(763)	-	-	-
<b>Total</b>	<b>\$ 390,902</b>	<b>\$ 221,844</b>	<b>\$ 90,075</b>	<b>\$ 464</b>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

***Debt Issued***

**Primary government**

During 2004 the City issued Series 2004A General Obligation Bonds totaling \$34,000 to finance capital projects and retire the City's line of credit that had been used as interim financing for the projects. The bonds require annual principal payments and semi-annual payment of interest at rates that range from 2.0% to 5.0%.

The City has a \$10 million revolving Capital Outlay Note that can be used to finance construction costs. The note carries a variable interest rate of 56% of the base rate established by SunTrust Bank of East Tennessee, N.A. not to exceed 8.0%. During 2004 the City's outstanding balance against the line of credit reached \$9,962 before it was retired through the issuance of the Series 2004A General Obligation Bonds. The expiration date of the line is of October 3, 2004.

***Interest Swap Agreements***

**Primary government**

During 2002 the City transferred the \$45,000 liability for the General Obligation Bonds Series IIIF bonds, along with the related cost of the convention center construction, from the governmental activity of the capital projects fund to the Knoxville Convention Center fund. As a hedge against rising interest rates, the City entered into an interest swap agreement with Wachovia Bank. The City pays Wachovia (through a trust with Morgan Keegan) interest at a fixed rate of 3.955%. Wachovia pays the trust interest at a variable rate based on LIBOR. The trust pays the bondholders interest at a variable rate based on BMA. The City has a risk that if the LIBOR rate is less than the BMA rate, it will have to pay additional amounts to the trust to cover bondholder interest. During 2004 the City paid \$77 in additional interest due to an unfavorable difference in the LIBOR and BMA rates.

**Component units**

The Metropolitan Knoxville Airport Authority Series II-D-I and III-A Bonds bear interest at variable rates. A portion of the Series II-D-I and III-A Bonds totaling \$16,870 and \$56,195, respectively, is subject to interest rate swap agreements. Based on the swap agreements, the Authority owes interest at an effective fixed rate of 5.79% and 4.738% on the Series II-D-I and III-A Bonds, respectively. In return, the counterparty owes the Authority interest based on a variable rate that is calculated based on a published index rate. The \$16,870 and \$56,195 in bond principal are not exchanged; only the net difference in interest payments is actually exchanged with the counterparty and recorded by the Authority as interest expense. The Authority, through the trustee, continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt plus or minus the difference between the variable rate due the bondholders and the variable rate received from the counterparty. The Authority would be exposed to variable rates if the counterparty to the swap defaults, if the variable rate received from the counterparty is less than that due to bondholders or if the swap is terminated. A termination of the swap agreement could also result in the Authority's making or receiving a termination payment. The fair value of the swap agreements is a deferred loss of \$5,910 as of June 30, 2004. This amount which, was estimated by obtaining quotes from the bank, have not been recorded in the accompanying financial statements.

The debt service requirements for both primary government and Airport Authority bonds subject to interest swap arrangements are based on the fixed rate. Other than the net interest expenditures resulting from the swap agreement, no other amounts are recorded in the financial statements. The Authority incurred additional interest costs of \$2.4 million in 2004 related to the swap agreement.

***Advance and Current Refundings***

**Primary government**

During 2003 the City transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest of its Series 1999B General Obligation Bonds. The outstanding principal balance of the defeased Series 1999B General Obligation Bonds was \$1,660 at June 30, 2004.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

During 2004 the City issued 2004B General Obligation Bonds totaling \$49,450. A portion of these bonds was used to retire, on a current basis, \$36,225 of the City's Series 1996A Refunding and Public Improvement Bonds. In addition, a portion of the proceeds was placed in an irrevocable trust to pay all but \$885 of the remaining maturities of principal and interest of its Series 1997 Refunding and Public Improvement Bonds. The present value of the savings from the refunding is approximately \$4.5 million and with debt service requirements being reduced by approximately \$3.0 million. The difference between the 2004B General Obligation Bonds and the outstanding principal of the Series 1997 Refunding and Public Improvement Bonds of \$1,343 is being amortized over the remaining term of the Series 1997 Refunding and Public Improvement Bonds. The outstanding principal balance of the defeased Series 1997 Refunding and Public Improvement Bonds was \$14,430 at June 30, 2004.

**Component units**

*Knoxville Utilities Board*

The Knoxville Utilities Board's (KUB) Electric Division issued the Series S 1998 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the 1992 Series P revenue bonds, as well as a portion of the 1993 Series Q revenue bonds and 1995 Series R revenue bonds. During fiscal year 2001, KUB's Electric Division issued the Series T 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the 1993 Series Q revenue bonds and the 1995 Series R revenue bonds, as such amounts mature. During 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of Series S 1998 revenue bonds, as such amounts mature. The outstanding principal balances on defeased bond issues were \$43,255 at June 30, 2004.

The Knoxville Utilities Board's Gas Division issued the Series H 1998 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series E revenue bonds, as such amounts mature. During fiscal year 2001, KUB issued Series I 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series F Revenue bonds and the 1997 Series G Revenue bonds, as such amounts mature. During 2004, KUB issued Series K 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of Series H 1998 revenue bonds, as such amounts mature. Remaining principal balances outstanding at June 30, 2004, on these defeased bond issues were \$50,005.

The Knoxville Utilities Board's Water Division issued the Series N 1998 bonds to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1992 Series L revenue bonds, as such amounts mature. During fiscal year 2001, KUB issued Series O 2001 bonds to retire existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1992 Series L Revenue bonds and 1993 Series M Revenue bonds, as such amount mature. During 2004, KUB issued Series Q 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of Series N 1998 revenue bonds, as such amounts mature. Remaining principal balances outstanding at June 30, 2004, on all defeased bond issues were \$20,660.

The Knoxville Utilities Board's Wastewater Division issued the Series S 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining principal and interest on the 1993 Series Q revenue bonds, as such amounts mature. Remaining principal balances outstanding at June 30, 2004, on these defeased bond issues were \$13,625. During 2004, KUB issued Series 2004A bonds to fund wastewater capital improvements.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

*Metropolitan Knoxville Airport Authority*

Proceeds from the Metropolitan Knoxville Airport Authority Series III-A bonds issued in 2001 were used to refund the remaining principal balances of the Series E-1, E-2, G-2, III-B-I, III-G-2 and IV-A-I general obligation bonds. The authority recognized a loss of \$999 on the refunding which has been deferred and is being amortized over the remaining life of the refunded bonds. The remaining unamortized balance of the loss at June 30, 2004 was \$763.

**Other Agreements**

**Primary government**

In 2002 the City entered into an agreement with Knox County to pay a portion of the debt service on bonds that were issued, in part, to fund construction of a new animal shelter. Under the agreement, the City must ratably reimburse Knox County \$1.521 million of the County's \$80,000 bond issuance plus interest at the same rate of the County's bonds. Interest on the bonds ranges from 4.0% to 5.5% and is payable semiannually. Principal is payable annually through May 2021.

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

	<u>Principal</u>	<u>Interest</u>
2005	\$ 60	\$ 72
2006	61	69
2007	63	66
2008	66	63
2009	68	59
2010 - 2014	384	240
2015 - 2019	478	131
2020 - 2021	<u>226</u>	<u>17</u>
Total	<u>\$ 1,406</u>	<u>\$ 717</u>

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

**Component units**

*Metropolitan Knoxville Airport Authority*

The Metropolitan Knoxville Airport Authority (MCAA) has adopted a Master Resolution allowing the Authority to issue Airport Revenue Obligations. Under this resolution, the Authority is required to maintain certain funds, accounts and sub-accounts to deposit funds to be held in trust by the Authority. These funds include:

*Revenue Fund* – This fund accounts for general revenue and passenger facility charges into which the Authority is to deposit all such revenues.

*Sinking Fund* – This Fund includes a payments account and a debt service 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* – This fund holds funds held in the Revenue Fund (excluding passenger facility charges) in excess of 45 days' estimated expenses.

*Project Fund* – This fund holds the proceeds from issuance of revenue obligation.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

*Knoxville Utilities Board*

During fiscal year 2000, the Knoxville Utilities Board (KUB) issued \$100 million in subordinated revenue notes that mature over the next five years. Interest on the series of notes is currently determined on each business day and will be computed on the basis of actual days elapsed in a 365-day year. Interest is payable on the first day of each calendar month. In no event shall the interest rate exceed the lesser of 13% per year or the highest rate that may be borne by the notes under State law, which is 4% in excess of prime rate of 4.00% at June 30, 2004. A municipal bond insurance policy was issued by Financial Security Assurance concurrently with the issuance of the notes, which guarantees the scheduled payment of principal and interest on the notes. The interest rate as of June 30, 2004, was 1.07%.

With the issuance of the subordinated revenue notes, each KUB division entered into a standby note purchase agreement with a bank pursuant to which the bank delivered a liquidity facility for the series of notes. This agreement requires that each KUB Division have a funded debt to capitalization (as defined in the agreement) ratio of less than .55:1. The agreement also requires that KUB maintain at all times a ratio of EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) to CML TD (Current Maturities of Long Term Indebtedness coming due during such fiscal period plus all interest on indebtedness during such period) (as defined in the agreement) of not less than 1.2:1.0. As of June 30, 2004, each KUB division has satisfied these requirements

***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, 2004:

	<u>Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u>		<u>Due Within</u>
	<u>June 30, 2003</u>		<u>and</u>		<u>and</u>		<u>June 30, 2004</u>		<u>One Year</u>
			<u>Transfers</u>		<u>Transfers</u>				
<b>Primary Government:</b>									
<i>Governmental activities:</i>									
General obligation bonds	\$ 79,595	\$	\$ 83,450	\$	\$ 59,939	\$	\$ 103,106	\$	\$ 10,841
Notes payable	1,929		8,033		9,962		-		-
Debt participation agreement	1,464		-		58		1,406		60
	<u>82,988</u>		<u>91,483</u>		<u>69,959</u>		<u>104,512</u>		<u>10,901</u>
Add deferred amounts for issuance premiums	-		796		7		789		-
Add deferred amounts for gains on refundings	-		1,343		18		1,325		-
	<u>82,988</u>		<u>93,622</u>		<u>69,984</u>		<u>106,626</u>		<u>10,901</u>
Compensated absences payable	6,083		5,961		6,064		5,980		6,064
Total governmental activity long-term liabilities	<u>\$ 89,071</u>	\$	<u>\$ 99,583</u>	\$	<u>\$ 76,048</u>	\$	<u>\$ 112,606</u>	\$	<u>\$ 16,965</u>
<i>Business-type Activities:</i>									
General obligation bonds	\$ 162,855	\$	\$ -	\$	\$ 4,671	\$	\$ 158,184	\$	\$ 3,569
Add deferred amounts for issuance premiums	17		-		3		14		-
Less deferred amounts for issuance discounts	(483)		-		(22)		(461)		-
Total business-type activity long-term liabilities	<u>\$ 162,389</u>	\$	<u>\$ -</u>	\$	<u>\$ 4,652</u>	\$	<u>\$ 157,737</u>	\$	<u>\$ 3,569</u>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

	<u>Balance</u>				<u>Balance</u>	<u>Due Within</u>
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>		<u>June 30, 2004</u>	<u>One Year</u>
<b>Component Units:</b>						
<i>Knoxville Utilities Board:</i>						
Revenue bonds	\$ 228,270	\$ 101,000	\$ 45,750		\$ 283,520	\$ 8,300
Notes payable	93,600	-	3,525		90,075	90,075
Capital lease obligations	881	-	461		420	420
TVA conservation program	5,265	1,510	2,479		4,296	2,368
Accrued compensated absences	9,542	1,918	2,187		9,273	2,185
Customer advances for construction	345	282	233		394	135
Other	572	615	881		306	71
	<u>338,475</u>	<u>105,325</u>	<u>55,516</u>		<u>388,284</u>	<u>103,554</u>
Total Knoxville Utilities Board	\$ <u>338,475</u>	\$ <u>105,325</u>	\$ <u>55,516</u>		\$ <u>388,284</u>	\$ <u>103,554</u>
<i>Metropolitan Knoxville Airport Authority:</i>						
Revenue/general obligation bonds	\$ 108,525	-	380		108,145	405
Less deferred amounts for loss on refunding	(838)	-	(75)		(763)	-
	<u>107,687</u>	<u>-</u>	<u>305</u>		<u>107,382</u>	<u>405</u>
Total Metropolitan Knoxville Airport Authority	\$ <u>107,687</u>	\$ <u>-</u>	\$ <u>305</u>		\$ <u>107,382</u>	\$ <u>405</u>
Total component units	\$ <u>446,162</u>	\$ <u>105,325</u>	\$ <u>55,821</u>		\$ <u>495,666</u>	\$ <u>103,959</u>

**Conduit Debt**

The Metropolitan Knoxville Airport Authority (MKAA) issued \$8.5 million of 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 \$8.5 million on April 1, 2032. Interest is payable semiannually on each April 1 and October 1.

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

MKAA has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Northwest's parent company, Northwest Airlines Corporation, are the only security for the bondholders. The entire amount was outstanding at June 30, 2004.

The MKAA issued \$9.5 million of Metropolitan Knoxville Airport Authority Special Obligation Revenue Bonds on October 1, 1980. The 9.5 percent bonds are to be repaid in varying amounts through 2010. The principal balance outstanding at June 30, 2004 was \$3,080.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

Under the terms of a promissory note between the Metropolitan Knoxville Airport Authority and the Knoxville Airport Hotel Company, note principal and interest payments consist of the amount necessary to make the principal and interest payments on the bonds. Under a forbearance agreement dated May 24, 1990, the Developer agreed to pay the bondholder the sum of the principal currently due on all of the bonds, plus thirty days accrued interest on the bonds held by the bondholder, plus accrued interest on the bonds held by the Developer. On each note payment date thereafter, the Developer will pay all payments due on the note, other than interest on and attributable to the bonds held by the Developer. Interest on and attributable to bonds held by the Developer, together with all previously deferred interest payments, has been irrevocably waived and forgiven.

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. The note payments and property are the only security for the bondholders.

**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, 2004 were \$992.

**Component units**

The Knoxville Utilities Board leases computer hardware under a capital lease arrangement. The lease arrangements were entered into during 2003 and 2004 and will expire during 2005 and 2006. Computer equipment totaling \$1,459, less related accumulated depreciation of \$1,018, are included in capital assets at June 30, 2004.

The Knoxville Utilities Board also has non-cancelable operating lease commitments for office equipment that expire in various years through June 30, 2007.

Future minimum lease payments under leases having initial or remaining noncancelable terms in excess of one year as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2005	\$ 396	\$ 110,445
2006	33	15,865
2007	-	1,951
	<hr/>	<hr/>
Total capital minimum lease payments	429	\$ 128,261
Less amount representing interest	<hr/> 9	
Obligations under capital leases	420	
Obligations due within one year	<hr/> 420	
Long-term obligations under capital leases	\$ <hr/> <hr/> -	

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 9 - LONG-TERM DEBT (continued)**

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**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 11 - FUND BALANCES DESIGNATED FOR FUTURE USE**

Certain fund balances are designated by the City to be used for future requirements relating to the stated purpose of each fund. At June 30, 2004, the following designations were made:

<u>Fund</u>	<u>Amount Designated</u>	<u>Stated Purpose</u>
Coster Redevelopment	\$ 185	Held for cleanup of various sites
Krutch Park Trust	713	Maintenance and groundskeeping of a downtown City park
Knoxville Civic Revitalization	2,016	Oversee the development of World's Fair Site
City Choice Plus	<u>190</u>	Payment of insurance premiums by employees
Total	\$ <u>3,104</u>	

**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 purchases 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 against 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 coverages in any of the past three fiscal years.

**Insurance Coverage**

The City accounts for its self-insurance activities in the Employee Health Insurance Fund. The City has experienced no significant reduction in insurance coverage from the prior year. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

**Employee Health Insurance Fund**

The City maintains as an internal service fund, the Employee Health Insurance Fund, to provide medical coverage for City employees and their families with the employees paying a portion of the costs.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

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(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 12 - RISK MANAGEMENT (continued)**

***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 \$5,592 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities.

Additionally, the City's attorney believes that there is a possible liability to the City of approximately \$3,625 related to the remaining lawsuits and claims not determined to be probable liabilities. Since the outcome is not probable, a liability has not been recorded for these lawsuits and claims.

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2004, 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. An analysis of claims activity is as follows for the years ended June 30, 2004 and 2003:

	<u>2004</u>		<u>2003</u>
Claims liability, beginning of year	\$ 4,730	\$	3,465
Provision for incurred claims	5,592		5,715
Payments made on claims	<u>(4,730)</u>		<u>(4,450)</u>
Claims liability, end of year	\$ <u>5,592</u>	\$	<u>4,730</u>

**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.

In 2002, in response to changes in availability and the cost of insurance, the Knoxville Utilities Board decreased its property insurance coverage. The Knoxville Utilities Board also increased its deductible to a level where the Knoxville Utilities Board is essentially self-insuring for property insurance, except in the event of a catastrophic event and the resulting losses. The Knoxville Utilities Board's property insurance coverage excludes protection for fire, vandalism, flood and earthquake.

At June 30, 2004, the amount of these liabilities was \$1,782. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2004 and 2003 is as follows:

	<u>2004</u>		<u>2003</u>
Claims liability, beginning of year	\$ 1,618	\$	4,033
Provision for incurred claims	13,049		9,540
Payments made on claims	<u>(12,885)</u>		<u>(11,955)</u>
Claims liability, end of year	\$ <u>1,782</u>	\$	<u>1,618</u>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 12 - RISK MANAGEMENT (continued)**

*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. After the September 11, 2001 terrorist attacks, the Authority's insurance carrier limited war risk liability coverage to \$1 million. The Authority purchased additional war risk liability coverage up to a maximum of \$50 million subject to a \$10 million deductible. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 13 - SEGMENT INFORMATION**

Segment information for business-type component units is as follows:

*Metropolitan Knoxville Airport Authority*

The Metropolitan Knoxville Airport Authority provides services through two divisions - McGhee Tyson Airport and Downtown Island Airport. Summary financial information for each of the activities is presented below:

**Condensed Statement of Net Assets**

	McGhee- Tyson	Downtown Island	Total
<b>Assets:</b>			
Current Assets	\$ 27,998	\$ 130	\$ 28,128
Restricted assets	901	46	947
Net capital assets	167,663	3,306	170,969
Other assets	3,713	9	3,722
Total assets	<u>\$ 200,275</u>	<u>\$ 3,491</u>	<u>\$ 203,766</u>
<b>Liabilities:</b>			
Current liabilities	\$ 2,412	\$ 80	\$ 2,492
Long-term debt	106,547	430	106,977
Total liabilities	<u>108,959</u>	<u>510</u>	<u>109,469</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	63,339	2,883	66,222
Restricted	901	47	948
Unrestricted	27,076	51	27,127
Total net assets	<u>91,316</u>	<u>2,981</u>	<u>94,297</u>
	<u>\$ 200,275</u>	<u>\$ 3,491</u>	<u>\$ 203,766</u>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 12 - RISK MANAGEMENT (continued)**

*Metropolitan Knoxville Airport Authority*

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(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 13 - SEGMENT INFORMATION (continued)**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	McGhee- <u>Tyson</u>	Downtown <u>Island</u>	<u>Total</u>
Operating revenues	\$ 16,900	\$ 227	\$ 17,127
Operating expenses:			
Provision for depreciation	10,941	558	11,499
Other	<u>11,596</u>	<u>247</u>	<u>11,843</u>
Total operating expenses	<u>22,537</u>	<u>1,032</u>	<u>40,469</u>
Operating loss	(5,637)	(805)	(23,342)
Non-operating income (expense), net	<u>699</u>	<u>650</u>	<u>1,349</u>
Change in net assets	(4,938)	(155)	(5,093)
Net assets – beginning of year	<u>96,254</u>	<u>3,136</u>	<u>99,390</u>
Net assets – end of year	<u>\$ 91,316</u>	<u>\$ 2,981</u>	<u>\$ 94,297</u>

**Condensed Statement of Cash Flows**

	McGhee- <u>Tyson</u>	Downtown <u>Island</u>	<u>Total</u>
Operating activities	\$ 4,811	\$ (38)	\$ 4,773
Investing activities	(5,124)	8	(5,116)
Capital and related financing activities	<u>374</u>	<u>(86)</u>	<u>288</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 61</u>	<u>\$ (116)</u>	<u>\$ (55)</u>

*Knoxville Utilities Board*

The Knoxville Utilities Board has four identifiable activities for which revenue bonds and other revenue-backed debt is outstanding. Summary financial information for each of the activities is presented below:

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

NOTE 13 - SEGMENT INFORMATION (continued)

**Condensed Statement of Net Assets**

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Waste Water</u>	<u>Total</u>
<b>Assets:</b>					
Current assets	\$ 89,676	\$ 64,734	\$ 33,818	\$ 26,691	\$ 214,919
Restricted assets	20,858	5,830	6,133	6,476	39,297
Net capital assets	273,082	160,823	139,506	184,588	757,999
Other assets	18,958	7,591	7,931	7,638	42,118
Total assets	<u>\$ 402,574</u>	<u>\$ 238,978</u>	<u>\$ 187,388</u>	<u>\$ 225,393</u>	<u>\$ 1,054,333</u>
<b>Liabilities:</b>					
Current liabilities	\$ 71,900	\$ 37,387	\$ 22,403	\$ 22,587	\$ 154,277
Other liabilities	9,889	1,975	1,596	1,583	15,043
Long-term debt	108,290	77,365	35,700	53,865	275,220
Total liabilities	<u>190,079</u>	<u>116,727</u>	<u>59,699</u>	<u>78,035</u>	<u>444,540</u>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	148,226	63,625	89,409	117,156	418,416
Restricted	2,621	1,031	664	392	4,708
Unrestricted	61,648	57,595	37,616	29,810	186,669
Total net assets	<u>212,495</u>	<u>122,251</u>	<u>127,689</u>	<u>147,358</u>	<u>609,793</u>
	<u>\$ 402,574</u>	<u>\$ 238,978</u>	<u>\$ 187,388</u>	<u>\$ 225,393</u>	<u>\$ 1,054,333</u>

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Waste Water</u>	<u>Total</u>
Operating revenues	\$ <u>362,511</u>	\$ <u>111,353</u>	\$ <u>28,297</u>	\$ <u>28,151</u>	\$ <u>530,312</u>
<b>Operating expenses:</b>					
Provision for depreciation	15,678	6,042	4,418	5,244	31,382
Other	331,150	94,313	18,852	20,820	465,135
Total operating expenses	<u>346,828</u>	<u>100,355</u>	<u>23,270</u>	<u>26,064</u>	<u>496,517</u>
Operating income	15,683	10,998	5,027	2,087	33,795
Non-operating revenue (expense), net	<u>(4,591)</u>	<u>(3,495)</u>	<u>(569)</u>	<u>(2,034)</u>	<u>(10,689)</u>
Change in net assets	11,092	7,503	4,458	53	23,106
Net assets – beginning of year	<u>201,403</u>	<u>114,748</u>	<u>123,231</u>	<u>147,305</u>	<u>586,687</u>
Net assets – end of year	<u>\$ 212,495</u>	<u>\$ 122,251</u>	<u>\$ 127,689</u>	<u>\$ 147,358</u>	<u>\$ 609,793</u>

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 13 - SEGMENT INFORMATION (continued)**

**Condensed Statement of Cash Flows**

	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Waste Water</u>	<u>Total</u>
Net cash provided by operating activities	\$ 30,577	\$ 18,573	\$ 15,074	\$ 10,369	\$ 74,593
Net cash used by capital and related financing activities	(23,708)	(8,258)	(12,334)	(4,996)	(49,296)
Net cash used by investing activities	<u>(8,480)</u>	<u>(665)</u>	<u>(3,568)</u>	<u>(3,865)</u>	<u>(16,578)</u>
Net increase (decrease) in cash and cash equivalents	(1,611)	9,650	(828)	1,508	8,719
Cash and cash equivalents – beginning of year	<u>20,608</u>	<u>28,233</u>	<u>19,917</u>	<u>10,830</u>	<u>164,287</u>
Cash and cash equivalents – end of year	<u>\$ 18,997</u>	<u>\$ 37,883</u>	<u>\$ 19,089</u>	<u>\$ 12,338</u>	<u>\$ 173,006</u>

**NOTE 14 - JOINT VENTURES**

*Public Building Authority*

In 1975, the Authority was formed as a not-for-profit corporation incorporated pursuant to provisions of the Public Building Authority Act of the State of Tennessee and an operating agreement between the City and Knox County. The Authority constructed and presently maintains and operates the City/County Building, which houses the governments of the City and County. The City and County pay rent to the Authority sufficient to meet operating costs with the City responsible for 36.49% of the payments.

An eleven-member board comprised of six County appointees and five City appointees operates the Authority. As described in the operating agreement, the City and County acting jointly may terminate the lease when all debt service and other obligations of the Authority have been met. In the event of termination, the City and County shall direct the Authority to whom and in what manner title to the assets is to be transferred.

*Metropolitan Planning Commission (MPC)*

The MPC is a public agency formed under joint resolution by the City and Knox County to design and monitor the Metropolitan Planning Program. The MPC is governed by a fifteen-member board comprised of eight County appointees and seven City appointees. Although there is no specific funding agreement, the City and County have historically provided funding in approximately equal amounts.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 13 - SEGMENT INFORMATION (continued)**

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(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 14 - JOINT VENTURES (continued)**

**Condensed Financial Information**

The following is a summary of selected financial information of the City's joint ventures for the most recent period available:

	<u>Public Building Authority</u>	<u>Metropolitan Planning Commission</u>
Balance sheet date	June 30, 2004	June 30, 2004
Total assets	\$10,113	\$934
Long-term debt	11	-
Other liabilities	2,017	350
Net assets	8,085	584
Total revenues	11,210	2,827
Total expenses	10,994	2,699

Complete financial statements for each of these joint ventures may be obtained from their respective administrative offices as follows:

Public Building Authority  
Room M22  
400 Main  
Knoxville, Tennessee 37902

Metropolitan Planning Commission  
Suite 403, City/County Building  
400 Main  
Knoxville, Tennessee 37902

**NOTE 15 - MANAGEMENT AGREEMENTS**

The City has entered into the following management agreements:

*Chilhowee Park* - The City entered into an agreement on July 1, 1994, with the Tennessee Valley Agricultural and Industrial Fair, Inc. (TVA & I Fair) whereby TVA & I Fair will provide management, control, routine maintenance, security, and operation of the Park for the period from July 1, 1994, to September 30, 2000, for a fee of \$225 per year. The City assumed management responsibility for the Park after expiration of the agreement.

*Knoxville Zoo* - The City entered into a new agreement on July 1, 2001, with Knoxville Zoological Gardens, Inc. whereby Knoxville Zoological Gardens, Inc. shall lease the Zoo to provide for its operation and management. Under terms of the agreement the City shall grant to Knoxville Zoological Park \$900 by August 1 each year through 2006.

*Whittle Springs Golf Course* - The City entered into an agreement on August 29, 1986, with HMS of Tennessee whereby HMS of Tennessee shall maintain, operate, and provide for capital improvements to Whittle Springs Municipal Golf Course from September 1, 1986, to September 1, 1996. HMS remits one dollar per year to the City of Knoxville and was required to spend \$200 on course improvements during the first 24-month period. The contract was extended for an additional ten (10) year period beginning September 1, 1996, to September 1, 2006.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 14 - JOINT VENTURES (continued)**

**Condensed Financial Information**

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(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 15 - MANAGEMENT AGREEMENTS (continued)**

*Knoxville Municipal Golf Course* - The City entered into an agreement on March 25, 1983, with C. E. Roberts, Inc. to develop and operate the Knoxville Municipal Golf Course from December 23, 1982, to December 23, 2007. Under terms of the lease, Roberts shall remit one dollar per year to the City as well as place 20% of its annual net income in a sinking fund reserved specifically for capital improvements to the golf course.

*Parking Garages* - The City entered into agreements with Republic Parking Systems, Inc. whereby Republic Parking Systems, Inc. will manage and operate the State Street and Main Avenue Parking Garages. The term of the agreements is for one year beginning July 10, 2004. Under the agreement, Republic Parking Systems, Inc. will receive \$119.2 for the State Street Garage and \$100.4 for the Main Avenue Garage payable in twelve monthly installments. The City must also make incentive payments equal to 10.0% of the revenue of each garage that exceeds the revenue of the previous year.

*IJAMS Nature Park* - The City entered into an agreement on August 2, 1993, with the IJAMS Nature Park whereby IJAMS will provide management and operation of a nature park. The agreement has been extended through July 31, 2005. The agreement calls for a management fee of \$109.

*Knoxville Convention Center* - The City entered into an agreement on November 22, 2000, with SMG to manage the first five years of operations of the Convention Center. The agreement calls for a fixed fee of \$275 in 2004, \$300 in 2005 and \$325 in 2006 and 2007.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

*Primary Government*

**Federal financial assistance** - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2004 in accordance with provisions of the Single Audit Act of 1984.

**Urban Growth Plan** – The City and Knox County entered into an agreement that defines City and County growth areas within the County. The agreement prohibits alteration to the Urban Growth Plan through December 31, 2004 and may be automatically extended for an additional three years through December 31, 2007. The agreement prohibits the City from annexing certain property for the four-year period unless certain conditions exist. The County agreed to invest \$5,000 from its current five-year capital plan for the City to make capital projects within its Empowerment Zone. The County will also designate an additional \$2,000 from its capital plan beginning in January 2005. Should the City take actions resulting in the residential annexation during the period of the agreement, all funds provided to the City by Knox County must be returned to the County within 15 days.

*Knoxville Utilities Board*

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

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of underrecovered costs was \$923 at June 30, 2004.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 15 - MANAGEMENT AGREEMENTS (continued)**

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*Knoxville Utilities Board*

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

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of underrecovered costs was \$923 at June 30, 2004.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued)**

**Purchased Power Adjustment** - In October 2002, the Electric Division of the Knoxville Utilities Board (KUB) implemented a purchased power adjustment mechanism that allows the Division to promptly adjust its retail electric rates in response to Tennessee Valley Authority (TVA) wholesale rate changes/adjustments, thus ensuring that KUB will recover its cost of electric power purchases for resale to its customers.

In May 2002, in response to changes in the electric power industry, KUB and TVA executed an amendment to their wholesale power supply contract under which, among other things, TVA relinquishes its regulatory authority over KUB retail electric rates. Since TVA no longer has contractual authority to adjust KUB's retail electric rates, KUB needed an alternative means of promptly adjusting its electric rates in response to TVA wholesale rate changes/adjustments.

In October 2003, TVA increased its wholesale power rates for its electric power distributors, including KUB. The KUB Board of Commissioners flowed this wholesale cost increase directly through to its retail electric customers, resulting in an increase of approximately 5.7% for residential customers and 5.7 to 7.0 percent for commercial customers. With the exception of wholesale reactive demand charges (which was deferred by TVA until April 2004), the KUB Board of Commissioners passed through this wholesale rate increase by adjusting its electric retail rate schedules rather than using the purchased power adjustment mechanism. The increase in wholesale reactive demand charges was flowed through to KUB's retail customers by means of the purchased power adjustment in April 2004.

In March 2004, the KUB Board of Commissioners modified the purchase power agreement mechanism to ensure that the effective date of any purchased power adjustment appropriately corresponds to any applicable TVA wholesale rate change, and to update the purchased power adjustment mechanism to reflect new retail electric rate schedules adopted by the KUB Board of Commissioners in October 2003.

**Natural Gas Supply Contract Commitments** - For the year ended June 30, 2004, the Gas Division of the Knoxville Utilities Board hedged 74% of its total gas purchases via gas supply contracts. As of June 30, 2004, the Gas Division had hedged the price on approximately 40% of its anticipated gas purchases for fiscal year 2005.

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:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Demand:					
Transportation	\$ 13,830	\$ 14,669	\$ 14,495	\$ 12,906	\$ 12,223
Storage	2,509	2,408	2,528	2,528	2,528
Supply reservation	<u>14</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>
Demand total	<u>\$ 16,353</u>	<u>\$ 17,082</u>	<u>\$ 17,023</u>	<u>\$ 15,434</u>	<u>\$ 14,751</u>
Commodity:					
Baseload	<u>\$ 26,200</u>	<u>\$ 106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Other Commitments and Contingencies**

In May 2003 the Knoxville Utilities Board (KUB) entered into an Agreed Order with the Tennessee Department of Environment and Conservation to address sanitary sewer overflows on the wastewater system. The Order required the remediation of all sanitary sewer overflows that occurred during 2001 and 2002 to be completed by 2011, and remediation of all sanitary sewer overflows that occur during the interim to be completed by 2014. The Order provided for a variety of planning and reporting activities including the posting of sanitary sewer overflows on KUB's website, the submittal of a sewer overflow response plan, a sanitary sewer overflows evaluation report, a public information plan, a corrective action plan and engineering report, a capacity assurance program, and a management operations and maintenance program.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued)**

In September 2003, the Tennessee Clean Water Network filed suit in federal court against KUB for violations of the federal Clean Water Act, in relation to sanitary sewer overflows and other operational/treatment issues on the KUB wastewater system. The City of Knoxville subsequently intervened as a party to the suit against KUB. Subsequent to the filing of this suit, the Environmental Protection Agency Region 4 and the Department of Justice reviewed the terms of the Order. Following the Environmental Protection Agency and the Department of Justice's review all parties requested, and the Court granted, a stay of the federal suit pending negotiations between the Department of Justice, the Environmental Protection Agency, the Tennessee Clean Water Network, the City and KUB on all issues related to the suit. These negotiations commenced in January 2004 and were still in progress as of June 30, 2004.

In November 2004, the Department of Justice, the Environmental Protection Agency, the Tennessee Clean Water Network, the City and KUB reached tentative agreement on settlement of all disputed issues in the Federal Clean Water Act lawsuit regarding operational/treatment issues on KUB's wastewater system. The terms of the tentative settlement, among other things, incorporates all provisions of the Tennessee Department of Environment and Conservation Agreed Order and extends the deadline for final compliance from June 30, 2014 to June 30, 2016. The terms of the tentative agreement will:

- Incorporate all provisions of the Tennessee Department of Environment and Conservation Agreed Order and extend the deadline for final compliance from June 30, 2014 to June 30, 2016.
- Require the evaluation of the wet-weather performance and capacity of KUB's wastewater treatment plants, including the development of any recommendations for needed improvements to operational practices or facilities and corresponding schedules for implementation.
- Require KUB to pay a civil penalty of \$167 to the United States Government.
- Require KUB to fund an environmental project of the State of Tennessee in the amount of \$167.
- Require KUB to fund a Supplemental Environmental Project totaling \$2 million over a ninety-six (96) month period beginning with the date the tentative agreement is approved by the Federal Judge.
- Subject KUB to certain stipulated penalties if it fails to comply with the provisions of the tentative agreement.
- Resolve the Federal Clean Water Act lawsuit between the Tennessee Clean Water Network and KUB.
- Require KUB to pay reasonably related legal/consulting expenses of the Tennessee Clean Water Network. KUB estimates these expenses not to exceed \$100.

The civil penalty due the United States Government and the funding of the State of Tennessee environmental project will be paid by KUB upon final approval of the tentative agreement by the Federal Judge. These amounts total \$334. The initial payment for the Supplemental Environmental Project, \$150, will be paid by KUB within thirty days of final approval. In addition, the tentative agreement requires KUB pay any reasonably related legal/consulting expenses of the Tennessee Clean Water Network. KUB estimates these legal/consulting expenses not to exceed \$100. KUB has recognized a liability for the aforementioned expenses, totaling \$584, on its fiscal year 2004 financial statements.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued)**

One of the requirements of the Tennessee Department of Environment and Conservation Agreed Order and the tentative agreement is development of a Corrective Action Plan and Engineering Report, that includes the capital and maintenance projects necessary for KUB to comply with the Agreed Order and the tentative agreement. Based on the draft Corrective Action Plan and Engineering Report, in order to comply with the Agreed Order and the tentative agreement, KUB is estimating its Wastewater Division will spend a total of \$530 million in capital investments over the next ten years, plus an additional \$37 million in operating and maintenance expenditures over total base level operating and maintenance over the next ten years.

During fiscal year 2003 and 2004 KUB was issued Notices of Violation and/or penalty assessments by the City for sanitary sewer overflows. KUB appealed all penalty assessments to the City of Knoxville Board of Environmental Appeals. The Board of Environmental Appeals held hearings and issued rulings on some, but not all, of the penalty assessments on appeal before it, affirming the City's right to issue penalties but modifying the amounts of some of those penalties. The remainder of the penalty assessments appealed to the Board of Environmental Appeals were pending as of June 30, 2004. Those penalty assessments, which had been ruled upon by the Board of Environmental Appeals, were appealed by KUB to the Circuit Court for Knox County, Tennessee ("Circuit Court") where they were also pending as of June 30, 2004. The City and KUB entered into facilitated negotiations to resolve the regulatory issues and all penalty assessments pending before the Board of Environmental Appeals and the Circuit Court. These negotiations were in progress as of June 30, 2004.

In November 2004, the City and KUB settled their dispute over regulatory issues and the associated notice of violations and/or penalty assessments by the City against KUB for sanitary sewer overflows. Under the terms of agreement with the City, the City will dismiss without prejudice all notice of violations issued against KUB to date and all penalties assessed against KUB to date totaling over \$600.

**NOTE 17 - POST-RETIREMENT BENEFITS**

Former City employees are allowed to maintain health care coverage comparable to what they had at retirement. Premium payments are the responsibility of the retiree.

In addition to providing pension benefits, the Knoxville Utilities Board provides certain health care and life insurance benefits for retired employees, their spouses and dependent children. The cost associated with the post-retirement benefits were incurred by the Knoxville Utilities Board Pension Plan. As of January 1, 2002, the pension plan no longer funds the retiree medical health benefits. The cost of retired health care and life insurance benefits is recognized as expense as claims are paid. Substantially all of the Knoxville Utilities Board's employees hired on or before July 1, 1999, are eligible for these benefits, if they meet the Rule of 80 upon termination of employment, with a minimum of 20 years of service or if they had 25 years of service as of January 1, 1998. Approximately 1,409 retirees and dependents were eligible to receive such benefits at June 30, 2004. Knoxville Utilities Board's portion of total benefits and related administrative expenses for 2004 was approximately \$5,313.

**NOTE 18 - BUSINESS AND CREDIT CONCENTRATIONS**

The Metropolitan Knoxville Airport Authority is dependent to a large extent on one major airline in that a significant portion of aviation revenue is generated by that airline. The airline accounted for approximately \$391 in aviation area revenue during 2004. In addition, a significant portion of terminal area revenue is directly and indirectly generated from that airline's passengers, which accounted for approximately 18% of 2004 passengers.

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 16 - COMMITMENTS AND CONTINGENCIES (continued)**

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**NOTE 17 - POST-RETIREMENT BENEFITS**

Former City employees are allowed to maintain health care coverage comparable to what they had at retirement. Premium payments are the responsibility of the retiree.

In addition to providing pension benefits, the Knoxville Utilities Board provides certain health care and life insurance benefits for retired employees, their spouses and dependent children. The cost associated with the post-retirement benefits were incurred by the Knoxville Utilities Board Pension Plan. As of January 1, 2002, the pension plan no longer funds the retiree medical health benefits. The cost of retired health care and life insurance benefits is recognized as expense as claims are paid. Substantially all of the Knoxville Utilities Board's employees hired on or before July 1, 1999, are eligible for these benefits, if they meet the Rule of 80 upon termination of employment, with a minimum of 20 years of service or if they had 25 years of service as of January 1, 1998. Approximately 1,409 retirees and dependents were eligible to receive such benefits at June 30, 2004. Knoxville Utilities Board's portion of total benefits and related administrative expenses for 2004 was approximately \$5,313.

**NOTE 18 - BUSINESS AND CREDIT CONCENTRATIONS**

The Metropolitan Knoxville Airport Authority is dependent to a large extent on one major airline in that a significant portion of aviation revenue is generated by that airline. The airline accounted for approximately \$391 in aviation area revenue during 2004. In addition, a significant portion of terminal area revenue is directly and indirectly generated from that airline's passengers, which accounted for approximately 18% of 2004 passengers.

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 19 - TRANSFERS**

A detailed reconciliation of operating transfers at June 30, 2004 is as follows:

	Governmental Activities							Internal Service Funds	Total
	General Fund	Debt Service	Capital Projects	State Street Aid	City Court	Miscellaneous Grants	Miscellaneous Special Revenue Funds	Risk Management	
<b>Primary Government:</b>									
<b>Governmental Activities:</b>									
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 3,335	\$ 7	\$ 18	\$ -	\$ 3,360
Debt Service Fund	-	-	9,981	-	-	-	-	-	9,981
Capital Projects Fund	5,137	-	-	1,275	-	-	-	-	6,412
Community Development									
Block Grants	-	-	-	-	-	-	-	12	12
Storm Water	1,511	-	-	-	-	-	-	-	1,511
Solid Waste	8,276	-	-	-	-	85	-	-	8,361
<b>Business-type Activities:</b>									
Knoxville Convention Center	5,895	3,547	-	-	-	-	-	-	9,442
Public Assembly Facilities	1,598	-	-	-	-	-	-	-	1,598
<b>Internal Service Funds:</b>									
Risk Management	1,002	-	-	-	-	-	-	-	1,002
Employee Health Insurance	1,005	-	-	-	-	-	-	-	1,005
Equipment Replacement	29	-	-	-	-	100	-	-	129
	<u>\$ 24,453</u>	<u>\$ 3,547</u>	<u>\$ 9,981</u>	<u>\$ 1,275</u>	<u>\$ 3,335</u>	<u>\$ 192</u>	<u>\$ 18</u>	<u>\$ 12</u>	<u>\$ 42,813</u>

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

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

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

**NOTE 20 - RETIREMENT AND DISABILITY PLANS**

**Plan Descriptions**

**City Employees' Pension Plan**

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

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 19 - TRANSFERS**

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General Fund	\$ -	\$ -	\$ -	\$ -	\$ 3,335	\$ 7	\$ 18	\$ -	\$ 3,360
Debt Service Fund	-	-	9,981	-	-	-	-	-	9,981
Capital Projects Fund	5,137	-	-	1,275	-	-	-	-	6,412
Community Development									
Block Grants	-	-	-	-	-	-	-	12	12
Storm Water	1,511	-	-	-	-	-	-	-	1,511
Solid Waste	8,276	-	-	-	-	85	-	-	8,361
<b>Business-type Activities:</b>									
Knoxville Convention Center	5,895	3,547	-	-	-	-	-	-	9,442
Public Assembly Facilities	1,598	-	-	-	-	-	-	-	1,598
<b>Internal Service Funds:</b>									
Risk Management	1,002	-	-	-	-	-	-	-	1,002
Employee Health Insurance	1,005	-	-	-	-	-	-	-	1,005
Equipment Replacement	29	-	-	-	-	100	-	-	129
	<u>\$ 24,453</u>	<u>\$ 3,547</u>	<u>\$ 9,981</u>	<u>\$ 1,275</u>	<u>\$ 3,335</u>	<u>\$ 192</u>	<u>\$ 18</u>	<u>\$ 12</u>	<u>\$ 42,813</u>

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**NOTE 20 - RETIREMENT AND DISABILITY PLANS**

**Plan Descriptions**

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(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)**

**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. Employees of the Metropolitan Knoxville Airport Authority (MKAA) are considered employees of the City of Knoxville for purposes of participating in the Pension System. 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 four thousand eight hundred dollars of annual earnings and 5% of annual earnings in excess of four thousand eight hundred dollars. 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). 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.

**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 Employees' Pension Plan. Because of the abolition of the City School System, the Board of Education Division of the City Employees' Pension Plan 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. At June 30, 2004 no liability existed.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)**

Benefit provisions are established in the City's Charter and can be amended by voter referendum. The City of Knoxville Pension Board issues a publicly available financial report that includes financial statements and required supplementary information for the City Employees' Pension Plan. That report may be obtained by writing to the City of Knoxville Pension Board, 917B East Fifth Avenue, Knoxville, Tennessee 37917. The Plan is also included in the reporting entity as a discretely presented component unit.

***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 section 1107(J) of the charter of the City of Knoxville. The plan is designed to provide retirement, disability and death benefits. Due to the structure of the plan, all participants are fully vested as a result of retiree medical health benefits being paid out of the Plan's funds. The Plan is a governmental plan as described by the Employee Retirement Income Security Act of 1974, and is not subject to any of the provisions of the Act. The Plan is funded by contributions from KUB, if funding is required, and from Plan A and Plan B employee participants. The Plan is currently overfunded.

At January 1, 2003, the date of the latest actuarial valuation, the Plan had 777 retirees and beneficiaries currently receiving benefits and 43 terminated employees entitled to benefits but not yet receiving them. Of the approximately 1,008 current employees in the plan, 929 were fully vested at December 31, 2003. 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 Pension System, P.O. Box 59017, Knoxville, TN 37950-9017. The plan consists of three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

**Career Equity Program (CEP)** - CEP is available to 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 employment with KUB. Participation in CEP does not require or permit employee contributions.

**Plan A** - Plan A benefits are for former City Employees' Pension Plan Division A active employees, vested terminated employees, retirees, and beneficiaries. All employees participating in the City Employees' Pension Plan Division A as of June 30, 1999 were eligible to participate in the KUB 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 four thousand eight hundred dollars of annual earnings and 5% of annual earnings in excess of four thousand eight hundred dollars. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later.

**Plan B** - Plan B benefits are for former City Employees' Pension Plan Division B active employees, vested terminated employees, retirees, and beneficiaries. All employees participating in the City Employees' Pension Plan Division 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.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**

(amounts expressed in thousands)

**NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)**

**Annual Pension Costs**

**City Employees' Pension Plan**

For the year ended June 30, 2004, the annual pension cost for the City and participating component units was \$1,450 and was equal to the required and actual contributions. The required contribution was determined as part of the July 1, 2004 actuarial valuation using the aggregate method with supplemental liability for Plan F. Under this method, the unfunded actuarial liability is only identified and amortized for Plan F. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 8.0% per year compounded annually, (b) annual projected salary increases based on plan experience for employees at various categories of years of service (from 3.5% to 12% and on which no explicit assumption is made regarding the portion attributable to the effect of inflation on salaries), and (c) projected post retirement increases of 3.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. The unfunded actuarial liability for Plan F is being amortized over 30 years on a closed basis beginning in July 1, 2001.

Trend information for the City's contributions to the City Employees' Pension Plan for the last three years is as follows:

Year Ended June, 30	General Government Divisions A, B and G		Board of Education		Firefighters and Police Divisions C and F		Total City Employees' Pension Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$279	100%	\$ -	100%	\$1,171	100%	\$1,450	100%	\$ -
2003	-	100%	-	100%	871	100%	871	100%	-
2002	-	100%	-	100%	808	100%	808	100%	-

**Knoxville Utilities Board Pension Plan**

The Knoxville Utilities Board Pension Plan recommends employer contributions as a percentage of the monthly earnings of Plan members based on an actuarial valuation. The recommended contributions are determined using an individual entry actuarial funding method. The System is required to contribute at an actuarially determined rate. The current rate is 0% due to the Plan being fully funded.

The Plan's annual pension cost and net pension obligation to the Plan for the current year were zero. In January 2004 the Plan's actuaries performed a valuation of the pension benefit obligation, which continues to be fully funded. The annual required contribution for the current year was determined as part of the January 1, 2002, actuarial valuation. Significant actuarial assumptions used in the valuation include (a) rate of return on investments of 8%, (b) 1983 Group Annuity Mortality Table, (c) annual projected salary increased based on participants' ages ranging from age 25 to 65 with salary increases from 3.21% to 6.26%, and (d) cost of living adjustment of 3% 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 four-year period.

(continued)

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)**

Trend information for KUB's contributions to the Plan for the last three years is as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2003	\$ -	N/A	\$ -
December 31, 2002	-	N/A	-
December 31, 2001	-	N/A	-

**Defined Contribution Plan**

*Knoxville Utilities Board*

The Knoxville Utilities Board has a defined contribution employee retirement savings plan covering all full-time employees, which provides for stipulated matching contributions and discretionary contributions by the Knoxville Utilities Board, as determined by its Board of Commissioners. System contributions to the Plan for the year ended June 30, 2004 totaled \$2. The Knoxville Utilities Board Pension Plan funds the 401(k) matching contribution using a portion of the excess pension assets accumulated during previous years. The trustee custodian holds the funds until necessary for distribution.

*Metropolitan Knoxville Airport Authority*

The Metropolitan Knoxville Airport Authority provides retirement benefits for all of its full-time employees through a defined contribution plan that was established 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 \$484 in 2004. Employee contributions totaled \$33 in 2004.

**NOTE 21 – RELATED PARTY TRANSACTIONS**

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	\$7,880
Payments by the Knoxville Utilities Board to the City of Knoxville for in lieu of property tax	\$9,950
Payments by the Knoxville Utilities Board to the City of Knoxville for other services provided	\$331
Subsidies paid by the City to Knoxville Area Transit	\$9,942
Amounts due to the Knoxville Utilities Board from the City of Knoxville for electric, gas, water and sewer service (included in accounts payable in the financial statements of the primary government and accounts receivable in the financial statements of the Knoxville Utilities)	\$678

**CITY OF KNOXVILLE, TENNESSEE**  
**Notes to Financial Statements**  
**June 30, 2004**  
(amounts expressed in thousands)

**NOTE 20 - RETIREMENT AND DISABILITY PLANS (continued)**

Trend information for KUB's contributions to the Plan for the last three years is as follows:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2003	\$ -	N/A	\$ -
December 31, 2002	-	N/A	-
December 31, 2001	-	N/A	-

**Defined Contribution Plan**

*Knoxville Utilities Board*

The Knoxville Utilities Board has a defined contribution employee retirement savings plan covering all full-time employees, which provides for stipulated matching contributions and discretionary contributions by the Knoxville Utilities Board, as determined by its Board of Commissioners. System contributions to the Plan for the year ended June 30, 2004 totaled \$2. The Knoxville Utilities Board Pension Plan funds the 401(k) matching contribution using a portion of the excess pension assets accumulated during previous years. The trustee custodian holds the funds until necessary for distribution.

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The Metropolitan Knoxville Airport Authority provides retirement benefits for all of its full-time employees through a defined contribution plan that was established 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 \$484 in 2004. Employee contributions totaled \$33 in 2004.

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**CITY OF KNOXVILLE, TENNESSEE**

**Notes to Financial Statements**

**June 30, 2004**

(amounts expressed in thousands)

**NOTE 22 – PRIOR PERIOD ADJUSTMENT**

Beginning net assets in the statement of activities have been adjusted by \$80,072 to correct recognition of property taxes that met the recognition requirements as a receivable under accounting principles generally accepted in the United States of America but should have been included as deferred revenue on the statement of net assets because the levy date was after June 30, 2003.

**CITY OF KNOXVILLE, TENNESSEE**  
**Required Supplementary Information**  
**June 30, 2004**

(amounts expressed in thousands)

**Schedule of Funding Progress - City Employees' Pension Plan**

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/04:						
Plan F	\$250,067	\$297,331	\$47,264	84.1%	\$24,358	194.0%
Other	203,100	N/A	N/A	N/A	26,975	N/A
7/1/03:						
Plan F	252,508	287,789	35,281	87.7%	24,350	144.9%
Other	206,607	N/A	N/A	N/A	28,770	N/A
7/1/02:						
Plan F	256,781	276,372	19,591	92.9%	24,466	80.07%
Other	212,033	N/A	N/A	N/A	27,786	N/A
7/1/01:						
Plan F	251,483	265,729	14,246	94.6%	23,036	61.8%
Other	209,476	N/A	N/A	N/A	27,048	N/A
7/1/00	433,160	N/A	N/A	N/A	61,555	N/A
7/1/99	396,186	N/A	N/A	N/A	59,535	N/A
7/1/98	596,655	N/A	N/A	N/A	94,940	N/A
7/1/97	534,321	N/A	N/A	N/A	92,851	N/A
7/1/96	481,931	521,656	39,725	92.4%	93,170	42.6%

Note: In years 1997 through 2000 the Plan's funding method was changed to the aggregate method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Beginning in 2001, an unfunded liability is being calculated for the uniformed bodies section of the Plan as the result of the establishment of Division F. Division F had an initial frozen liability of \$14,246 at July 1, 2001. Other sections of the plan continue to use the aggregate method, which does not identify or separately amortize unfunded actuarial liabilities.

Years prior to 1999 include the Knoxville Utilities Board.

Years beginning 2001 Board of Education payroll excludes teachers.

(continued)

**CITY OF KNOXVILLE TENNESSEE  
Required Supplementary Information**

**June 30, 2004**

(amounts expressed in thousands)

**Schedule of Funding Progress - Knoxville Utilities Board Pension Plan**

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/04	\$244,132	\$198,626	\$(45,505)	122.9%	\$42,964	(105.9)%
1/1/03	249,977	197,613	(52,364)	126.5%	41,833	(125.2)%
1/1/02	266,240	196,131	(70,109)	135.7%	39,853	(175.9)%
1/1/01	278,423	195,606	(82,817)	142.3%	38,094	(217.4)%
7/1/00	385,367	201,751	(83,616)	141.4%	36,901	(226.6)%
7/1/99	314,428	202,437	(111,991)	155.3%	36,194	(309.4)%

Note: The Plan was established on 7/1/99. Additional years will be presented as they become available.

**Schedule of Funding Progress – Firemen and Policemen Pension Act of 1929**

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/04	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/03	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/02	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/01	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/00	N/A	N/A	N/A	N/A	N/A	Not applicable
7/1/99	\$ -	\$49,619	\$49,619	-%	\$248	Not applicable <sup>(1)</sup>
7/1/98	-	48,121	48,121	-%	264	Not applicable <sup>(1)</sup>
7/1/97	-	48,589	48,589	-%	280	Not applicable <sup>(1)</sup>
7/1/96	-	45,067	45,067	-%	569	Not applicable <sup>(1)</sup>

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

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

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2004**  
**(in thousands)**

	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
<b>ASSETS</b>							
Cash and temporary investments	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 1,049	\$ -
Investments	1,134	-	1,119	493	1,352	346	226
Receivables:							
Accounts	832	147	4	24	2,135	822	-
Notes	-	2,130	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	1
Prepaid items	-	-	-	-	-	3	-
Total assets	<u>\$ 1,966</u>	<u>\$ 2,277</u>	<u>\$ 1,123</u>	<u>\$ 517</u>	<u>\$ 3,488</u>	<u>\$ 2,220</u>	<u>\$ 227</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ -	\$ 94	\$ 25	\$ 24	\$ 41	\$ 453	\$ -
Accrued liabilities	-	20	7	33	15	-	-
Due to other funds	215	102	2	28	1,002	79	-
Deferred revenue	-	1,986	-	-	1,736	486	-
Total liabilities	<u>215</u>	<u>2,202</u>	<u>34</u>	<u>85</u>	<u>2,794</u>	<u>1,018</u>	<u>-</u>
Fund balances:							
Reserved for:							
Encumbrances	-	-	-	1	-	-	-
Incompleted contracts	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	3	-
Notes receivable	-	2,130	-	-	-	-	-
Unreserved, reported in:							
Designated for future use	-	-	-	-	-	-	-
Undesignated	1,751	(2,055)	1,089	431	694	1,199	227
Total fund balances	<u>1,751</u>	<u>75</u>	<u>1,089</u>	<u>432</u>	<u>694</u>	<u>1,202</u>	<u>227</u>
Total liabilities and fund balances	<u>\$ 1,966</u>	<u>\$ 2,277</u>	<u>\$ 1,123</u>	<u>\$ 517</u>	<u>\$ 3,488</u>	<u>\$ 2,220</u>	<u>\$ 227</u>

Special Revenue Funds

Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	City Judges' Retirement	Coster Redevelopment	Krutch Park Trust	Knoxville Civic Revitalization	City Choice Plus	Total Nonmajor Governmental Funds
\$ 153	\$ -	\$ -	\$ -	\$ 1	\$ 185	\$ -	\$ -	\$ 190	\$ 1,579
2,703	1,065	691	4,404	1,303	-	712	2,018	-	17,566
12	1,285	21	33	-	-	1	-	-	5,316
-	5,344	-	-	-	-	-	-	-	7,474
93	-	-	-	6	-	-	-	-	100
-	-	-	-	-	-	-	-	-	3
<u>\$ 2,961</u>	<u>\$ 7,694</u>	<u>\$ 712</u>	<u>\$ 4,437</u>	<u>\$ 1,310</u>	<u>\$ 185</u>	<u>\$ 713</u>	<u>\$ 2,018</u>	<u>\$ 190</u>	<u>\$ 32,038</u>
\$ 135	\$ 357	\$ 18	\$ 181	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,328
1	-	35	19	-	-	-	-	-	130
-	481	171	392	-	-	-	-	-	2,472
-	5,637	-	-	-	-	-	-	-	9,845
<u>136</u>	<u>6,475</u>	<u>224</u>	<u>592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,775</u>
24	-	1	14	-	-	-	-	-	40
88	-	53	3,869	-	-	-	-	-	4,010
-	-	-	-	-	-	-	-	-	3
-	-	-	-	-	-	-	2	-	2,132
-	-	-	-	1,310	185	713	2,016	190	4,414
<u>2,713</u>	<u>1,219</u>	<u>434</u>	<u>(38)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,664</u>
<u>2,825</u>	<u>1,219</u>	<u>488</u>	<u>3,845</u>	<u>1,310</u>	<u>185</u>	<u>713</u>	<u>2,018</u>	<u>190</u>	<u>18,263</u>
<u>\$ 2,961</u>	<u>\$ 7,694</u>	<u>\$ 712</u>	<u>\$ 4,437</u>	<u>\$ 1,310</u>	<u>\$ 185</u>	<u>\$ 713</u>	<u>\$ 2,018</u>	<u>\$ 190</u>	<u>\$ 32,038</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the year ended June 30, 2004**  
**(in thousands)**

	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants	Animal Control
<b>Revenues:</b>							
Licenses, permits and inspection charges	\$ -	\$ -	\$ -	\$ 1,846	\$ -	\$ -	\$ -
Intergovernmental revenue	4,891	1,935	-	-	-	2,608	-
Charges for services	-	-	303	-	2,373	-	20
Fines and forfeitures	-	-	-	-	2,004	316	-
Other	11	300	334	3	54	438	1
Total revenue	<u>4,902</u>	<u>2,235</u>	<u>637</u>	<u>1,849</u>	<u>4,431</u>	<u>3,362</u>	<u>21</u>
<b>Expenditures:</b>							
Personal services	-	599	258	1,369	569	591	-
Materials and supplies	-	5	9	8	6	851	4
Other services and charges	3,613	1,437	252	278	86	1,584	2
Capital outlay	-	266	-	-	-	208	-
Total expenditures	<u>3,613</u>	<u>2,307</u>	<u>519</u>	<u>1,655</u>	<u>661</u>	<u>3,234</u>	<u>6</u>
Excess (deficiency) of revenues over expenditures	<u>1,289</u>	<u>(72)</u>	<u>118</u>	<u>194</u>	<u>3,770</u>	<u>128</u>	<u>15</u>
<b>Other financing sources (uses):</b>							
Transfers in	-	12	-	-	-	-	-
Transfers out	(1,275)	-	-	-	(3,335)	(192)	-
Total other financing sources (uses)	<u>(1,275)</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>(3,335)</u>	<u>(192)</u>	<u>-</u>
Net change in fund balances	14	(60)	118	194	435	(64)	15
Fund balance at beginning of year	<u>1,737</u>	<u>135</u>	<u>971</u>	<u>238</u>	<u>259</u>	<u>1,266</u>	<u>212</u>
Fund balance at end of year	<u>\$ 1,751</u>	<u>\$ 75</u>	<u>\$ 1,089</u>	<u>\$ 432</u>	<u>\$ 694</u>	<u>\$ 1,202</u>	<u>\$ 227</u>

Special Revenue Funds

Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	City Judges' Retirement	Coster Redevelopment	Krutch Park Trust	Knoxville Civic Revitalization	City Choice Plus	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1,846
-	4,122	-	-	-	-	-	-	-	13,556
107	-	144	684	108	-	-	-	-	3,739
652	-	-	-	-	-	-	-	-	2,972
1,249	493	13	215	15	-	36	155	232	3,549
<u>2,008</u>	<u>4,615</u>	<u>157</u>	<u>899</u>	<u>123</u>	<u>-</u>	<u>36</u>	<u>155</u>	<u>232</u>	<u>25,662</u>
40	270	1,394	825	280	-	-	-	-	6,195
104	-	27	48	-	-	-	-	-	1,062
573	4,053	251	8,320	-	337	11	-	225	21,022
-	80	-	-	-	-	-	-	-	554
<u>717</u>	<u>4,403</u>	<u>1,672</u>	<u>9,193</u>	<u>280</u>	<u>337</u>	<u>11</u>	<u>-</u>	<u>225</u>	<u>28,833</u>
<u>1,291</u>	<u>212</u>	<u>(1,515)</u>	<u>(8,294)</u>	<u>(157)</u>	<u>(337)</u>	<u>25</u>	<u>155</u>	<u>7</u>	<u>(3,171)</u>
-	-	1,511	8,361	-	-	-	-	-	9,884
(18)	-	-	-	-	-	-	-	-	(4,820)
<u>(18)</u>	<u>-</u>	<u>1,511</u>	<u>8,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,064</u>
1,273	212	(4)	67	(157)	(337)	25	155	7	1,893
<u>1,552</u>	<u>1,007</u>	<u>492</u>	<u>3,778</u>	<u>1,467</u>	<u>522</u>	<u>688</u>	<u>1,863</u>	<u>183</u>	<u>16,370</u>
<u>\$ 2,825</u>	<u>\$ 1,219</u>	<u>\$ 488</u>	<u>\$ 3,845</u>	<u>\$ 1,310</u>	<u>\$ 185</u>	<u>\$ 713</u>	<u>\$ 2,018</u>	<u>\$ 190</u>	<u>\$ 18,263</u>

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GAAP BASIS  
BUDGETED NONMAJOR SPECIAL REVENUE FUNDS  
For the year ended June 30, 2004  
(in thousands)

	State Street Aid			
	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues:</b>				
Intergovernmental revenue	\$ 4,860	\$ 4,860	\$ 4,891	\$ 31
Charges for services	-	-	-	-
Other	20	20	11	(9)
Total revenue	<u>4,880</u>	<u>4,880</u>	<u>4,902</u>	<u>22</u>
<b>Expenditures:</b>				
Personal services	-	-	-	-
Materials and supplies	-	-	-	-
Other services and charges	3,605	3,613	3,613	-
Capital outlay	-	-	-	-
Total expenditures	<u>3,605</u>	<u>3,613</u>	<u>3,613</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,275</u>	<u>1,267</u>	<u>1,289</u>	<u>22</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	<u>(1,275)</u>	<u>(1,275)</u>	<u>(1,275)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,275)</u>	<u>(1,275)</u>	<u>(1,275)</u>	<u>-</u>
Net change in fund balances	-	(8)	14	22
Fund balance at beginning of year	<u>1,737</u>	<u>1,737</u>	<u>1,737</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,737</u>	<u>\$ 1,729</u>	<u>\$ 1,751</u>	<u>\$ 22</u>

Community Development Block Grants				Abandoned Vehicles			
Budget		Actual	Actual Over (Under) Final Budget	Budget		Actual	Actual Over (Under) Final Budget
Original	Final			Original	Final		
\$ 3,037	\$ 3,037	\$ 1,935	\$ (1,102)	\$ -	\$ -	\$ -	\$ -
-	-	-	-	217	217	303	86
499	2,137	300	(1,837)	261	263	334	71
<u>3,536</u>	<u>5,174</u>	<u>2,235</u>	<u>(2,939)</u>	<u>478</u>	<u>480</u>	<u>637</u>	<u>157</u>
897	897	599	(298)	284	284	258	(26)
18	18	5	(13)	4	10	9	(1)
2,314	3,214	1,437	(1,777)	166	274	252	(22)
130	1,045	266	(779)	-	-	-	-
<u>3,359</u>	<u>5,174</u>	<u>2,307</u>	<u>(2,867)</u>	<u>454</u>	<u>568</u>	<u>519</u>	<u>(49)</u>
177	-	(72)	(72)	24	(88)	118	206
-	-	12	12	-	-	-	-
-	-	-	-	-	-	-	-
-	-	12	12	-	-	-	-
177	-	(60)	(60)	24	(88)	118	206
135	135	135	-	971	971	971	-
<u>\$ 312</u>	<u>\$ 135</u>	<u>\$ 75</u>	<u>\$ (60)</u>	<u>\$ 995</u>	<u>\$ 883</u>	<u>\$ 1,089</u>	<u>\$ 206</u>

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GAAP BASIS (continued)  
BUDGETED NONMAJOR SPECIAL REVENUE FUNDS  
For the year ended June 30, 2004  
(in thousands)

	City Inspections			
	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues:</b>				
Licenses, permits and inspection charges	\$ 1,342	\$ 1,342	\$ 1,846	\$ 504
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Other	1	1	3	2
Total revenue	<u>1,343</u>	<u>1,343</u>	<u>1,849</u>	<u>506</u>
<b>Expenditures:</b>				
Personal services	1,377	1,377	1,369	(8)
Materials and supplies	9	9	8	(1)
Other services and charges	294	294	278	(16)
Capital outlay	-	-	-	-
Total expenditures	<u>1,680</u>	<u>1,680</u>	<u>1,655</u>	<u>(25)</u>
Excess (deficiency) of revenues over expenditures	<u>(337)</u>	<u>(337)</u>	<u>194</u>	<u>531</u>
Other financing sources (uses):				
Transfers in	337	337	-	(337)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>337</u>	<u>337</u>	<u>-</u>	<u>(337)</u>
Net change in fund balances	-	-	194	194
Fund balance at beginning of year	<u>238</u>	<u>238</u>	<u>238</u>	<u>-</u>
Fund balance at end of year	<u>\$ 238</u>	<u>\$ 238</u>	<u>\$ 432</u>	<u>\$ 194</u>

City Court				Storm Water			
Budget		Actual	Actual Over (Under) Final Budget	Budget		Actual	Actual Over (Under) Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,630	2,410	2,373	(37)	45	45	144	99
1,400	1,589	2,004	415	-	-	-	-
26	26	54	28	-	1	13	12
<u>3,056</u>	<u>4,025</u>	<u>4,431</u>	<u>406</u>	<u>45</u>	<u>46</u>	<u>157</u>	<u>111</u>
510	569	569	-	1,362	1,394	1,394	-
12	14	6	(8)	39	41	27	(14)
98	98	86	(12)	259	274	251	(23)
-	-	-	-	-	-	-	-
<u>620</u>	<u>681</u>	<u>661</u>	<u>(20)</u>	<u>1,660</u>	<u>1,709</u>	<u>1,672</u>	<u>(37)</u>
<u>2,436</u>	<u>3,344</u>	<u>3,770</u>	<u>426</u>	<u>(1,615)</u>	<u>(1,663)</u>	<u>(1,515)</u>	<u>148</u>
-	-	-	-	1,661	1,661	1,511	(150)
<u>(2,434)</u>	<u>(3,335)</u>	<u>(3,335)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(2,434)</u>	<u>(3,335)</u>	<u>(3,335)</u>	<u>-</u>	<u>1,661</u>	<u>1,661</u>	<u>1,511</u>	<u>(150)</u>
2	9	435	426	46	(2)	(4)	(2)
259	259	259	-	492	492	492	-
<u>\$ 261</u>	<u>\$ 268</u>	<u>\$ 694</u>	<u>\$ 426</u>	<u>\$ 538</u>	<u>\$ 490</u>	<u>\$ 488</u>	<u>\$ (2)</u>

(continued)

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GAAP BASIS (continued)  
BUDGETED NONMAJOR SPECIAL REVENUE FUNDS  
For the year ended June 30, 2004  
(in thousands)

	Solid Waste			
	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues:</b>				
Licenses, permits and inspection charges	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue	-	-	-	-
Charges for services	645	645	684	39
Fines and forfeitures	-	-	-	-
Other	84	2,784	215	(2,569)
Total revenue	<u>729</u>	<u>3,429</u>	<u>899</u>	<u>(2,530)</u>
<b>Expenditures:</b>				
Personal services	754	834	825	(9)
Materials and supplies	32	52	48	(4)
Other services and charges	8,569	11,169	8,320	(2,849)
Capital outlay	-	-	-	-
Total expenditures	<u>9,355</u>	<u>12,055</u>	<u>9,193</u>	<u>(2,862)</u>
Excess (deficiency) of revenues over expenditures	<u>(8,626)</u>	<u>(8,626)</u>	<u>(8,294)</u>	<u>332</u>
Other financing sources (uses):				
Transfers in	8,626	8,626	8,361	(265)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>8,626</u>	<u>8,626</u>	<u>8,361</u>	<u>(265)</u>
Net change in fund balances	-	-	67	67
Fund balance at beginning of year	<u>3,778</u>	<u>3,778</u>	<u>3,778</u>	<u>-</u>
Fund balance at end of year	<u>\$ 3,778</u>	<u>\$ 3,778</u>	<u>\$ 3,845</u>	<u>\$ 67</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GAAP BASIS**  
**DEBT SERVICE FUND**  
**For the year ended June 30, 2004**  
**(in thousands)**

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues:</b>				
Taxes, assessments, interest and penalties	\$ 22,448	\$ 22,448	\$ 24,076	\$ 1,628
Intergovernmental revenue	-	-	1,269	1,269
Other	(579)	(579)	330	909
Total revenue	<u>21,869</u>	<u>21,869</u>	<u>25,675</u>	<u>3,806</u>
<b>Expenditures:</b>				
Principal retirement	11,081	19,306	19,304	(2)
Interest on bonds and notes	4,974	4,974	2,973	(2,001)
Other services and charges	400	400	139	(261)
Total expenditures	<u>16,455</u>	<u>24,680</u>	<u>22,416</u>	<u>(2,264)</u>
Excess (deficiency) of revenues over expenditures	<u>5,414</u>	<u>(2,811)</u>	<u>3,259</u>	<u>6,070</u>
Other financing sources (uses):				
Proceeds from issuance of debt	-	-	138	138
Transfers in	-	8,225	9,981	1,756
Transfers out	(5,414)	(5,414)	(3,547)	(1,867)
Total other financing sources (uses)	<u>(5,414)</u>	<u>2,811</u>	<u>6,572</u>	<u>3,761</u>
Net change in fund balances	-	-	9,831	9,831
Fund balance at beginning of year	19,541	19,541	19,541	-
Fund balance at end of year	<u>\$ 19,541</u>	<u>\$ 19,541</u>	<u>\$ 29,372</u>	<u>\$ 9,831</u>

**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, 2004**  
**(in thousands)**

	Prior Years	Current Year	Total to Date	Project Authorization	Actual Over (Under) Final Budget
<b>Revenues:</b>					
Intergovernmental revenue	\$ 1,664	\$ 890	2,554	\$ 5,116	\$ (2,562)
Other	5,938	262	6,200	6,866	(666)
Total revenue	<u>7,602</u>	<u>1,152</u>	<u>8,754</u>	<u>11,982</u>	<u>(3,228)</u>
<b>Expenditures:</b>					
Materials and supplies	36	122	158	260	(102)
Other services and charges	12,209	19,519	31,728	76,967	(45,239)
Capital outlay	20,794	3,676	24,470	25,931	(1,461)
Total expenditures	<u>33,039</u>	<u>23,317</u>	<u>56,356</u>	<u>103,158</u>	<u>(46,802)</u>
Excess (deficiency) of revenues over expenditures	<u>(25,437)</u>	<u>(22,165)</u>	<u>(47,602)</u>	<u>(91,176)</u>	<u>43,574</u>
Other financing sources (uses):					
Debt proceeds	50,911	42,829	93,740	72,513	21,227
Transfers in	28,728	6,412	35,140	26,420	8,720
Transfers out	(46,764)	(9,981)	(56,745)	-	(56,745)
Total other financing sources (uses)	<u>32,875</u>	<u>39,260</u>	<u>72,135</u>	<u>98,933</u>	<u>(26,798)</u>
Net change in fund balances	<u>\$ 7,438</u>	<u>17,095</u>	<u>\$ 24,533</u>	<u>\$ 7,757</u>	<u>\$ 16,776</u>
Fund balance at beginning of year		<u>14,556</u>			
Fund balance at end of year		<u>\$ 31,651</u>			

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR ENTERPRISE FUNDS**  
**June 30, 2004**  
**(in thousands)**

	Metro Parking	Public Assembly Facilities	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current assets:			
Cash and temporary investments	\$ -	\$ 505	\$ 505
Investments	2,246	2,053	4,299
Accounts receivable	76	210	286
Total current assets	<u>2,322</u>	<u>2,768</u>	<u>5,090</u>
Noncurrent assets:			
Investment in capital lease	-	861	861
Deferred charges	13	-	13
Capital assets:			
Land and site improvements	1,379	1,711	3,090
Building and building improvements	11,431	14,961	26,392
Equipment, furniture and fixtures	5	386	391
Less accumulated depreciation	<u>(6,563)</u>	<u>(11,538)</u>	<u>(18,101)</u>
Net capital assets	<u>6,252</u>	<u>5,520</u>	<u>11,772</u>
Total assets	<u>\$ 8,587</u>	<u>\$ 9,149</u>	<u>\$ 17,736</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Accounts payable	\$ -	\$ 105	\$ 105
Accrued liabilities	-	148	148
Accrued interest	11	-	11
Due to other funds	134	-	134
Current maturities of general obligation bonds	394	-	394
Deferred revenue	-	92	92
Total current liabilities	539	345	884
General obligation bonds (plus issuance premium), less current maturities	<u>1,209</u>	<u>-</u>	<u>1,209</u>
Total liabilities	<u>1,748</u>	<u>345</u>	<u>2,093</u>
Net assets:			
Invested in capital assets, net of related debt	4,649	5,520	10,169
Unrestricted	<u>2,190</u>	<u>3,284</u>	<u>5,474</u>
Total net assets	<u>6,839</u>	<u>8,804</u>	<u>15,643</u>
Total liabilities and net assets	<u>\$ 8,587</u>	<u>\$ 9,149</u>	<u>\$ 17,736</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**NONMAJOR ENTERPRISE FUNDS**  
**For the year ended June 30, 2004**  
**(in thousands)**

	<u>Metro Parking</u>	<u>Public Assembly Facilities</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues:			
Charges for services	\$ 999	\$ 1,810	\$ 2,809
Operating expenses:			
Personal services	-	1,745	1,745
Material and supplies	-	188	188
Maintenance	-	50	50
Depreciation	379	313	692
Other services and charges	282	1,317	1,599
Total operating expenses	<u>661</u>	<u>3,613</u>	<u>4,274</u>
Operating income (loss)	<u>338</u>	<u>(1,803)</u>	<u>(1,465)</u>
Non-operating revenues (expenses):			
Interest income	22	25	47
Interest expense	(77)	-	(77)
Net non-operating revenues (expenses)	<u>(55)</u>	<u>25</u>	<u>(30)</u>
Income (loss) before transfers	283	(1,778)	(1,495)
Transfers in	-	1,598	1,598
Change in net assets	283	(180)	103
Net assets at beginning of year	<u>6,556</u>	<u>8,984</u>	<u>15,540</u>
Net assets at end of year	<u>\$ 6,839</u>	<u>\$ 8,804</u>	<u>\$ 15,643</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR ENTERPRISE FUNDS**  
For the year ended June 30, 2004  
(in thousands)

	Metro Parking	Public Assembly Facilities	Total Nonmajor Enterprise Funds
<b>Cash flows from operating activities:</b>			
Receipts from customers and users	\$ 997	\$ 1,582	\$ 2,579
Payments to suppliers	(261)	(1,117)	(1,378)
Payments to employees	-	(1,773)	(1,773)
Payments for interfund services used	(17)	(447)	(464)
Net cash provided (used) by operating activities	<u>719</u>	<u>(1,755)</u>	<u>(1,036)</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers from other funds	-	1,598	1,598
Advances from other funds	133	-	133
Repayment of advances from other funds	-	(84)	(84)
Net cash provided by noncapital financing activities	<u>133</u>	<u>1,514</u>	<u>1,647</u>
<b>Cash flows from capital and related financing activities:</b>			
Principal paid on general obligation bond maturities	(381)	-	(381)
Interest paid	(84)	-	(84)
Principal received from capital lease	-	17	17
Acquisition of capital assets	-	(329)	(329)
Net cash used by capital and related financing activities	<u>(465)</u>	<u>(312)</u>	<u>(777)</u>
<b>Investing activities:</b>			
Purchase of investments	(411)	-	(411)
Proceeds from sales and maturities of investments	-	476	476
Investment earnings	24	27	51
Net cash provided (used) by investment activities	<u>(387)</u>	<u>503</u>	<u>116</u>
Net decrease in cash	-	(50)	(50)
Cash at beginning of the year	-	555	555
Cash at end of the year	<u>\$ -</u>	<u>\$ 505</u>	<u>\$ 505</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 338	\$ (1,803)	\$ (1,465)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	379	313	692
Amortization of bond issuance costs	4	-	4
(Increase) decrease in assets:			
Receivables	(1)	(4)	(5)
Increase (decrease) in liabilities:			
Accounts payable	(1)	(9)	(10)
Accrued expenses	-	(25)	(25)
Deferred revenue	-	(227)	(227)
Net cash provided (used) by operating activities	<u>\$ 719</u>	<u>\$ (1,755)</u>	<u>\$ (1,036)</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**June 30, 2004**  
**(in thousands)**

	Office Services	Fleet Maintenance	Risk Management	Employee Health Insurance	Equipment Replacement	City Buildings	Total Internal Service Funds
<b>ASSETS</b>							
Current assets:							
Cash and temporary investments	\$ 5	\$ -	\$ 321	\$ 761	\$ 73	\$ -	\$ 1,160
Investments	-	9,250	5,015	1,899	6,797	289	23,250
Accounts receivable	-	7	3	-	51	-	61
Inventory	47	1,494	-	4	250	-	1,795
Prepaid items	-	-	499	-	-	-	499
Total current assets	<u>52</u>	<u>10,751</u>	<u>5,838</u>	<u>2,664</u>	<u>7,171</u>	<u>289</u>	<u>26,765</u>
Noncurrent assets:							
Capital assets:							
Building and building improvements	-	196	-	-	-	-	196
Equipment, furniture and fixtures	74	35,371	61	5	14,078	-	49,589
Less accumulated depreciation	(71)	(26,030)	(59)	(4)	(9,159)	-	(35,323)
Net capital assets	<u>3</u>	<u>9,537</u>	<u>2</u>	<u>1</u>	<u>4,919</u>	<u>-</u>	<u>14,462</u>
Total assets	<u>\$ 55</u>	<u>\$ 20,288</u>	<u>\$ 5,840</u>	<u>\$ 2,665</u>	<u>\$ 12,090</u>	<u>\$ 289</u>	<u>\$ 41,227</u>
<b>LIABILITIES AND NET ASSETS</b>							
Current liabilities:							
Accounts payable	\$ 11	\$ 135	\$ 10	\$ 1	\$ 79	\$ 6	\$ 242
Accrued liabilities	22	284	22	8	-	-	336
Due to other funds	-	3,903	-	-	-	-	3,903
Estimated litigation liability	-	-	5,592	-	-	-	5,592
Total current liabilities	<u>33</u>	<u>4,322</u>	<u>5,624</u>	<u>9</u>	<u>79</u>	<u>6</u>	<u>10,073</u>
Net assets:							
Invested in capital assets, net of related debt	3	9,537	2	1	4,919	-	14,462
Unrestricted	19	6,429	214	2,655	7,092	283	16,692
Total net assets	<u>22</u>	<u>15,966</u>	<u>216</u>	<u>2,656</u>	<u>12,011</u>	<u>283</u>	<u>31,154</u>
Total liabilities and net assets	<u>\$ 55</u>	<u>\$ 20,288</u>	<u>\$ 5,840</u>	<u>\$ 2,665</u>	<u>\$ 12,090</u>	<u>\$ 289</u>	<u>\$ 41,227</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**For the year ended June 30, 2004**  
**(in thousands)**

	Office Services	Fleet Maintenance	Risk Management	Employee Health Insurance	Equipment Replacement	City Buildings	Total Internal Service Funds
Operating revenues:							
Charges for services	\$ 478	\$ 9,118	\$ 5,819	\$ 11,563	\$ 1,902	\$ 1,350	\$ 30,230
Operating expenses:							
Personal services	122	1,997	395	148	-	-	2,662
Material and supplies	221	2,523	17	5	90	1,207	4,063
Maintenance	-	493	-	-	-	-	493
Depreciation and amortization	1	3,333	7	-	1,976	-	5,317
Other services and charges	118	505	6,234	11,556	-	-	18,413
Total operating expenses	462	8,851	6,653	11,709	2,066	1,207	30,948
Operating income (loss)	16	267	(834)	(146)	(164)	143	(718)
Non-operating revenues (expenses):							
Interest income	-	98	48	19	70	-	235
Other revenues	-	3	7	-	183	-	193
Gain (loss) on disposal of capital assets	-	447	-	-	(14)	-	433
Net non-operating revenues	-	548	55	19	239	-	861
Income (loss) before transfers	16	815	(779)	(127)	75	143	143
Transfers in	-	-	1,002	1,005	129	-	2,136
Transfers out	-	-	(12)	-	-	-	(12)
Change in net assets	16	815	211	878	204	143	2,267
Net assets at beginning of year	6	15,151	5	1,778	11,807	140	28,887
Net assets at end of year	\$ 22	\$ 15,966	\$ 216	\$ 2,656	\$ 12,011	\$ 283	\$ 31,154

**CITY OF KNOXVILLE, TENNESSEE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**For the year ended June 30, 2004**  
**(in thousands)**

	Office Services	Fleet Maintenance	Risk Management	Employee Health Insurance	Equipment Replacement	City Buildings	Total Internal Service Funds
<b>Cash flows from operating activities:</b>							
Receipts from interfund services provided	\$ 481	\$ 9,118	\$ 5,799	\$ 11,563	\$ 2,039	\$ 1,350	\$ 30,350
Payments to suppliers	(238)	(4,222)	(1,594)	(155)	(15)	(1,205)	(7,429)
Payment of claims and insurance	-	-	(4,073)	(11,353)	-	-	(15,426)
Payments to employees	(125)	(2,003)	(419)	(150)	-	-	(2,697)
Payments for interfund services used	(82)	(165)	(103)	(58)	-	-	(408)
Net cash provided (used) by operating activities	<u>36</u>	<u>2,728</u>	<u>(390)</u>	<u>(153)</u>	<u>2,024</u>	<u>145</u>	<u>4,390</u>
<b>Cash flows from noncapital financing activities:</b>							
Transfers from other funds	-	-	1,002	1,005	129	-	2,136
Transfers to other funds	-	-	(12)	-	-	-	(12)
Advances from other funds	-	938	-	-	-	1	939
Repayment of advances from other funds	(31)	-	(137)	-	(10)	-	(178)
Net cash provided (used) by noncapital financing activities	<u>(31)</u>	<u>938</u>	<u>853</u>	<u>1,005</u>	<u>119</u>	<u>1</u>	<u>2,885</u>
<b>Cash flows from capital and related financing activities:</b>							
Proceeds from disposal of capital assets	-	523	-	-	59	-	582
Acquisition of capital assets	-	(2,450)	-	-	(732)	-	(3,182)
Net cash used by capital and related financing activities	<u>-</u>	<u>(1,927)</u>	<u>-</u>	<u>-</u>	<u>(673)</u>	<u>-</u>	<u>(2,600)</u>
<b>Investing activities:</b>							
Purchase of investments	-	(3,387)	(1,723)	(768)	(3,010)	(289)	(9,177)
Proceeds from sales and maturities of investments	-	1,523	365	-	1,543	-	3,431
Investment earnings	-	125	86	20	70	-	301
Net cash used by investing activities	<u>-</u>	<u>(1,739)</u>	<u>(1,272)</u>	<u>(748)</u>	<u>(1,397)</u>	<u>(289)</u>	<u>(5,445)</u>
Net increase (decrease) in cash	5	-	(809)	104	73	(143)	(770)
Cash at beginning of the year	-	-	1,130	657	-	143	1,930
Cash at end of the year	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 321</u>	<u>\$ 761</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ 1,160</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>							
Operating income (loss)	\$ 16	\$ 267	\$ (834)	\$ (146)	\$ (164)	\$ 143	\$ (718)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:							
Depreciation	1	3,333	7	-	1,976	-	5,317
Other income	-	3	7	-	183	-	193
(Increase) decrease in assets:							
Receivables	-	(3)	(28)	-	(47)	-	(78)
Inventory	34	(760)	-	(3)	76	-	(653)
Prepayments	-	-	(173)	-	-	-	(173)
Increase (decrease) in liabilities:							
Accounts payable	(13)	(103)	(208)	(1)	-	2	(323)
Accrued expenses	(2)	(9)	(23)	(3)	-	-	(37)
Estimated liability for litigation and claims	-	-	862	-	-	-	862
Net cash provided (used) by operating activities	<u>\$ 36</u>	<u>\$ 2,728</u>	<u>\$ (390)</u>	<u>\$ (153)</u>	<u>\$ 2,024</u>	<u>\$ 145</u>	<u>\$ 4,390</u>
<b>Noncash investing, capital and financing transactions:</b>							
Accounts payable for acquisition of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84</u>	<u>\$ -</u>	<u>\$ 84</u>
Increase in fair value of investments	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 13</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY SOURCE**  
**June 30, 2004**  
**(in thousands)**

**GOVERNMENTAL FUNDS CAPITAL ASSETS**

Land and site improvements	\$	39,369
Building and building improvements		38,756
Equipment, furniture and fixtures		4,084
Infrastructure		176,314
Construction in progress		<u>50,100</u>
Total governmental funds capital assets	\$	<u><u>308,623</u></u>

**INVESTMENT IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE**

General fund	\$	53,928
Special revenue funds		5,806
Capital projects funds		219,930
Donations		<u>28,959</u>
Total investment in governmental funds capital assets	\$	<u><u>308,623</u></u>

Note: The schedule presents only the capital asset balances related to governmental funds. Accordingly, capital assets totaling \$49,785 that are reported in internal service funds and with the capital assets of governmental activities in the statement of net assets have been excluded from this schedule.

**CITY OF KNOXVILLE, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION AND ACTIVITY**  
**June 30, 2004**  
**(in thousands)**

Function and Activity	Land and Site Improvements	Buildings and Building Improvements	Equipment Furniture and Fixtures	Infrastructure	Construction in Progress	Total
<b>GENERAL GOVERNMENT</b>						
Administration	\$ -	\$ 2,361	\$ 75	\$ -	\$ -	\$ 2,436
Finance	27,199	7,302	72	13,494	270	48,337
Law	-	-	5	-	-	5
Information systems	-	-	332	-	-	332
Legislative	-	-	11	-	-	11
City court	-	-	15	-	-	15
Civil service	-	-	68	-	-	68
Total general government	<u>27,199</u>	<u>9,663</u>	<u>578</u>	<u>13,494</u>	<u>270</u>	<u>51,204</u>
<b>PUBLIC SAFETY</b>						
Police	-	3,945	1,052	-	-	4,997
Fire	157	4,062	660	-	-	4,879
Emergency management	-	-	345	-	-	345
Total public safety	<u>157</u>	<u>8,007</u>	<u>2,057</u>	<u>-</u>	<u>-</u>	<u>10,221</u>
<b>HIGHWAYS AND STREETS</b>						
Public service	-	503	182	-	-	685
Engineering	895	413	424	155,583	10,757	168,072
Total highways and streets	<u>895</u>	<u>916</u>	<u>606</u>	<u>155,583</u>	<u>10,757</u>	<u>168,757</u>
<b>OTHER</b>						
Parks and recreation	5,072	4,277	811	7,237	16,927	34,324
Development	-	-	-	-	22,146	22,146
Waterfront	11	10,297	-	-	-	10,308
MLB Center	23	4,846	-	-	-	4,869
Other	6,012	750	32	-	-	6,794
Total other	<u>11,118</u>	<u>20,170</u>	<u>843</u>	<u>7,237</u>	<u>39,073</u>	<u>78,441</u>
Total governmental funds capital assets	<u>\$ 39,369</u>	<u>\$ 38,756</u>	<u>\$ 4,084</u>	<u>\$ 176,314</u>	<u>\$ 50,100</u>	<u>\$ 308,623</u>

Note: The schedule presents only the capital asset balances related to governmental funds. Accordingly, capital assets totaling \$49,785 that are reported in internal service funds and with the capital assets of governmental activities in the statement of net assets have been excluded from this schedule.

**CITY OF KNOXVILLE, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**  
**For the year ended June 30, 2004**  
**(in thousands)**

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets June 30, 2004</u>
<b>GENERAL GOVERNMENT</b>				
Administration	\$ 2,409	\$ 27	\$ -	\$ 2,436
Finance	48,146	482	291	48,337
Law	5	-	-	5
Information systems	332	-	-	332
Legislative	11	-	-	11
City court	15	-	-	15
Civil service	68	-	-	68
Total general government	<u>50,986</u>	<u>509</u>	<u>291</u>	<u>51,204</u>
<b>PUBLIC SAFETY</b>				
Police	4,981	16	-	4,997
Fire	4,879	-	-	4,879
Emergency management	248	97	-	345
Total public safety	<u>10,108</u>	<u>113</u>	<u>-</u>	<u>10,221</u>
<b>HIGHWAYS AND STREETS</b>				
Public service	684	16	15	685
Engineering	160,910	7,314	152	168,072
Total highways and streets	<u>161,594</u>	<u>7,330</u>	<u>167</u>	<u>168,757</u>
<b>OTHER</b>				
Parks and recreation	26,282	8,042	-	34,324
Development	-	22,146	-	22,146
Waterfront	10,348	11	51	10,308
MLB Center	4,869	-	-	4,869
Other	23,115	-	16,321	6,794
Total other	<u>64,614</u>	<u>30,199</u>	<u>16,372</u>	<u>78,441</u>
Total governmental funds capital assets	<u>\$ 287,302</u>	<u>\$ 38,151</u>	<u>\$ 16,830</u>	<u>\$ 308,623</u>

Note: The schedule presents only the changes in capital asset balances related to governmental funds. Accordingly, the changes in capital assets reported in internal service funds and with the capital assets of governmental activities in the statement of net assets have been excluded from this schedule.

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF LONG-TERM BONDS AND NOTES PAYABLE**  
**REQUIREMENTS BY ISSUE**  
**June 30, 2004**  
**(in thousands)**

Fiscal Year Ended June 30,	General Government							
	General Obligation Refunding Bonds Series 1999A		General Obligation Public Improvement Bonds 2000A		General Obligation Improvement Bonds Series 2004A		General Obligation Refunding Bonds Series 2004B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 3,011	\$ 136	\$ 100	\$ 838	\$ 1,195	\$ 1,457	\$ 5,650	\$ 2,659
2006	-	-	715	833	1,310	1,225	8,405	2,054
2007	-	-	755	797	1,330	1,199	7,535	1,633
2008	-	-	795	760	1,355	1,173	6,230	1,257
2009	-	-	830	720	1,385	1,145	5,055	945
2010	-	-	870	678	1,415	1,114	2,985	692
2011	-	-	915	634	1,455	1,043	2,155	543
2012	-	-	965	587	1,500	971	2,175	435
2013	-	-	1,015	536	1,550	896	2,200	327
2014	-	-	1,070	483	1,600	849	2,180	261
2015	-	-	1,125	426	1,655	799	2,160	192
2016	-	-	1,185	366	1,720	733	2,155	106
2017	-	-	1,245	301	1,785	664	565	19
2018	-	-	1,315	232	1,855	593	-	-
2019	-	-	1,390	160	1,930	519	-	-
2020	-	-	1,470	82	2,010	441	-	-
2021	-	-	-	-	2,095	361	-	-
2022	-	-	-	-	2,185	277	-	-
2023	-	-	-	-	2,285	190	-	-
2024	-	-	-	-	2,385	99	-	-
	<u>\$ 3,011</u>	<u>\$ 136</u>	<u>\$ 15,760</u>	<u>\$ 8,433</u>	<u>\$ 34,000</u>	<u>\$ 15,748</u>	<u>\$ 49,450</u>	<u>\$ 11,123</u>

	Metro Parking Fund		Convention Center							
	General Obligation Refunding Bonds Series 1999A		General Obligation Public Improvement Bonds Series IIIF		General Obligation Public Improvement Bonds Series A-4-A		General Obligation Public Improvement Bonds Series 2002A		Total Convention Center Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 394	\$ 66	\$ 2,100	\$ 1,668	-	613	\$ 1,075	\$ 2,607	\$ 3,175	\$ 4,888
2006	395	48	2,210	1,584	-	613	1,110	2,570	3,320	4,767
2007	415	33	2,315	1,496	-	613	1,155	2,531	3,470	4,640
2008	385	16	2,420	1,403	-	613	1,195	2,485	3,615	4,501
2009	-	-	2,540	1,307	-	613	1,245	2,437	3,785	4,357
2010	-	-	2,655	1,205	-	613	1,295	2,387	3,950	4,205
2011	-	-	2,785	1,099	-	613	1,345	2,335	4,130	4,047
2012	-	-	2,765	988	-	613	1,400	2,280	4,165	3,881
2013	-	-	2,730	877	-	613	1,465	2,220	4,195	3,710
2014	-	-	2,855	768	-	613	1,525	2,156	4,380	3,537
2015	-	-	2,990	654	-	613	1,595	2,087	4,585	3,354
2016	-	-	3,125	535	-	613	1,665	2,014	4,790	3,162
2017	-	-	3,270	410	-	613	1,745	1,936	5,015	2,959
2018	-	-	3,415	279	-	613	1,825	1,853	5,240	2,745
2019	-	-	3,575	143	-	613	1,920	1,762	5,495	2,518
2020	-	-	-	-	-	613	2,015	1,666	2,015	2,279
2021	-	-	-	-	-	613	5,855	1,565	5,855	2,178
2022	-	-	-	-	-	613	6,145	1,272	6,145	1,885
2023	-	-	-	-	-	613	6,455	965	6,455	1,578
2024	-	-	-	-	-	613	6,775	642	6,775	1,255
2025	-	-	-	-	1,055	613	6,070	303	7,125	916
2026	-	-	-	-	7,460	601	-	-	7,460	601
2027	-	-	-	-	7,760	525	-	-	7,760	525
2028	-	-	-	-	8,070	446	-	-	8,070	446
2029	-	-	-	-	8,390	363	-	-	8,390	363
2030	-	-	-	-	8,725	278	-	-	8,725	278
2031	-	-	-	-	9,075	189	-	-	9,075	189
2032	-	-	-	-	9,435	96	-	-	9,435	96
	<u>\$ 1,589</u>	<u>163</u>	<u>\$ 41,750</u>	<u>\$ 14,416</u>	<u>\$ 59,970</u>	<u>15,371</u>	<u>\$ 54,875</u>	<u>\$ 40,073</u>	<u>\$ 156,595</u>	<u>69,860</u>

General Government

General Obligation Refunding Bonds Series 1997A		Total General Government Bonds		Animal Shelter Debt Participation		Total General Government Debt	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 885	\$ 43	\$ 10,841	\$ 5,133	\$ 60	\$ 72	\$ 10,901	\$ 5,205
-	-	10,430	4,112	61	69	10,491	4,181
-	-	9,620	3,629	63	66	9,683	3,695
-	-	8,380	3,190	66	63	8,446	3,253
-	-	7,270	2,810	68	59	7,338	2,869
-	-	5,270	2,484	71	56	5,341	2,540
-	-	4,525	2,220	73	52	4,598	2,272
-	-	4,640	1,993	77	48	4,717	2,041
-	-	4,765	1,759	80	44	4,845	1,803
-	-	4,850	1,593	83	40	4,933	1,633
-	-	4,940	1,417	87	35	5,027	1,452
-	-	5,060	1,205	91	31	5,151	1,236
-	-	3,595	984	95	26	3,690	1,010
-	-	3,170	825	100	22	3,270	847
-	-	3,320	679	105	17	3,425	696
-	-	3,480	523	110	11	3,590	534
-	-	2,095	361	116	6	2,211	367
-	-	2,185	277	-	-	2,185	277
-	-	2,285	190	-	-	2,285	190
-	-	2,385	99	-	-	2,385	99
<u>\$ 885</u>	<u>\$ 43</u>	<u>\$ 103,106</u>	<u>\$ 35,483</u>	<u>\$ 1,406</u>	<u>\$ 717</u>	<u>\$ 104,512</u>	<u>\$ 36,200</u>

Debt by Type

Total Primary Government		Total General Obligation Bonds		Total Debt Participation		Total Primary Government Debt	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 14,470	\$ 10,159	\$ 14,410	\$ 10,087	\$ 60	\$ 72	\$ 14,470	\$ 10,159
14,206	8,996	14,145	8,927	61	69	14,206	8,996
13,568	8,368	13,505	8,302	63	66	13,568	8,368
12,446	7,770	12,380	7,707	66	63	12,446	7,770
11,123	7,226	11,055	7,167	68	59	11,123	7,226
9,291	6,745	9,220	6,689	71	56	9,291	6,745
8,728	6,319	8,655	6,267	73	52	8,728	6,319
8,882	5,922	8,805	5,874	77	48	8,882	5,922
9,040	5,513	8,960	5,469	80	44	9,040	5,513
9,313	5,170	9,230	5,130	83	40	9,313	5,170
9,612	4,806	9,525	4,771	87	35	9,612	4,806
9,941	4,398	9,850	4,367	91	31	9,941	4,398
8,705	3,969	8,610	3,943	95	26	8,705	3,969
8,510	3,592	8,410	3,570	100	22	8,510	3,592
8,920	3,214	8,815	3,197	105	17	8,920	3,214
5,605	2,813	5,495	2,802	110	11	5,605	2,813
8,066	2,545	7,950	2,539	116	6	8,066	2,545
8,330	2,162	8,330	2,162	-	-	8,330	2,162
8,740	1,768	8,740	1,768	-	-	8,740	1,768
9,160	1,354	9,160	1,354	-	-	9,160	1,354
7,125	916	7,125	916	-	-	7,125	916
7,460	601	7,460	601	-	-	7,460	601
7,760	525	7,760	525	-	-	7,760	525
8,070	446	8,070	446	-	-	8,070	446
8,390	363	8,390	363	-	-	8,390	363
8,725	278	8,725	278	-	-	8,725	278
9,075	189	9,075	189	-	-	9,075	189
9,435	96	9,435	96	-	-	9,435	96
<u>\$ 262,696</u>	<u>106,223</u>	<u>\$ 261,290</u>	<u>\$ 105,506</u>	<u>\$ 1,406</u>	<u>\$ 717</u>	<u>\$ 262,696</u>	<u>\$ 106,223</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF REVENUE DETAIL**  
**GENERAL FUND**  
**For the year ended June 30, 2004**  
**(in thousands)**

<b>Taxes:</b>		<b>Charges for services:</b>	
Real - current	\$ 44,819	Attorney cost - taxes	\$ 313
Real - prior	2,101	Recording and collection fees	44
Personal - current	5,161	Accident reports	215
Personal - private	546	Officer costs	31
Public Utilities - current	2,710	Codes enforcement	89
Public Utilities - prior	197	Pool fees	35
Discount on taxes	(242)	Rental fees	41
Interest and penalty - current	125	Athletic fees	75
Interest and penalty - prior	1,264	Concessions	58
Interest and penalty - business	61	State reimbursements - streets and signs	252
Interest and penalty - license	1	Other	14
Interest and penalty - CBID	2		
Knoxville Utilities Board - in lieu of tax	9,950	Total charges for services	<u>\$ 1,167</u>
Knox County Development Corporation - in-lieu of tax	74		
Local shared sales tax	30,529	<b>Fines and forfeitures:</b>	
Beer tax	5,697	General sessions fines	\$ 105
Mixed drink tax	898	General sessions costs	91
Alcoholic beverage tax	1,777	KPD - automated information	112
Business tax	4,044	Criminal court fines	18
Cable TV Franchise tax	1,156	Other	4
Other	184		
	<u>\$ 111,054</u>	Total fines and forfeitures	<u>\$ 330</u>
<b>Licenses and permits:</b>		<b>Miscellaneous revenues:</b>	
Inspection permits	\$ 23	Interest on investments	\$ 140
Liquor by the ounce	136	Lease and rental income	32
Alcoholic beverage license	2	Parking meters	370
Solicitation	5	Agency contribution	10
Street vendor	6	Sale of equipment	40
Beer permit fees	35	Miscellaneous grants	537
Beer privilege	57	Miscellaneous revenue	6
	<u>\$ 264</u>	Total miscellaneous revenues	<u>\$ 1,135</u>
<b>Intergovernmental revenue:</b>		<b>Total general fund revenue</b>	
Senior aides	\$ 395		<u>\$ 129,230</u>
Federal contribution	636		
Sales tax	10,182		
Income tax	1,356		
Beer tax	86		
Alcoholic beverage tax	87		
Streets and transportation gas	394		
Excise tax	347		
TVA - Gross receipts	1,186		
State contribution	323		
Civil defense	138		
Other	150		
	<u>\$ 15,280</u>		
<b>Total intergovernmental revenue</b>			

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF REVENUE AND EXPENDITURE DETAIL**  
**STATE STREET AID FUND**  
**For the year ended June 30, 2004**  
**(in thousands)**

	<u>Budget</u>	<u>Actual</u>
<b>Revenue:</b>		
State gas and fuel tax	\$ 4,860	\$ 4,891
Interest on investments	20	11
Total revenue	<u>4,880</u>	<u>4,902</u>
<b>Expenditures and transfers:</b>		
Street lighting	2,608	2,608
Capital projects transfers	1,275	1,275
Mass transit transfers	<u>1,005</u>	<u>1,005</u>
Total expenditures and transfers	<u>4,888</u>	<u>4,888</u>
Excess (deficiency) of revenues over expenditures and transfers	<u>\$ (8)</u>	<u>\$ 14</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE**  
**DRUG SUB-FUND**  
**For the year ended June 30, 2004**  
**(in thousands)**

**ASSETS**

Cash and temporary investments	\$	1,027
Accounts receivable		163
Prepaid items		<u>3</u>
Total assets	\$	<u><u>1,193</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities:		
Accounts payable	\$	77
Due to other funds		<u>51</u>
Total liabilities		128
Fund balance:		
Unreserved, undesignated	\$	<u>1,065</u>
Total liabilities and fund balance		<u><u>1,193</u></u>

Note: The drug fund is a sub-fund of the City's Miscellaneous Grant Fund.  
This schedule is presented to demonstrate compliance requirements of the State of Tennessee.

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF REVENUE AND EXPENDITURE DETAIL**  
**DRUG SUB-FUND**  
**For the year ended June 30, 2004**  
**(in thousands)**

<b>REVENUES</b>	
Fines and forfeitures	\$ 339
Interest	7
Other	2
Total revenue	<u>348</u>
<b>EXPENDITURES</b>	
Drug purchases	8
Informants	19
Capital outlay	190
Other supplies and expenses	156
Drug dog equipment and supplies	8
Prevention programs	39
Other	83
Total expenditures	<u>503</u>
Excess of expenditures over revenues	(155)
Fund balance at the beginning of the year	<u>1,220</u>
Fund balance at the end of the year	<u><u>\$ 1,065</u></u>

Note: The drug fund is a sub-fund of the City's Miscellaneous Grant Fund.  
This schedule is presented to demonstrate compliance requirements of the State of Tennessee.

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF PROPERTY TAXES RECEIVABLE**  
For the year ended June 30, 2004  
(in thousands)

Year of Levy	Balance July 1, 2003	Taxes Levied	Collections and Write-offs	Balance June 30, 2004	Allowance for Uncollectibles	Net Receivables
<b>Real property:</b>						
1993	\$ 73	\$ -	\$ 73	\$ -	\$ -	\$ -
1994	88	-	10	78	78	-
1995	60	-	12	48	48	-
1996	67	-	19	48	48	-
1997	80	-	27	53	53	-
1998	131	-	48	83	83	-
1999	260	-	122	138	138	-
2000	514	-	239	275	275	-
2001	1,127	-	627	500	500	-
2002	3,276	-	2,075	1,201	661	540
2003	67,245	-	64,176	3,069	672	2,397
2004	-	76,996	-	76,996	770	76,226
	<u>72,921</u>	<u>76,996</u>	<u>67,428</u>	<u>82,489</u>	<u>3,326</u>	<u>79,163</u>
<b>Personal property:</b>						
1993	30	-	30	-	-	-
1994	37	-	-	37	37	-
1995	30	-	1	29	29	-
1996	53	-	2	51	51	-
1997	71	-	-	71	71	-
1998	124	-	1	123	123	-
1999	209	-	26	183	183	-
2000	336	-	38	298	298	-
2001	563	-	187	376	376	-
2002	827	-	320	507	82	425
2003	8,847	-	8,229	618	84	534
2004	-	9,232	-	9,232	92	9,140
	<u>11,127</u>	<u>9,232</u>	<u>8,834</u>	<u>11,525</u>	<u>1,426</u>	<u>10,099</u>
<b>Public Utilities:</b>						
1993	2	-	2	-	-	-
1994	3	-	-	3	3	-
1995	2	-	-	2	2	-
1996	7	-	-	7	7	-
1997	12	-	6	6	6	-
1998	19	-	6	13	13	-
1999	11	-	-	11	11	-
2000	13	-	-	13	13	-
2001	13	-	(3)	16	16	-
2002	429	-	226	203	47	156
2003	4,789	-	4,537	252	40	212
2004	-	4,361	-	4,361	44	4,317
	<u>5,300</u>	<u>4,361</u>	<u>4,774</u>	<u>4,887</u>	<u>202</u>	<u>4,685</u>
<b>Total:</b>						
1993	105	-	105	-	-	-
1994	128	-	10	118	118	-
1995	92	-	13	79	79	-
1996	127	-	21	106	106	-
1997	163	-	33	130	130	-
1998	274	-	55	219	219	-
1999	480	-	148	332	332	-
2000	863	-	277	586	586	-
2001	1,703	-	811	892	892	-
2002	4,532	-	2,621	1,911	790	1,121
2003	80,881	-	76,942	3,939	796	3,143
2004	-	90,589	-	90,589	906	89,683
	<u>\$ 89,348</u>	<u>\$ 90,589</u>	<u>\$ 81,036</u>	<u>\$ 98,901</u>	<u>\$ 4,954</u>	<u>\$ 93,947</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF INSURANCE IN FORCE**  
**June 30, 2004**

Name of Company	Policy Number	Period of Coverage		Details of Coverage	Limits of Liability	Annual Premium
		From	To			
Allianz Insurance	CLP 3004620	5/1/2004	5/1/2005	Property all risks	#####	\$ 205,309
TML Risk Management Pool	TML-600-06	7/1/2003	7/1/2004	Commercial general and E&O liability	\$5,000,000/Occ	\$ 39,449
TML Risk Management Pool	TML-600-06	7/1/2003	7/1/2004	Auto liability and physical damage	\$5,000,000/Csl	\$ 160,938
Cincinnati Insurance	B80 273075	2/15/2004	2/15/2005	Faithful Performance Bond (blanket)	\$ 1,000,000	\$ 15,300
Cincinnati Insurance	B80 339180	2/15/2004	2/15/2005	Public officials bond (treasurer)	\$ 1,000,000	\$ 1,876
Cincinnati Insurance	B80 377219	2/15/2004	2/15/2005	Public officials bond ( assistant treasurer)	\$ 500,000	\$ 1,755
Cincinnati Insurance	NPL 244 13 82	5/26/2004	5/26/2005	Professional liability (medical assistant)	\$2,000,000/Occ	\$ 212
Cincinnati Insurance	NPL 244 13 81	5/26/2004	5/26/2005	Professional liability (RN)	\$3,000,000/Occ	\$ 212
Cincinnati Insurance	NPL 244 13 85	5/26/2004	5/26/2005	Professional liability (RN)	\$3,000,000/Occ	\$ 212
Cincinnati Insurance	B-B0 504880	12/29/2003	10/29/2004	Robbery and safe burglary	\$150,000/Occ	\$ 4,585
Safety National Casualty Corporation	SP-8263-TN	6/25/2004	6/25/2005	Excess liability (workers Compensation)	Statutory/ Above SIR	\$ 61,305
Grange Insurance	GLA 2245575-02	10/15/2003	10/15/2004	Tunnel, Neyland Drive	\$1,000,000/Occ \$2,000,000 Agg Above SIR	\$ 2,609
ITT Hartford Insurance	32069	7/1/2003	7/1/2004	Group life - employees	1.5 times salary/ up to \$50,000 minimum - \$35,000	\$ 178,127 (approx.)
Guarantee Trust and Life	GTS9036493	6/7/2004	6/7/2005	Accident (athletic program participants)	\$250,000/ Occ \$5,000/Dental Excess plan	\$ 46,723
Gulf Insurance	GU2824047	3/26/2004	3/26/2005	Pollution/Liability	\$ 10,000,000	\$ 89,582
ITT Hartford Insurance	GLT-32069	7/1/2003	7/1/2004	Long-term disability - employees	60% Salary \$5,250/mo. Max \$50/mo. Min	\$ 119,144 (approx.)
MARP-Munich-American Risk Partners	01-A3-RL-000001-02	3/29/2004	3/29/2005	Excess general liability (including auto)	\$15,000,000/ Above SIR \$500,000 retention	\$ 314,060
TML Risk Management Pool	TML-0357-04	10/1/2003	10/1/2004	Senior Aides general liability/auto	\$600,000/Occ \$250,000/Person	\$ 1,080
TML Risk Management Pool	TWC-0488-04	7/1/2003	7/1/2004	Senior Aides workers compensation	Statutory	\$ 9,393
TML Risk Management Pool	TWC-479-06	12/1/2003	12/1/2004	Workers compensation	Statutory	\$ 432,874
Travelers Casualty and Surety	066 FF 103186274 BCA	12/1/2003	12/1/2004	Fiduciary liability	\$ 10,000,000	\$ 23,975
Westfield Companies	CW 3911375	7/1/2003	7/1/2004	Business property (including crime, boiler, machinery and inland marine)	\$ 10,000	\$ 10,467
Zurich American Insurance	BM 9304281-02	5/1/2004	5/1/2005	Boiler and equipment	\$50,000,000 on CAC, KCEC & WFP	\$ 12,550

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF INVESTMENTS**  
**June 30, 2004**  
**(in thousands)**

Description	Interest Rate	Maturity Date	Fair Value	Carrying Value
<b>General Fund</b>				
Local Government Investment Pool			\$ 9,761	\$ 9,761
<b>State Street Aid</b>				
Local Government Investment Pool	Variable	Open End	\$ 1,134	\$ 1,134
<b>Abandoned Vehicles</b>				
Local Government Investment Pool	Variable	Open End	\$ 1,119	\$ 1,119
<b>City Inspections</b>				
Local Government Investment Pool	Variable	Open End	\$ 493	\$ 493
<b>City Court</b>				
Local Government Investment Pool	Variable	Open End	\$ 1,352	\$ 1,352
<b>Miscellaneous Grants</b>				
Local Government Investment Pool	Variable	Open End	\$ 346	\$ 346
<b>Animal Control</b>				
Local Government Investment Pool	Variable	Open End	\$ 226	\$ 226
<b>Miscellaneous Special Revenue Funds</b>				
Local Government Investment Pool	Variable	Open End	\$ 2,703	\$ 2,703
<b>Miscellaneous Community Development Funds</b>				
Local Government Investment Pool	Variable	Open End	\$ 1,065	\$ 1,065
<b>Storm Water</b>				
Local Government Investment Pool	Variable	Open End	\$ 691	\$ 691
<b>Solid Waste</b>				
Local Government Investment Pool	Variable	Open End	\$ 4,404	\$ 4,404
<b>City Judges' Retirement</b>				
Local Government Investment Pool	Variable	Open End	\$ 1,303	\$ 1,303
<b>Krutch Park</b>				
Local Government Investment Pool	Variable	Open End	\$ 370	\$ 370
AmSouth Money Market	Variable	Open End	180	180
Dow Chemical common stock (held in trust account)	2,700 shares		110	110
Duke Energy Corporation (held in trust account)	1,200 shares		24	24
First Energy Corp (held in trust account)	740 shares		28	28
Total Krutch Park			\$ 712	\$ 712
<b>Knoxville Civic Revitalization</b>				
Local Government Investment Pool	Variable	Open End	\$ 2,018	\$ 2,018
<b>Debt Service</b>				
Local Government Investment Pool	Variable	Open End	\$ 10,673	\$ 10,673
US Government obligation - Federal Home Loan Mortgage Corporation	2.00%	November 15, 2004	501	501
Municipal Bond - Memphis Shelby County, TN Airport Authority revenue bonds	4.00%	November 15, 2004	504	504
Municipal Bond - Coffee County, TN Public Building Authority Revenue Bonds	6.30%	February 1, 2005	148	148
Municipal Bond - Blount County, TN Public Building Authority Revenue Bonds	1.50%	June 1, 2005	246	246
Municipal Bond - Blount County, TN Public Building Authority Revenue Bonds	1.50%	June 1, 2005	426	426
US Government obligation - Federal Home Loan Bank	1.52%	July 22, 2005	298	298
US Government obligation - Federal Home Loan Bank	1.50%	May 13, 2005	219	219
US Government obligation - Federal Farm Credit Bank	1.80%	August 5, 2005	249	249
US Government obligation - Federal National Mortgage Association	3.10%	December 1, 2005	501	501
Certificate of deposit - Suntrust Bank	2.60%	January 5, 2006	500	500
US Government obligation - Federal National Mortgage Association	2.32%	February 1, 2005	495	495
US Government obligation - Federal National Mortgage Association	2.25%	February 17, 2006	248	248
US Government obligation - Federal Home Loan Mortgage Corporation	2.17%	February 27, 2006	248	248
US Government obligation - Federal Home Loan Mortgage Corporation	2.00%	February 23, 2006	494	494
US Government obligation - Federal Home Loan Mortgage Corporation	2.16%	March 3, 2006	247	247
Municipal Bond - Tennessee Housing Development Agency	1.30%	January 1, 2005	264	265
Municipal Bond - Tennessee Housing Development Agency	1.40%	July 1, 2005	99	99
US Government obligation - Federal Farm Credit Bank	1.93%	March 15, 2006	490	490
US Government obligation - Federal Home Loan Bank	2.00%	March 17, 2006	493	493
US Government obligation - Student Loan Marketing Association	1.50%	June 15, 2005	496	496
US Government obligation - Federal Home Loan Bank	2.10%	March 30, 2006	246	246
US Government obligation - Federal Farm Credit Bank	2.35%	May 12, 2006	495	495
US Government obligation - Federal Home Loan Bank	2.70%	May 26, 2006	497	497
Municipal Bond - Blount County Tennessee Public Building Authority	3.15%	June 1, 2006	165	165
Total debt service			\$ 19,242	\$ 19,243

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF INVESTMENTS**  
**June 30, 2004**  
**(in thousands)**

Description	Interest Rate	Maturity Date	Fair Value	Carrying Value
<b>Capital Projects Fund</b>				
Local Government Investment Pool	Variable	Open End	\$ 18,846	\$ 18,846
US Government obligation - Federal National Mortgage Association	6.55%	September 12, 2005	368	368
US Government obligation - Federal Home Loan Mortgage Corporation	2.13%	November 15, 2005	497	497
Municipal Bond - Tennessee Housing Development Agency	1.35%	January 1, 2005	145	145
US Government obligation - Federal Home Loan Mortgage Corporation	2.30%	November 17, 2005	249	249
US Government obligation - Federal National Mortgage Association	3.00%	June 2, 2006	500	500
US Government obligation - Federal Home Loan Mortgage Corporation	2.04%	February 17, 2006	222	222
US Government obligation - Federal Home Loan Bank	2.75%	May 15, 2006	498	498
US Government obligation - Federal Home Loan Bank	2.00%	April 6, 2006	489	489
US Government obligation - Federal Home Loan Bank	1.71%	January 6, 2006	690	690
US Government obligation - Federal Home Loan Mortgage Corporation	1.50%	August 15, 2005	495	495
US Government obligation - Federal National Mortgage Association	1.50%	May 9, 2005	995	995
US Government obligation - Federal National Mortgage Association	1.95%	April 26, 2006	983	983
US Government obligation - Federal National Mortgage Association	1.59%	July 15, 2005	524	524
US Government obligation - Federal National Mortgage Association	2.10%	April 19, 2006	493	493
US Government obligation - Federal Home Loan Bank	2.02%	January 27, 2006	495	495
US Government obligation - Federal Home Loan Bank	2.56%	October 27, 2005	497	497
US Government obligation - Federal Home Loan Bank	1.63%	July 27, 2005	496	496
US Government obligation - Federal Home Loan Bank	1.55%	April 29, 2005	498	498
US Government obligation - Federal Home Loan Bank	2.16%	January 30, 2006	496	496
US Government obligation - Federal Home Loan Bank	2.11%	January 30, 2006	495	495
US Government obligation - Federal Home Loan Bank	1.93%	November 4, 2005	496	496
Certificate of deposit - AmSouth Bank	1.50%	March 6, 2005	500	500
US Government obligation - Federal Home Loan Bank	2.07%	November 10, 2005	497	497
US Government obligation - Federal Home Loan Bank	1.70%	October 17, 2005	495	495
US Government obligation - Federal Home Loan Bank	2.56%	December 9, 2005	499	499
US Government obligation - Federal Home Loan Bank	2.71%	December 23, 2005	500	500
Municipal Bond - Blount County Tennessee Public Building Authority	3.00%	June 1, 2005	150	151
Total capital projects			<u>\$ 32,108</u>	<u>\$ 32,109</u>
<b>Metro Parking</b>				
Local Government Investment Pool	Variable	Open End	\$ 2,246	\$ 2,246
<b>Public Assembly Facilities</b>				
Local Government Investment Pool	Variable	Open End	\$ 2,053	\$ 2,053
<b>Fleet Maintenance</b>				
Local Government Investment Pool	Variable	Open End	\$ 8,750	\$ 8,750
Certificate of deposit - Suntrust Bank	2.50%	November 23, 2004	500	500
Total fleet maintenance projects			<u>\$ 9,250</u>	<u>\$ 9,250</u>
<b>Risk Management</b>				
Local Government Investment Pool	Variable	Open End	\$ 4,669	\$ 4,669
US Government obligation - Federal Farm Credit Bank	2.30%	April 28, 2006	346	346
Total fleet maintenance projects			<u>\$ 5,015</u>	<u>\$ 5,015</u>
<b>Employee Health</b>				
Local Government Investment Pool	Variable	Open End	\$ 1,899	\$ 1,899
<b>Equipment Replacement</b>				
Local Government Investment Pool	Variable	Open End	\$ 6,198	\$ 6,198
Municipal Bond - Lexington, Tennessee	2.25%	December 1, 2004	100	100
US Government obligation - Federal National Mortgage Association	2.28%	August 19, 2005	250	250
US Government obligation - Federal Home Loan Bank	2.50%	December 29, 2005	249	249
Total equipment replacement			<u>\$ 6,797</u>	<u>\$ 6,797</u>
<b>City Buildings</b>				
Local Government Investment Pool	Variable	Open End	\$ 289	\$ 289
			<u>\$ 106,226</u>	<u>\$ 106,228</u>
<b>Knoxville Area Transit:</b>				
Local Government Investment Pool	Variable	Open End	\$ 766	\$ 766

**CITY OF KNOXVILLE, TENNESSEE  
GENERAL FUND  
EXPENDITURES BY FUNCTION  
LAST TEN YEARS  
(in thousands)  
(Unaudited)**

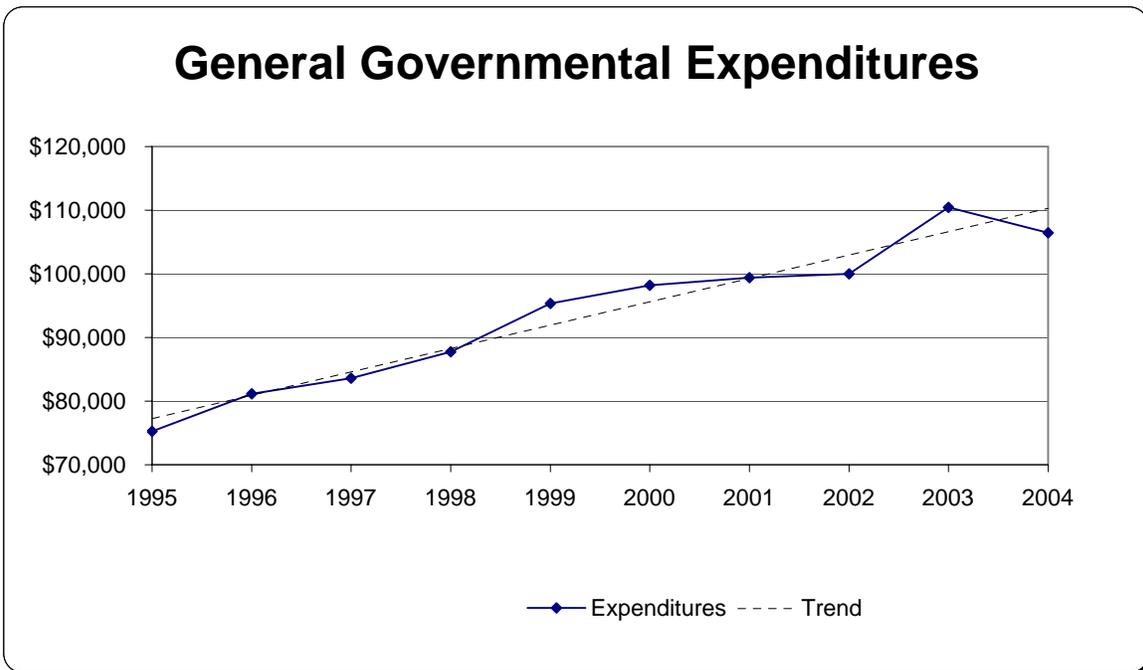
Expenditures	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General government	\$ 2,312	\$ 2,629	\$ 2,492	\$ 2,925	\$ 3,100	\$ 3,574	\$ 3,403	\$ 3,636	\$ 3,472	\$ 3,532
Finance	2,149	2,335	2,683	2,504	2,885	2,838	3,200	3,764	3,868	3,415
Law	892	971	1,000	1,130	1,212	1,467	1,399	1,586	1,413	1,451
Information systems	1,476	1,852	1,926	2,042	2,406	2,522	2,620	2,593	2,781	2,700
Public safety	40,907	44,986	45,814	49,838	53,964	56,306	58,272	57,154	60,343	60,129
Public service	10,562	11,753	11,818	12,466	12,695	13,589	14,161	14,932	16,202	14,519
Engineering	3,427	3,571	3,797	4,386	4,786	4,853	4,847	4,323	4,553	5,004
Recreation and welfare	4,212	4,422	4,721	5,194	5,085	5,524	5,607	5,724	5,967	5,966
Agency contributions	3,433	2,933	3,165	3,442	4,113	3,521	4,183	3,777	9,359	8,472
Knox County	5,252	4,815	4,743	2,586	3,760	2,567	115	-	-	-
Other	621	860	1,430	1,252	1,350	1,439	1,587	2,498	2,495	1,255
	<u>\$ 75,243</u>	<u>\$ 81,127</u>	<u>\$ 83,589</u>	<u>\$ 87,765</u>	<u>\$ 95,356</u>	<u>\$ 98,200</u>	<u>\$ 99,394</u>	<u>\$ 99,987</u>	<u>\$ 110,453</u>	<u>\$ 106,443</u>

Note:

(1) Includes general fund expenditures only

Source:

City Finance Office

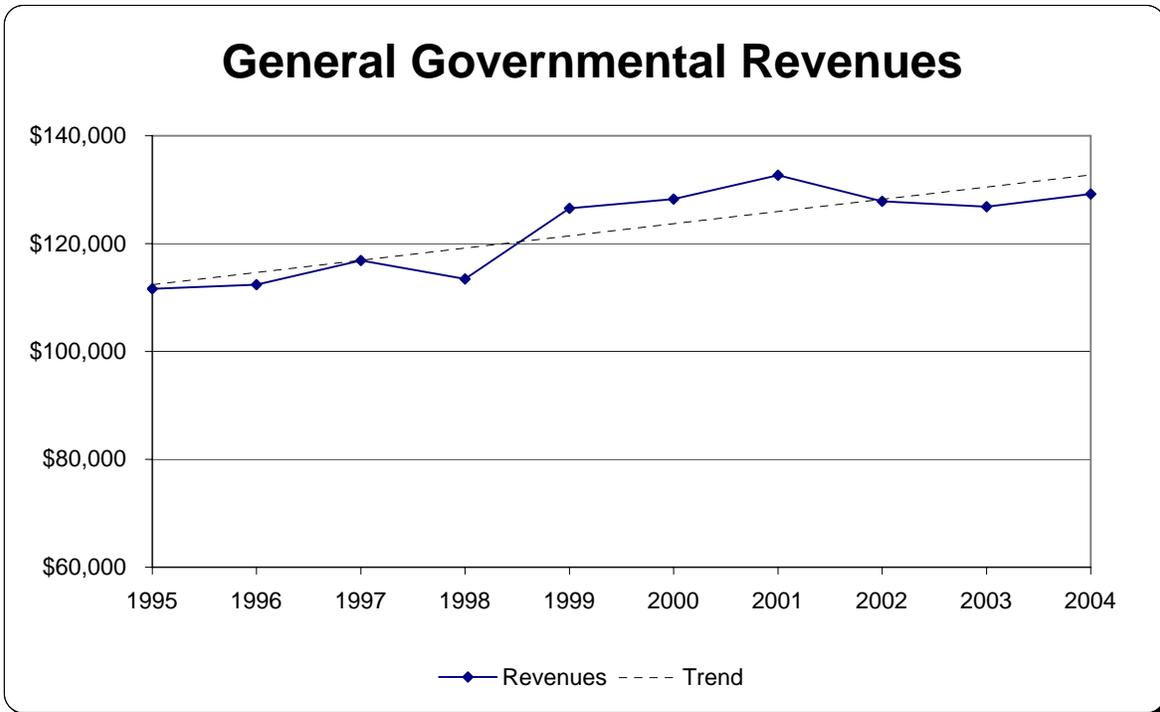


**CITY OF KNOXVILLE, TENNESSEE  
GENERAL FUND  
REVENUES BY SOURCE  
LAST TEN YEARS  
(in thousands)  
(Unaudited)**

Revenues	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Taxes	\$ 95,212 85.3%	\$ 96,458 85.8%	\$ 99,116 84.8%	\$ 92,316 81.4%	\$ 104,108 82.3%	\$ 105,671 82.4%	\$ 105,554 79.6%	\$ 104,271 81.6%	\$ 106,580 84.0%	\$ 111,054 85.9%
Licenses and permits	173 0.2%	227 0.2%	244 0.2%	246 0.2%	265 0.2%	267 0.2%	284 0.2%	288 0.2%	274 0.2%	264 0.2%
Intergovernmental revenue	13,549 12.1%	14,450 12.9%	15,071 12.9%	16,330 14.4%	17,482 13.8%	19,144 14.9%	20,973 15.8%	19,363 15.1%	16,421 12.9%	15,280 11.8%
Charges for services	581 0.5%	586 0.5%	638 0.5%	716 0.6%	1,178 0.9%	728 0.6%	742 0.6%	893 0.7%	1,095 0.9%	1,167 0.9%
Fines and forfeitures	499 0.4%	515 0.5%	518 0.4%	396 0.3%	348 0.3%	231 0.2%	270 0.2%	317 0.2%	273 0.2%	330 0.3%
Other	1,611 1.4%	133 0.1%	1,282 1.1%	3,462 3.1%	3,179 2.5%	2,216 1.7%	4,843 3.7%	2,689 2.1%	2,208 1.7%	1,135 0.9%
	<u>\$ 111,625</u>	<u>\$ 112,369</u>	<u>\$ 116,869</u>	<u>\$ 113,466</u>	<u>\$ 126,560</u>	<u>\$ 128,257</u>	<u>\$ 132,666</u>	<u>\$ 127,821</u>	<u>\$ 126,851</u>	<u>\$ 129,230</u>

Note:  
(1) Includes general fund revenues only

Source:  
City Finance Office

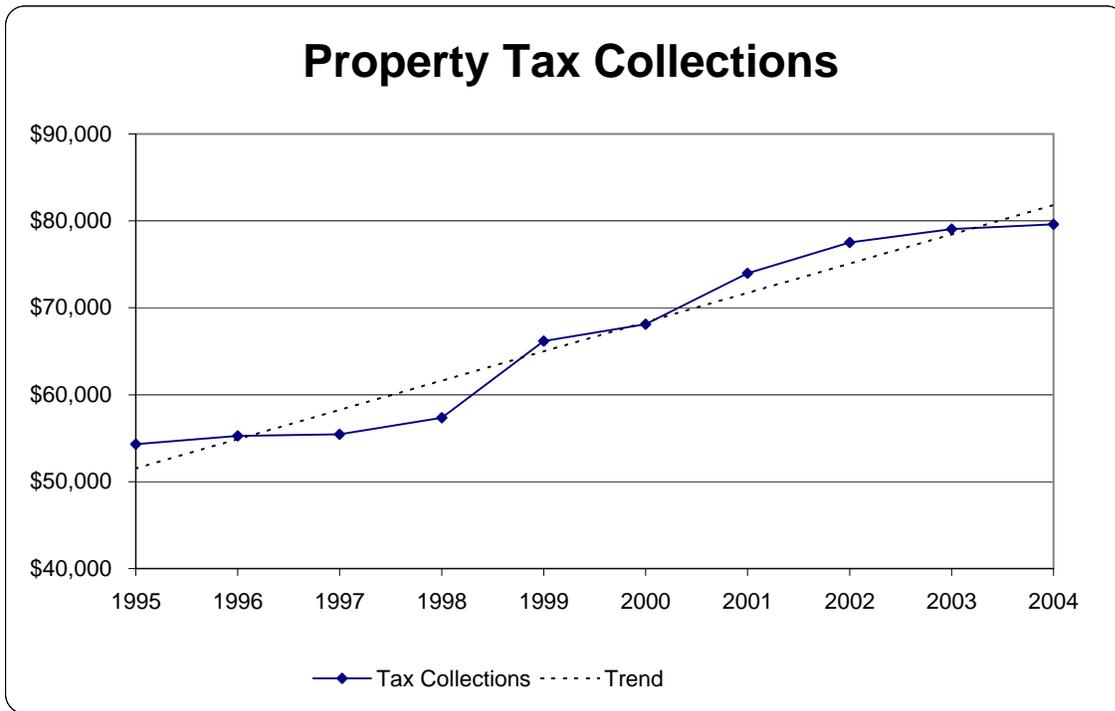


**CITY OF KNOXVILLE, TENNESSEE  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN YEARS  
(in thousands)  
(Unaudited)**

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collections as a Percent of Tax Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a Percent of Tax Levy
1995	\$ 54,296	\$ 51,137	94.18%	\$ 1,762	\$ 52,899	97.43%	\$ 3,274	6.03%
1996	55,271	51,961	94.01%	2,877	54,838	99.22%	3,245	5.87%
1997	55,464	52,479	94.62%	2,195	54,674	98.58%	3,206	5.78%
1998	57,338	54,813	95.60%	2,377	57,190	99.74%	3,265	5.69%
1999	66,173	63,045	95.27%	2,916	65,961	99.68%	3,986	6.02%
2000	68,098	64,377	94.54%	3,069	67,446	99.04%	3,056	4.49%
2001	73,953	69,892	94.51%	3,262	73,154	98.92%	3,576	4.84%
2002	77,513	73,595	94.95%	3,760	77,355	99.80%	3,879	5.00%
2003	79,041	74,363	94.08%	3,431	77,794	98.42%	4,670	5.91%
2004	79,603	75,122	94.37%	4,309	79,431	99.78%	4,372	5.49%

**Note:**

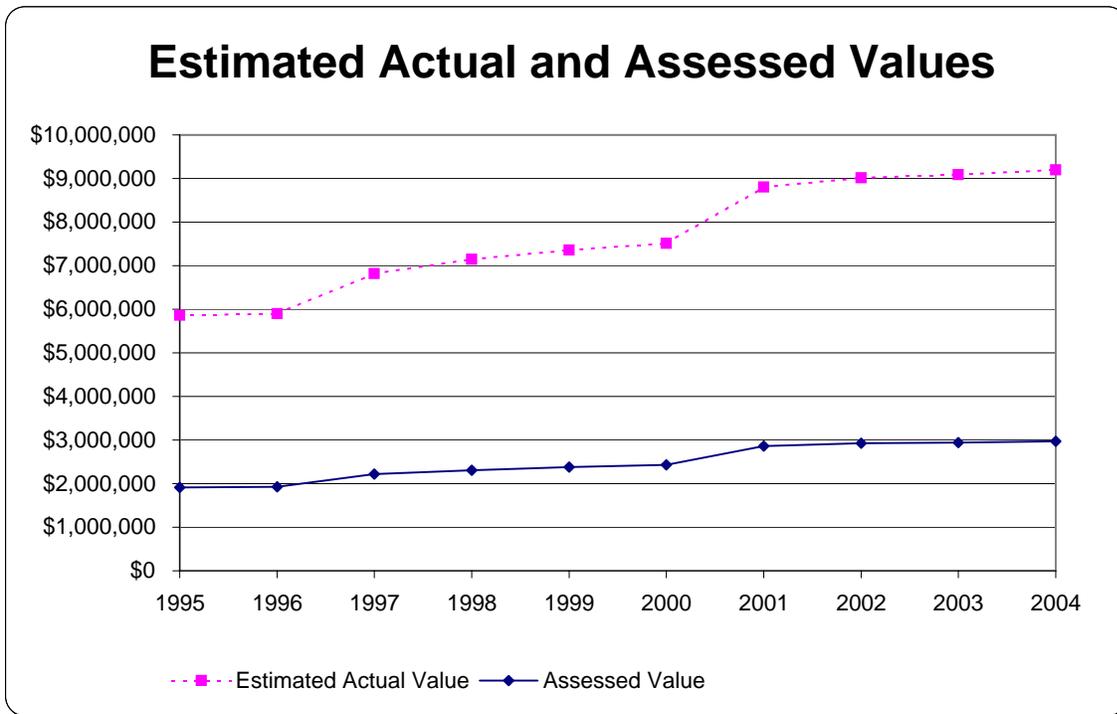
(1) Tax levies are the product of the assessed values and the tax rate. Assessed values are determined on a calendar year basis and the relationship to a fiscal year is one year in arrears (i.e. 2004 fiscal year is based on 2003 tax year).



**CITY OF KNOXVILLE, TENNESSEE**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST TEN YEARS**  
**(in thousands)**  
**(Unaudited)**

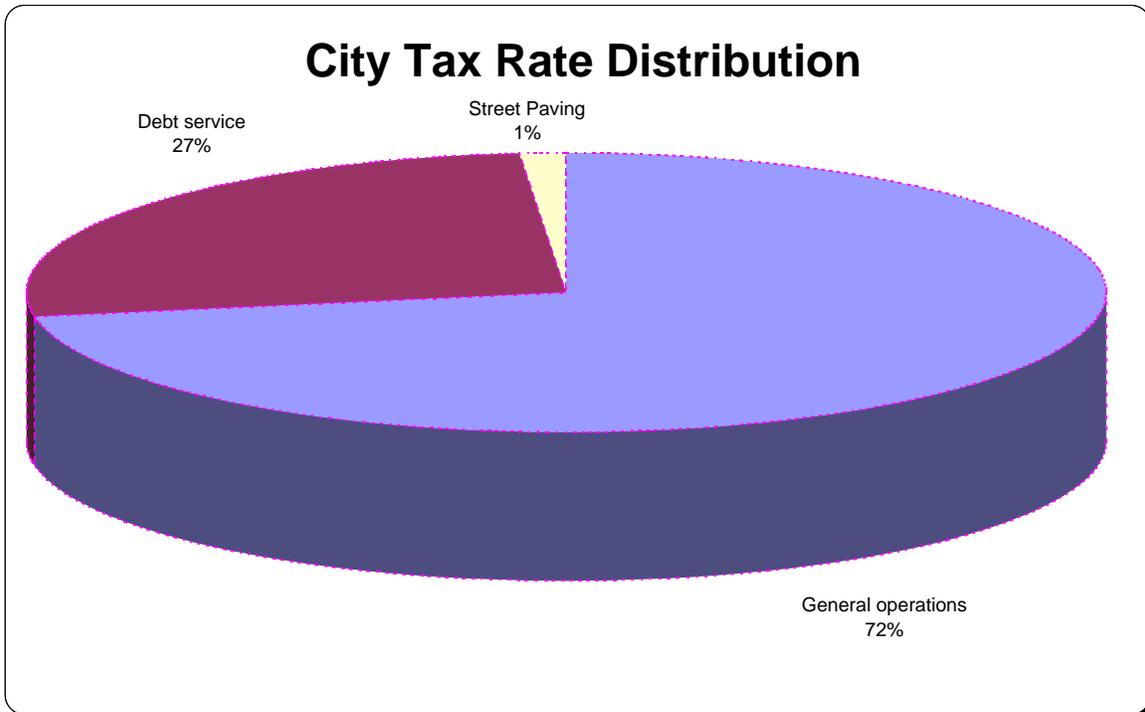
Tax Year	Real Property (1)		Personal Property (1)		Public Utilities (2)		Total		Ratio of Total Assessed To Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1995	\$ 1,618,399	\$ 5,049,405	\$ 177,681	\$ 592,270	\$ 119,786	\$ 217,793	\$ 1,915,866	\$ 5,859,468	33%
1996	1,623,660	5,065,819	184,553	615,171	119,786	217,793	1,927,999	5,898,783	33%
1997	1,878,801	5,861,859	218,591	728,629	124,017	225,485	2,221,409	6,815,973	33%
1998	1,934,291	6,105,166	242,537	808,457	126,747	230,449	2,303,575	7,144,072	32%
1999	1,982,169	6,249,055	258,271	860,904	137,010	249,109	2,377,450	7,359,068	32%
2000	2,026,589	6,385,290	260,950	869,833	139,643	253,896	2,427,182	7,509,019	32%
2001	2,383,807	7,491,294	296,306	987,685	180,022	327,313	2,860,135	8,806,292	32%
2002	2,440,340	7,670,304	304,602	1,015,340	180,108	327,469	2,925,050	9,013,113	32%
2003	2,480,556	7,785,942	309,107	1,030,356	150,265	273,209	2,939,928	9,089,507	32%
2004	2,524,282	7,929,640	302,688	1,008,960	143,165 (4)	260,302 (4)	2,970,135	9,198,902	32%

- 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) Assessed Ratios:
    - a) Real property:
      - Residential at 25%
      - Commercial at 40%
      - Industrial at 40%
    - b) Personal property at 30%
    - c) Public utilities at 55%
  - (4) Estimated



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

Tax Year	City Tax Rate Distribution					Knox County Tax Rate (Inside the City) Distribution				
	General Operations	Debt Service	City County Building Lease	Street Paving	Total	General Operations	Debt Service	School Construction	Total	
1995	\$ 2.43	\$ 0.30	\$ 0.10	\$ 0.04	\$ 2.87	\$ 1.39	\$ 0.22	\$ 1.55	\$ 3.16	
1996	2.31	0.41	0.11	0.04	2.87	1.36	0.29	1.51	3.16	
1997	2.25	0.47	0.11	0.04	2.87	1.35	0.29	1.52	3.16	
1998	1.93	0.52	0.09	0.04	2.58	1.24	0.26	1.27	2.77	
1999	2.20	0.52	0.09	0.04	2.85	1.56	0.32	1.44	3.32	
2000	2.20	0.52	0.09	0.04	2.85	1.51	0.31	1.50	3.32	
2001	2.09	0.82	0.09	0.04	3.04	1.58	0.31	1.43	3.32	
2002	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	
2003	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	
2004	2.20	0.81	-	0.04	3.05	1.34	0.28	1.34	2.96	



**CITY OF KNOXVILLE, TENNESSEE  
RATIO OF NET GENERAL BONDED DEBT TO  
ASSESSED VALUE AND NET BONDED DEBT PER CAPITA  
LAST TEN YEARS  
(in thousands)  
(Unaudited)**

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value (2)</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Direct Debt Per Capita (Not in Thousands)</u>
1995	165	\$ 1,910,796	\$ 119,618	6.26%	\$ 725
1996	165	1,915,866	125,750	6.56%	762
1997	165	1,927,999	130,789	6.78%	793
1998	165	2,221,409	122,265	5.50%	741
1999	165	2,303,575	121,280	5.26%	735
2000	165	2,377,450	154,751	6.51%	938
2001	174	2,427,182	198,763	8.19%	1,142
2002	174	2,860,135	231,902	8.11%	1,333
2003	174	2,925,050	225,451	7.71%	1,296
2004	174	2,939,928	234,489	7.98%	1,348

**Note:**

(1) Source: U.S. Census.

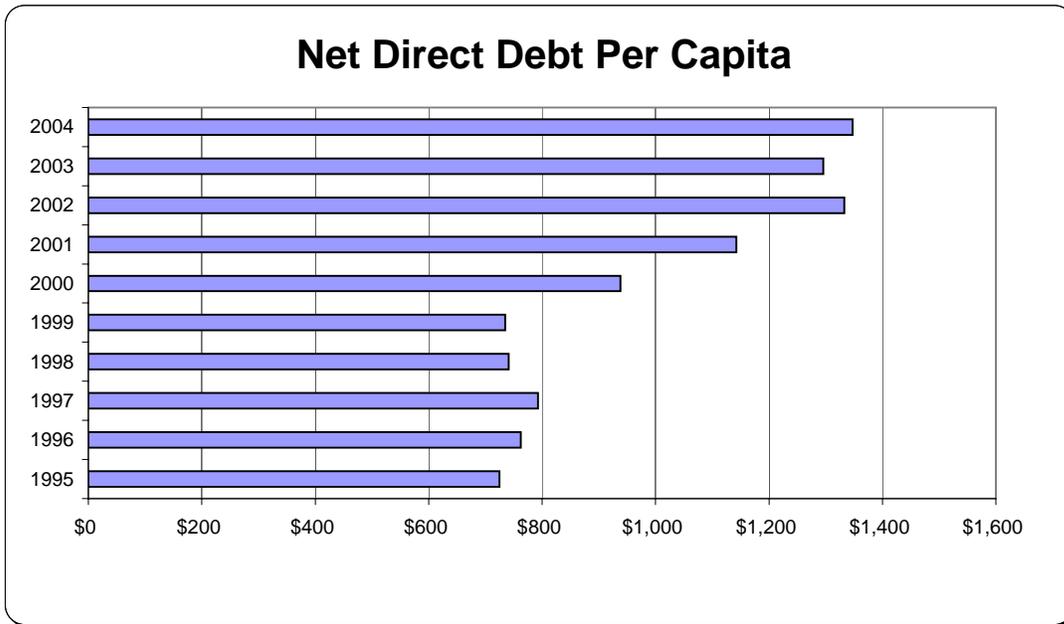
(2) By state law (TCA 67-5-1601, et. Seq.), all City property appraisals are made by Knox County.

For tax years 1995 through 2001 the ratio of appraisal value of all property in Knox County (including the City) to true market value was 89.6%.

The ratio for subsequent tax years is 100%.

Assessed value is for previous property tax year.

(3) Includes general obligation bonds, Section 108 loans (1995 through 2001), and capital outlay notes.



**CITY OF KNOXVILLE, TENNESSEE  
LEGAL DEBT MARGIN  
(Unaudited)**

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**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**June 30, 2004**  
**(in thousands)**  
**(Unaudited)**

<u>Jurisdiction</u>	Net Direct Outstanding Debt (1)	Percentage Applicable to Knoxville	Amount Applicable to Knoxville
Knoxville	\$ 76,305	100.00%	\$ 76,305
Knox County	<u>402,509</u>	44.22%	<u>177,989</u>
Total	<u>\$ 478,814</u>		<u>\$ 254,294</u>

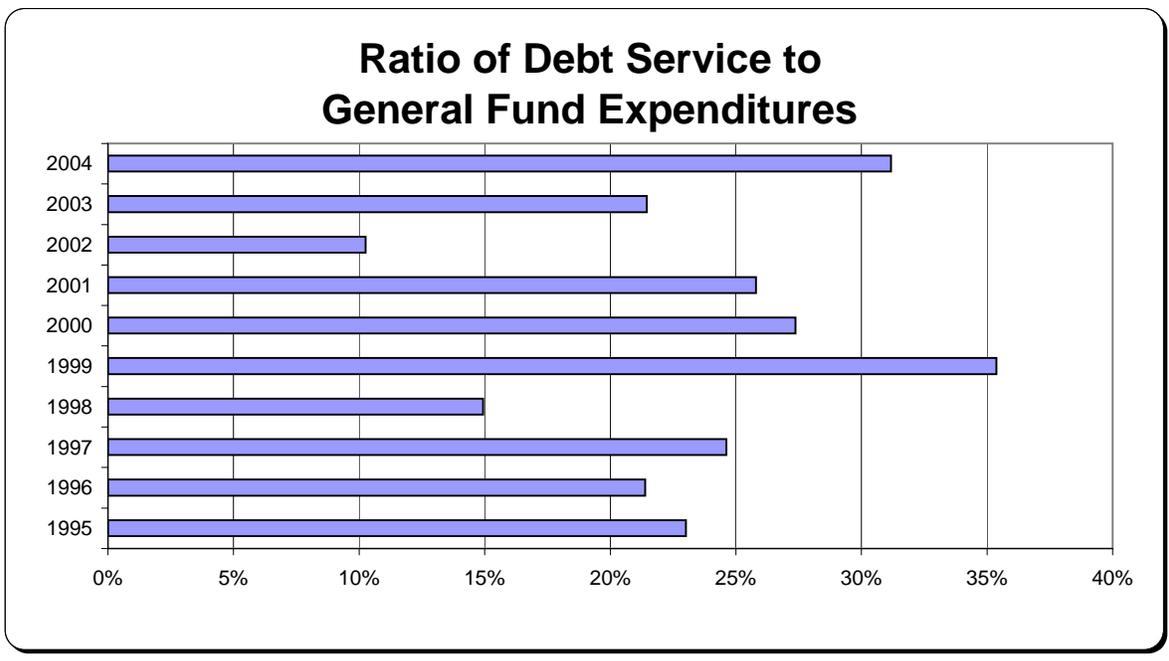
Note:

(1) Net direct debt excludes proprietary fund general obligation bonds and is net of amounts available for debt service.

**CITY OF KNOXVILLE, TENNESSEE**  
**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION**  
**BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES**  
**LAST TEN YEARS**  
(in thousands)  
(Unaudited)

Fiscal Year	Principal	Interest	Total General Obligation Debt	Total General Fund Expenditures	Ratio of Debt Service to General Fund Expenditures
1995	\$ 9,925	\$ 7,391	\$ 17,316	\$ 75,243	23.01%
1996	9,825	7,528	17,353	81,127	21.39%
1997	14,515	6,061	20,576	83,589	24.62%
1998	7,015	6,089	13,104	87,765	14.93%
1999	27,390	6,340	33,730	95,356	35.37%
2000	19,557	7,317	26,874	98,200	27.37%
2001	15,893	9,750	25,643	99,394	25.80%
2002	4,837	5,419	10,256	99,987	10.26%
2003	13,630	10,070	23,700	110,453	21.46%
2004	23,917	9,274	33,191	106,443	31.18%

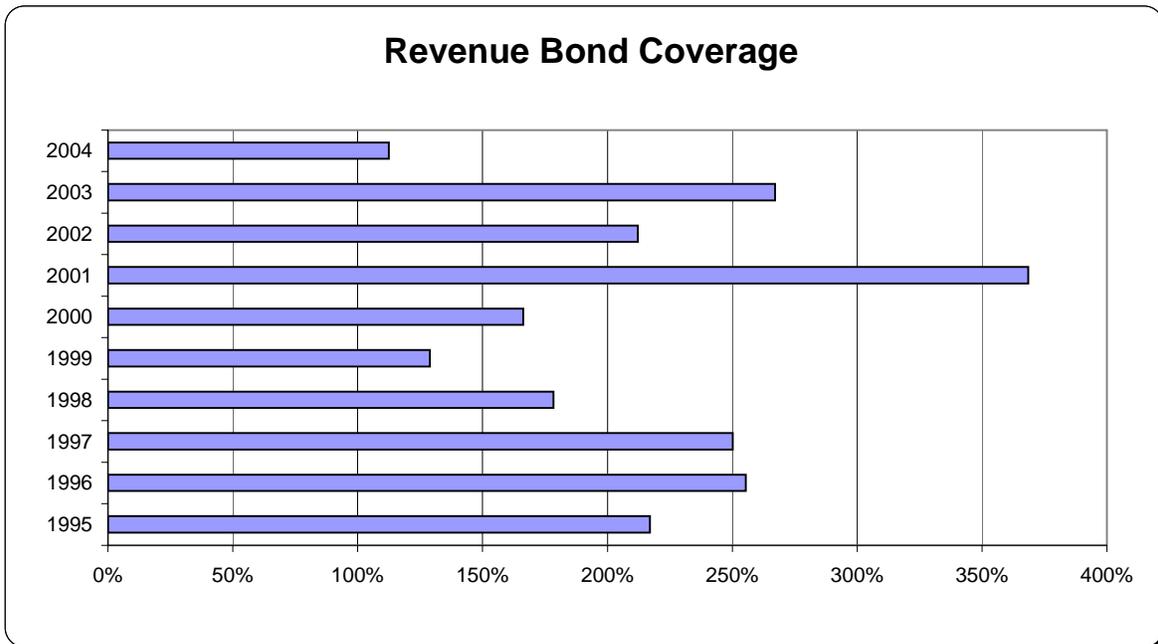
Note:  
(1) Tax levies are the product of the assessed values and the tax rate. Assessed values are determined on a calendar year basis and the relationship to a fiscal year is one year in arrears (i.e. 2004 fiscal year is based on 2003 tax year).



**CITY OF KNOXVILLE, TENNESSEE  
REVENUE BOND COVERAGE  
LAST TEN YEARS  
(in thousands)  
(Unaudited)**

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
1995	\$ 369,914	\$ 324,812	\$ 45,102	\$ 20,782	2.17
1996	413,817	358,388	55,429	21,704	2.55
1997	398,261	345,148	53,113	21,231	2.50
1998	428,044	369,032	59,012	33,087	1.78
1999	431,185	374,103	57,082	44,290	1.29
2000	443,313	382,151	61,162	36,787	1.66
2001	501,830	439,372	62,458	16,951	3.68
2002	464,208	413,129	51,079	24,068	2.12
2003	500,073	429,096	70,977	26,568	2.67
2004	529,340	460,396	68,944	61,308	1.12

Note:  
(1) Includes KUB revenue bond coverage only



**CITY OF KNOXVILLE, TENNESSEE  
 DEMOGRAPHIC STATISTICS  
 POPULATION  
 (Unaudited)**

<u>Fiscal Year</u>	<u>City</u>	<u>County</u>	<u>Metropolitan Area<sup>(4)</sup></u>
Actual <sup>(1)</sup>			
1960	111,827	250,563	424,586
1970	174,587 <sup>(2)</sup>	276,293	461,876
1980	175,045	319,694	546,488
1990	165,121	335,749	585,926
2000	173,890	382,032	687,249
2003	173,278	392,998	712,366
Projected <sup>(3)</sup>			
2010	184,487	429,730	Not available

Note:

(1) Source: U.S. Bureau of the Census and Knoxville - Knox County Metropolitan Planning Commission

(2) Large increase in population due to annexation

(3) Source: University of Tennessee Center for Business and Economic Research and Knoxville - Knox County Metropolitan Planning Commission

(4) Knoxville's Metropolitan Statistical Area includes Anderson, Blount, Knox, Loudon, Sevier, and Union Counties.

Prior to 1983, The MSA only included Anderson, Blount, Knox and Union Counties.

**CITY OF KNOXVILLE, TENNESSEE  
 DEMOGRAPHIC STATISTICS  
 PER CAPITA PERSONAL INCOME  
 LAST TEN YEARS  
 (Unaudited)**

<u>Fiscal Year</u>	<u>Knox County</u>	<u>Tennessee</u>	<u>United States<sup>(1)</sup></u>
1994	\$ 21,549	\$ 19,482	\$ 20,781
1995	23,107	21,949	21,696
1996	23,902	22,032	24,436
1997	24,688	23,018	25,598
1998	24,932	23,615	26,482
1999	26,451	23,574	28,577
2000	28,281	25,878	29,451
2001	29,926	26,988	30,472
2002	30,327	27,671	30,941
2003	N/A	28,455	31,632

Note:

(1) Source: Bureau of Economic Analysis, U.S. Department of Commerce.  
 Center for Business and Economic Research, University of Tennessee

**CITY OF KNOXVILLE, TENNESSEE  
 DEMOGRAPHIC STATISTICS  
 UNEMPLOYMENT DATA  
 LAST TEN YEARS  
 (Unaudited)**

Fiscal Year	National <sup>(1)</sup>	Tennessee <sup>(1)</sup>	Major Tennessee Metropolitan Areas <sup>(1)</sup>			
			Chattanooga	Knoxville <sup>(2)</sup>	Memphis	Nashville
1995	5.1%	4.6%	4.1%	3.4%	4.1%	3.3%
1996	5.4%	5.2%	4.3%	3.4%	4.3%	3.1%
1997	4.6%	4.1%	3.5%	3.3%	4.0%	2.6%
1998	4.1%	3.6%	3.1%	3.2%	3.4%	2.5%
1999	4.2%	4.0%	3.5%	3.3%	3.6%	2.7%
2000	4.0%	3.9%	3.0%	3.0%	3.9%	2.8%
2001	4.5%	4.3%	3.2%	3.3%	4.2%	3.3%
2002	5.7%	4.5%	3.0%	2.5%	4.7%	3.5%
2003	6.0%	5.5%	3.7%	3.2%	6.0%	4.2%
2004	5.8%	5.5%	3.7%	3.6%	6.0%	4.2%

Note:

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

(2) Knoxville's Metropolitan Statistical Area includes Anderson, Blount, Knox, Loudon, Sevier, and Union Counties.

**CITY OF KNOXVILLE, TENNESSEE  
 DEMOGRAPHIC STATISTICS  
 ASSESSMENT CLASSIFICATIONS  
 TAX YEAR 2004  
 (Unaudited)**

<u>Class of Property<sup>(1)</sup></u>	<u>Estimated Actual Value</u>	<u>Assessed Value as Statutory Percentage of Estimated Actual Value</u>	<u>Assessed Value</u>
Commercial	\$ 3,425,002	40%	\$ 1,370,001
Industrial	187,470	40%	74,988
Residential	4,317,168	25%	1,079,292
Personal Tangible	1,008,960	30%	302,688
Public Utility - Local	314	55%	172
Public Utility - State	<u>259,988 (2)</u>	55%	<u>142,993 (2)</u>
	<u>\$ 9,198,902</u>		<u>\$ 2,970,134</u>

Note:

(1) Source: Knox County Assessor's Office and Tennessee Public Service Commission

(2) Estimated

**CITY OF KNOXVILLE, TENNESSEE  
 DEMOGRAPHIC STATISTICS  
 MANUFACTURERS WITH LARGEST EMPLOYMENT  
 FISCAL YEAR 2004  
 (Unaudited)**

<u>Manufacturer's Name</u> <sup>(1)</sup>	<u>Product</u>	<u>Approximate Number of Employees</u>
Sea Ray Boats, Inc	Fiberglass boats	1,750
DeRoyal Industries	Healthcare products	1,222
CTI Molecular Imaging, Inc.	Medical imaging	850
The IJ Company	Food products distribution	700
Atlantic Research Corp. (ARC Automotive)	Automotive parts	675
Knoxville News-Sentinel Company	Newspaper publisher	605
American Components of Matsushita (Panasonic)	Electronics components	590
PBR Knoxville, LLC	Automotive parts	500
Shaw Environmental and Infrastructure, Inc.	Environmental engineering	500
Bush Brothers & Co.	Food products	474

Note:

(1) Source: Knoxville Area Chamber Partnership

**CITY OF KNOXVILLE, TENNESSEE  
 DEMOGRAPHIC STATISTICS  
 UTILITY CONNECTIONS  
 LAST TEN YEARS  
 (Unaudited)**

<u>Calendar Year</u>	<u>Electric Meters</u>	<u>Water Meters</u>	<u>Gas Meters</u>
1994	158,927	68,191	52,357
1995	162,057	69,487	57,092
1996	165,024	70,921	62,006
1997	168,692	71,920	66,229
1998	171,745	72,905	70,259
1999	174,595	73,765	74,023
2000	177,253	74,563	77,650
2001	180,220	75,072	80,140
2002	184,468	77,342	83,826
2003	187,727	81,206	88,232

Note:

(1) Source: Knoxville Utilities Board Annual Report

**CITY OF KNOXVILLE, TENNESSEE  
PROPERTY VALUES AND CONSTRUCTION  
LAST TEN YEARS  
(in thousands)  
(Unaudited)**

Calendar <u>Year</u>	Property <u>Value (1)</u>	Residential and Commercial Construction <u>Value (2)</u>
1994	\$ 5,035,499	\$ 181,667
1995	5,049,405	186,234
1996	5,065,819	193,842
1997	6,105,166	196,598
1998	6,249,055	198,421
1999	6,329,199	201,830
2000	6,385,290	205,362
2001	7,491,294	340,187
2002	7,661,001	290,728
2003	7,785,897	315,810

Note:

- (1) By State law (TCA 67-5-1601, et. Seq.) all City property appraisals are made by the Knox County Property Assessor. For tax years 1994 through 2001 the ratio of appraisal value of all property in Knox County, including the City, to true market value was 89.6%. Beginning in tax year 2002 the ratio is 100%.
- (2) Source: City building inspection office. All values are estimated construction cost.

**CITY OF KNOXVILLE, TENNESSEE  
 PRINCIPAL TAXPAYERS  
 FISCAL YEAR 2004  
 (in thousands)  
 (Unaudited)**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Bell South Telecom	Telephone utility	\$ 58,689	1.98%
West Town Mall	Shopping mall	29,875	1.01%
Knoxville Center	Shopping mall	21,824	0.73%
First American National Bank	Banking services	19,058	0.64%
Wal-Mart Stores	Department stores	14,894	0.50%
Parkway Property	Property management	13,368	0.45%
Fort Sanders Regional	Hospital	13,039	0.44%
Goody's Family Clothing	Department stores	11,858	0.40%
Atlantic Research Corp.	Automotive parts	11,738	0.40%
Center at Deane Hill	Property management	10,223	0.34%
		<u>\$ 204,566</u>	<u>6.89%</u>

Note:

(1) Source: City property tax office

**CITY OF KNOXVILLE, TENNESSEE  
SALARIES OF PRINCIPAL OFFICIALS  
FISCAL YEAR 2004  
(Unaudited)**

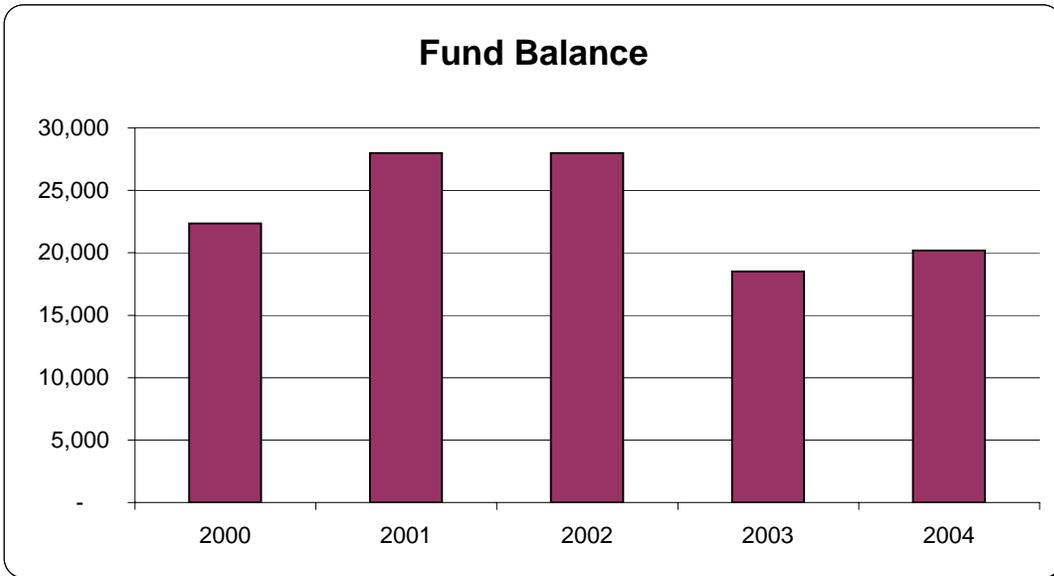
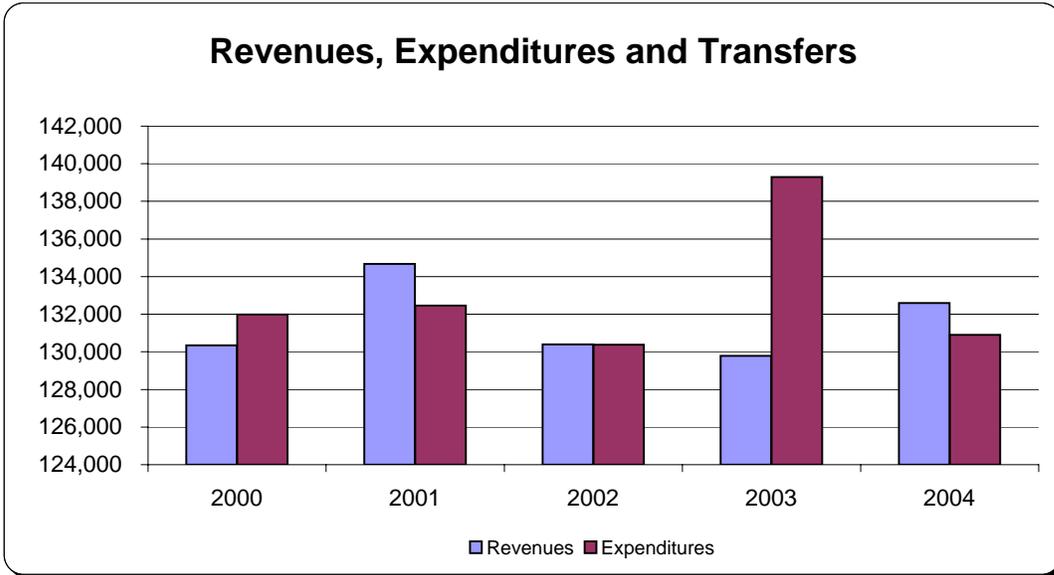
<u>Name</u>	<u>Position</u>	<u>Annual Salary</u>
Bill Haslam	Mayor	\$ 100,000
John Rossen	City Judge	70,000
Joseph Hultquist	Council - first district	19,000
Barbara Pelot	Council - second district	19,000
Steve Hall	Council - third district	19,000
Rob Frost	Council - fourth district	19,000
Bob Becker	Council - fifth district	19,000
Mark Brown	Council - sixth district	19,000
Joe Bailey	Council - at large	19,000
Marilyn Roddy	Council - at large	19,000
Chris Woodhull	Council - at large	19,000

**CITY OF KNOXVILLE, TENNESSEE  
MISCELLANEOUS STATISTICS  
FISCAL YEAR 2004  
(Unaudited)**

Founded	1791	Metropolitan Knoxville Airport Authority:	
Form of government	Mayor/Council	Airport area	2,000 acres
City facilities and services:		Commercial airline service:	
Employees (excluding uniformed police and fire)	900	Daily capacity	4,400 seats
Land area	102.79 square miles	Daily arrivals and departures	162
Convention Center - Capacity	500,000 square feet	Annual passengers	1.6 million
Civic Coliseum - Capacity	4,414 fixed seats	Air cargo service:	
Civic Auditorium - Capacity	2,407 seats	Air cargo complex	21 acres
Parking garages	3 facilities - 1,953 parking spaces	Knox Area Transit:	
Miles of streets maintained by the City	1,256.93 miles	Buses	74 units
Street lights maintained by the City	28,545	Trolleys	14 units
Stormwater sewers maintained by the City	371 miles	Annual passengers	3.2 million
Solid waste handled by City (annual total wastestream)	145,402 tons	Facilities and services not included in the reporting entity:	
Recreational facilities:		Education:	
Community and recreation centers	17 facilities	Public Schools (Knox County):	
Parks maintained by the City	70 facilities	Schools	89 facilities
Greenways maintained by the City	31.59 miles	Students enrolled	56,935
Swimming pools maintained by the City	4	Faculty	4,062
Golf courses maintained by the City	3	Colleges and universities:	
Fire Protection:		University of Tennessee	
Fire halls	18	Students	27,300
Uniformed personnel	299	Faculty	10,000
Annual calls answered	17,836	Pellissippi State	
Police Protection:		Students	7,200
Uniformed personnel	383	Faculty	635
Patrol units	240	Knoxville College	
Annual law violations:		Students	400
Physical arrests	9,206	Faculty	18
Citations	97,647	Other facilities:	
Facilities and services not included in the primary government:		Libraries (Knox County)	1 Main and 17 branches
Knoxville Utilities Board:		Zoological Park	53 acres, 33 developed 20 major exhibits
Electric distribution system:		Museums	5 significant facilities
Supplier	Tennessee Valley Authority	Health Care (Knox County):	
Purchased power	5.7 million MW	Hospitals	8 facilities equipped for inpatient stay
Customers	183,000	Capacity	2,630 patient beds
Deliver voltages	up to 161KV	Lodging (within City limits):	
Gas distribution system:		Hotels/Motels	61 facilities
Pipeline	East Tennessee Natural Gas	Capacity	5,500 rooms
Purchased gas	11.4 million dth		
Customers	83,000		
Peak day capacity	138,000 dth		
Water system:			
Rated capacity	61 Mg		
Reservoir capacity	28 Mg		
Customers	73,000		
Average flow	35 Mg		
Wastewater system:			
Rated capacity	62 Mg		
Customers	63,000		
Average flow	48 Mg		

**CITY OF KNOXVILLE, TENNESSEE**  
**GENERAL FUND REVENUES, EXPENDITURES, TRANSFERS AND FUND BALANCE**  
**LAST FIVE YEARS**  
(in thousands)  
(Unaudited)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues	\$ 128,257	\$ 132,666	\$ 127,821	\$ 126,851	\$ 129,230
Transfers in	2,083	2,009	2,578	2,940	3,360
	<u>130,340</u>	<u>134,675</u>	<u>130,399</u>	<u>129,791</u>	<u>132,590</u>
Expenditures	98,200	99,394	99,987	110,453	106,443
Transfers out	33,786	33,069	30,399	28,837	24,453
	<u>131,986</u>	<u>132,463</u>	<u>130,386</u>	<u>139,290</u>	<u>130,896</u>
Net change in fund balance	(1,646)	2,212	13	(9,499)	1,694
Fund balance - beginning of the year	24,002	22,356	27,984	27,997	18,498
Change in accounting principles	-	3,416	-	-	-
Fund balance - end of the year	<u>\$ 22,356</u>	<u>\$ 27,984</u>	<u>\$ 27,997</u>	<u>\$ 18,498</u>	<u>\$ 20,192</u>



**CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF FEDERAL AND STATE AWARDS  
For the year ended June 30, 2004**

Grantor Agency	Program Title	CFDA #	Grant #
<b>FEDERAL ASSISTANCE</b>			
<b>U.S. Department of Housing and Urban Development</b>			
<u>Direct assistance</u>			
	Community Development Block Grant	* 14.218	B-02-MC-47-0005
	Community Development Block Grant	* 14.218	B-01-MC-47-0005
	Empowerment Zone	* 14.244	EZ-99-TN-0012
	Economic Development Initiative	14.246	B-00-SP-TN-0369
	Fair Housing 2001	14.400	FF204K014012
	Fair Housing 2002	14.400	FF204K024012
	Fair Housing 2003	14.400	FF204K034012
	Home Grant 2000	* 14.239	M00-MC-47-0201
	Home Grant 2001	* 14.239	M01-MC-47-0201
	Home Grant 2002	* 14.239	M02-MC-47-0201
	Home Grant 2003	* 14.239	M03-MC-47-0201
Total direct assistance			
<u>Passed through from</u>			
Tennessee Department of Human Services	Emergency Shelter	14.231	S-02-MC-47-005
Tennessee Department of Human Services	Emergency Shelter	14.231	S-03-MC-47-005
Total pass through assistance			
Total U.S. Department of Housing and Urban Development			
<b>U.S. Department of Justice</b>			
<u>Direct assistance</u>			
	COPS Ahead	* 16.710	95-CC-WX-0358
	COPS in schools	* 16.710	2001-SH-WX-0633
	Police Integrity Training Initiative	* 16.710	2001-HS-WX-K030
	Police Integrity Training Initiative	* 16.710	2003-HS-WX-K025
	Regional Community Policing Institutes	* 16.710	2003-CK-WX-K033
	Regional Community Policing Institutes	* 16.710	2002-CK-WX-K040
	Police Department Family Support	* 16.710	2001-FS-BX-K004
	COPS Problem Solving Grant	* 16.710	2000-CK-WX-0219
	COPS Domestic Violence Grant	* 16.710	99-DV-WX-K022
	Law Enforcement Block Grant	16.592	2002-LB-BX-1606
	Law Enforcement Block Grant	16.592	2003-LB-BX-1636
	Project Safe Neighborhoods	16.609	2003-GP-CX-0177
	Project Safe Neighborhoods	16.609	2003-GP-CX-0032
	Project Safe Neighborhoods	16.609	2003-GP-CX-0017
Total direct assistance			
<u>Passed through from</u>			
Department of Finance and Administration:			
Criminal Justice Program	Byrne Formula Grant - Forensic Academy	16.579	Z-99088272-00
Criminal Justice Program	Byrne Formula Grant - Youth Mentoring	16.579	Z-99-088341-00
Criminal Justice Program	Byrne Memorial Grant - Juvenile Collaborative	16.580	Z-99-088381-00
Criminal Justice Program	Knox County Family Violence Coalition	16.580	Z-99-088428-00
Criminal Justice Program	TACP	16.580	Z-99-088257-00
Criminal Justice Program	Offender Reintegration Initiative	16.202	Z-99-0088255-00
Office of Juvenile Justice and Delinquency Prevention	Internet Crimes Against Children	16.543	2000-MC-CXK-004
Tennessee Emergency Management Agency	Domestic Preparedness Equipment Program	16.007	2002-TE-CX-0033
Tennessee Emergency Management Agency	Domestic Preparedness Equipment Program	16.007	Z-03-011150-00
Tennessee Emergency Management Agency	Domestic Preparedness Equipment Program	16.007	Z-03-014444-00
Department of Children's Services	Juvenile Accountability Incentive Block Grant	16.523	GG-04-10-464-00
Department of Children's Services	Juvenile Accountability Incentive Block Grant	16.523	GG-03-10-020-00
Total pass through assistance			
Total U.S. Department of Justice			
<b>U.S. Department of Homeland Security</b>			
<u>Passed through from</u>			
Tennessee Emergency Management Agency	Off-site Planning and Response	81.502	GG-03-10019-00
Tennessee Emergency Management Agency	Emergency Management Assistance	83.552	Z-04-020297-00
Tennessee Emergency Management Agency	Emergency Management Assistance	83.552	Z-03-015908-00
Tennessee State Department of the Military	Local Emergency Evaluation	83.562	Z-03-015181-00
Tennessee Emergency Management Agency	Community Emergency Response Teams	83.564	Z-03-015507-00
Tennessee Emergency Management Agency	Assistance to Firefighters	97.044	EMW-2002-FG-06557
Total U.S. Department of Homeland Security			

Receivable (Deferral) 6/30/03	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/04
\$ -	\$ 1,369,103	\$ 1,516,250	\$ 147,147
445,941	864,621	418,680	-
678,383	1,295,124	1,517,191	900,450
128,014	247,778	360,831	241,067
(21,003)	-	12,618	(8,385)
(3,591)	50,000	46,963	(6,628)
-	102,000	34,633	(67,367)
435,421	530,512	95,091	-
63,608	1,120,049	1,069,941	13,500
59,508	570,001	529,393	18,900
1,800	115,070	218,735	105,465
<u>1,788,081</u>	<u>6,264,258</u>	<u>5,820,326</u>	<u>1,344,149</u>
2,689	59,062	56,373	-
-	38,629	45,706	7,077
<u>2,689</u>	<u>97,691</u>	<u>102,079</u>	<u>7,077</u>
\$ <u>1,790,770</u>	\$ <u>6,361,949</u>	\$ <u>5,922,405</u>	\$ <u>1,351,226</u>

\$ 159,302	\$ 319,334	\$ 160,032	\$ -
152,886	224,476	155,170	83,580
26,050	84,347	80,215	21,918
-	-	4,160	4,160
-	-	45,586	45,586
-	133,741	193,169	59,428
30,204	49,342	19,138	-
6,231	31,472	25,341	100
72,934	106,018	33,084	-
(277,751)	-	129,219	(148,532)
-	202,072	-	(202,072)
-	29,036	96,924	67,888
5,073	21,001	49,885	33,957
19,047	44,992	55,229	29,284
<u>193,976</u>	<u>1,245,831</u>	<u>1,047,152</u>	<u>(4,703)</u>

-	69,748	93,750	24,002
9,583	35,939	42,825	16,469
-	-	2,967	2,967
-	692	29,750	29,058
12,343	79,105	76,259	9,497
12,315	38,572	35,573	9,316
21,780	115,838	147,425	53,367
13,514	60,473	11,959	(35,000)
44,049	49,626	5,577	-
64,041	290,145	285,959	59,855
-	11,110	28,043	16,933
(8,530)	112	8,642	-
<u>169,095</u>	<u>751,360</u>	<u>768,729</u>	<u>186,464</u>
\$ <u>363,071</u>	\$ <u>1,997,191</u>	\$ <u>1,815,881</u>	\$ <u>181,761</u>

\$ -	\$ 7,494	\$ 7,494	\$ -
-	-	63,766	63,766
63,766	85,021	21,255	-
-	33,649	40,000	6,351
-	-	4,849	4,849
4,586	67,231	103,231	40,586
\$ <u>68,352</u>	\$ <u>193,395</u>	\$ <u>240,595</u>	\$ <u>115,552</u>

**CITY OF KNOXVILLE, TENNESSEE**  
**SCHEDULE OF FEDERAL AND STATE AWARDS**  
**For the year ended June 30, 2004**

Grantor Agency	Program Title	CFDA #	Grant #
<b>U.S. Department of Labor</b>			
<u>Passed through from</u>			
National Council of Senior Citizens	Senior Aides	17.235	AD-13028-03-60
National Council of Senior Citizens	Senior Aides	17.235	AD-12523-02-55
Total U.S. Department of Labor			
<b>U.S. Department of Commerce</b>			
<u>Direct assistance</u>			
	Sharps Gap Planning Study	11.302	04-01-04962
Total U.S. Department of Commerce			
<b>U.S. Department of Transportation</b>			
<u>Direct assistance</u>			
	Downtown Knoxville Transit Linkages Study *	20.507	TN-03-0045-00
	2003 Discretionary Grant	* 20.507	TN-03-0073-00
	Job Access Grant	* 20.507	TN-37-X029-00
	Job Access Grant	* 20.507	TN-37-X023-00
	1999 Formula Grant	* 20.507	TN-90-X162-00
	2001 Formula Grant	* 20.507	TN-90-X184-00
	2002 Formula Grant	* 20.507	TN-90-X193-00
	2003 Formula Grant	* 20.507	TN-90-X206-00
	2004 Formula Grant	* 20.507	TN-90-X214-00
Total direct assistance			
<u>Passed through from</u>			
Tennessee Emergency Management Agency	Safe Streets III	20.600	Z-04-016765-00
Tennessee Emergency Management Agency	Safe Streets II	20.600	Z-03-011844-00
Tennessee Emergency Management Agency	LEPC Conference	20.703	GG-03-10127-00
Tennessee Emergency Management Agency	Bearden Middle School Sidewalk	20.205	STP-EN-9109(74)
Tennessee Emergency Management Agency	Video Detection	20.205	CM-STP-9109(70)
Tennessee Department of Transportation	I-640 Millertown / Washington Pike	20.205	STP-M-9109(43)
Total pass through assistance			
Total U.S. Department of Transportation			
Total federal assistance			
<b>STATE ASSISTANCE</b>			
Tennessee Department of Environment and Conservation	Household Hazardous Waste		GG-03-10166-00
Tennessee Department of Environment and Conservation	Household Hazardous Waste		GG-04-10547-00
Tennessee Department of Transportation	Trolley #416 Emergencies		STP-EN-9109(86)
Tennessee Department of Transportation	State Appropriation		GG-04-10605-00
Tennessee Department of Transportation	FTA-TN-90-X162		GG-99-08331-00
Tennessee Department of Transportation	FTA-TN-03-0045		GG-99-08327-00
Tennessee Department of Transportation	FTA-TN-90-X214		GG-05-11546-00
Tennessee Department of Transportation	FTA-TN-37-X029		GG-04-10642-00
Tennessee Department of Transportation	FTA-TN-90-X184		GG-02-09253-00
Tennessee Department of Transportation	TDOT 5310 Grant		Z-03-014098-00
Tennessee Department of Transportation	FTA-TN-90-X193		GG-02-09791-00
Tennessee Department of Transportation	FTN-TN-90-X206		GG-04-10515-00
Tennessee Department of Transportation	FTA-TN-03-0073		GG-04-11172-00
Total state assistance			

\* - Denotes major program

Receivable (Deferral) 6/30/03	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/04
\$ -	\$ 367,200	\$ 367,200	\$ -
-	27,445	27,445	-
<u>\$ -</u>	<u>\$ 394,645</u>	<u>\$ 394,645</u>	<u>\$ -</u>
\$ -	\$ 71,182	\$ 71,182	\$ -
<u>\$ -</u>	<u>\$ 71,182</u>	<u>\$ 71,182</u>	<u>\$ -</u>
\$ 139,656	\$ 568,417	\$ 439,506	\$ 10,745
-	1,755,260	1,755,260	-
-	229,980	365,577	135,597
200,413	465,311	264,898	-
15,596	15,596	-	-
2,677	890,277	887,600	-
29,386	49,175	19,789	-
2,115,430	2,829,011	1,093,823	380,242
-	-	1,980,166	1,980,166
<u>2,503,158</u>	<u>6,803,027</u>	<u>6,806,619</u>	<u>2,506,750</u>
-	12,562	38,844	26,282
27,828	59,762	31,934	-
-	10,000	10,000	-
-	-	315,052	315,052
-	13,577	13,577	-
<u>213</u>	<u>-</u>	<u>-</u>	<u>213</u>
<u>28,041</u>	<u>95,901</u>	<u>409,407</u>	<u>341,547</u>
<u>\$ 2,531,199</u>	<u>\$ 6,898,928</u>	<u>\$ 7,216,026</u>	<u>\$ 2,848,297</u>
<u>\$ 4,753,392</u>	<u>\$ 15,917,290</u>	<u>\$ 15,660,734</u>	<u>\$ 4,496,836</u>

\$ 84,094	\$ 84,094	\$ -	\$ -
-	80,538	85,000	4,462
-	182,530	182,530	-
-	1,709,902	1,709,902	-
2,000	2,000	-	-
17,457	71,052	54,938	1,343
-	-	247,519	247,519
-	229,981	310,442	80,461
335	111,285	110,950	-
-	54,415	54,415	-
3,673	6,147	2,474	-
264,428	353,626	128,520	39,322
-	-	186,496	186,496
<u>\$ 371,987</u>	<u>\$ 2,885,570</u>	<u>\$ 3,073,186</u>	<u>\$ 559,603</u>



HG&A ASSOCIATES, P.C.

Certified Public Accountants

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*

The Honorable Mayor and  
Members of City Council  
City of Knoxville  
Knoxville, Tennessee

We have audited the basic financial statements of the City of Knoxville, Tennessee as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2004. Our report was based on our audit and the report of other auditors who audited the financial statements of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Knoxville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect the City of Knoxville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1 through 04-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-1 to be a material weakness.

Compliance and Other Matters

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

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HG&A Associates, P.C.

December 15, 2004





**Report on Compliance with Requirements Applicable to Each Major Program and  
Internal Control Over Compliance in Accordance with OMB Circular A-133**

The Honorable Mayor and  
Members of City Council  
City of Knoxville  
Knoxville, Tennessee

**Compliance**

We have audited the compliance of the City of Knoxville with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Knoxville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Knoxville's management. Our responsibility is to express an opinion on the City of Knoxville's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 of Knoxville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Knoxville's compliance with those requirements.

In our opinion, the City of Knoxville complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

**Internal Control Over Compliance**

The management of the City of Knoxville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Knoxville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Knoxville's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-4.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*HG+A Associates, P.C.*

December 15, 2004

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Knoxville, Tennessee. Our opinion was based on our audit and the report of other auditors who audited the financial statements of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority. Because the auditors of the Metropolitan Knoxville Airport Authority performed a separate single audit, the schedule of financial assistance does not include assistance received by the Authority. The Knoxville Utilities Board received no federal financial assistance during the year ended June 30, 2004.
2. Three reportable conditions (04-1 through 04-3) relating to the audit of the basic financial statements are reported in the auditors' report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. One of those conditions (04-1) is reported as a material weakness.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
4. One reportable condition (04-4) disclosed during the audit of major federal award programs was reported in the auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 for the City of Knoxville, Tennessee expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the City of Knoxville, Tennessee are reported in Part C of this schedule.
7. The following programs were tested as a major programs:
  - Community Development Block Grant (CFDA # 14.218)
  - Home Grant (CFDA # 14.239)
  - Empowerment Zone (CFDA # 14.244)
  - COPS Grant (CFDA # 16.710)
  - Formula Grants (CFDA # 20.507)
8. The threshold for distinguishing Type A and Type B programs was \$469,822.
9. The City of Knoxville, Tennessee was not determined to be a low-risk auditee.

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2004

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

04-1 Financial Reporting Oversight

Finding: The design and effective operation of internal controls is crucial to the effective operation of city government and for accurate financial reporting. The lack of central oversight has resulted in several reportable conditions that were noted in both the current and prior years. The large number of adjusting journal entries proposed by external auditors highlight the potential for material misstatement of the City's financial reports.

*Payroll clearing accounts* - The City failed to make entries to transfer withholdings to proper funds. As a result no withholdings were transferred to the City Choice Fund and certain other withholding accounts in the Payroll Clearing Fund were misstated.

*Encumbrances* - In the City's accounting system, encumbrances are recorded by a debit to encumbrances and a credit to either reserve for encumbrances or reserve for contracts. There are eight funds (100, 401, 506, 220, 230, 705, 507004 and 507006) in which encumbrances do not agree with the reserve balances.

*Allocation of Property Tax Voids and Refunds* - All property taxes are deposited into the City's General Fund upon receipt. Monthly the City calculates and allocates those receipts between the General Fund and the Debt Service Fund based on the Property Tax Ordinance. During the current year, however, voided and refunded property taxes were not included in the calculation and resulted in Debt Service Fund property tax revenues being overstated by \$93,951. This amount was corrected during the audit of the City's financial statements and refunded to the General Fund.

*Capital Assets* - There is no monitoring, on a current basis, of the recording of capital assets. The City did not complete its review and recording of capital assets into its records until five months after the end of its fiscal year. The lack of oversight in monitoring the recording of capital assets reduces the effectiveness of internal controls and allows assets to remain untagged and unaccounted for. This increases the possibility that theft of such assets could go undetected.

*Budgets* - Three legally approved budget amendments were not recorded in the City's general ledger. Because the City makes financial decisions based upon the availability of appropriations, it is important that the general ledger reflect all approved amendments to the budget.

*Financial Reporting of Activities of Related Entities* - Oversight of recording of operations of the Knoxville Convention Center, properties managed by the Public Building Authority, and the Civic Auditorium and Coliseum appears to need improvement. Unreconciled variances and the number of adjusting entries required to restate the City's records to conform with those provided by related entities indicate the need for enhanced oversight of reporting these activities. These errors and weaknesses in internal control could result in errors going undetected until the annual audit and threaten the ability of elected officials to receive accurate and timely interim financial reports.

Increasing focus on internal control can have the added benefit of changing controls from detective controls, which detect exceptions after they have occurred to preventive controls, which are designed to prevent errors or irregularities from occurring.

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2004

Recommendation: We recommend that the City review its procedures for monitoring controls over recording transactions and its financial reporting. Those procedures should include review of financial information by appropriate management personnel to ensure its accuracy and completeness.

Management response:

*Payroll clearing accounts* - We concur with the finding. The withholdings from employee payroll checks for the flexible spending accounts are now transferred weekly from the Payroll Clearing Fund to the City Choice Fund.

The Payroll Clearing Fund will be reconciled at least quarterly to determine that withholdings have been transferred to the proper fund and to ensure that withholding accounts are not misstated.

*Encumbrances* - We agree with this finding. The accounting staff will work to correct this finding, and the balances will be tied on a periodic basis.

*Allocation of Property Tax Voids and Refunds* - We concur with the finding. Voided and refunded property taxes are now computed in the allocation.

*Capital Assets* - The recognition and recording of capital assets was being done on a routine basis through February. The individual assigned to this task left employment with the City and a gap did occur. We have reassigned duties, and this function will be performed by various individuals. The reconciliation of most fixed assets will be done on at least a quarterly basis, for most assets. General fixed assets for capital projects will be done on a less frequent basis. We do not believe this to be a control issue as these types of assets are not subject to theft.

*Budgets* - We disagree with this finding. Budget amendments were recorded for FY 2003/2004.

In the case of the "reorganization" ordinance, we did not physically reclass each new division of the "newly reorganized" department into the new larger department, e.g. the Information Systems division of the newly formed Finance and Accountability Department was still listed as Information Systems. This was done to avoid a major reclassification of accounts and the implementation of major change in the accounting system in mid-year due to a shift from a four digit to five digit department code, a change that was made to coincide with the beginning of the new fiscal year. This did not, however, result in any lack of control, as all departments were still subject to the original divisional budget. In those instances, where a department/division was eliminated or subsumed as part of a completely different organization, the necessary changes were made in the ledger.

We agree that there may have been some issue with reconciliation. We are trying to determine the source of the differences and will correct the problem.

*Financial Reporting of Activities of Related Entities* - We acknowledge the issues with the Civic Auditorium/Coliseum, and these are addressed in another response. We believe that the issues cited in regard to the Convention Center and Public Building Authority are minor and deal in part with classification issues/concerns. We will change these classifications which should make it easier for the auditors to verify the reconciliations.

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2004

04-2 Coliseum Bank Accounts

Finding: At June 30, 2004 the Coliseum is holding in its bank accounts approximately \$44,000 in funds that cannot be identified with "unsettled shows," deposits, or payables. It is also holding interest earnings (\$2,732) and wire deposits from ticket rebates (\$70,146) and sports promotions (\$163,826) that are due to the City's operating bank account.

Recommendation: We recommend that the Coliseum transfer these funds to the City Treasurer for deposit into the City's operating bank account.

Management response: The funds in question have been transferred to the City accounts. We are in the process of eliminating the separate bank accounts for the Coliseum/Auditorium, and integrating this activity into the City's consolidated bank accounts. This will eliminate the holding of funds by the Coliseum/Auditorium, result in increased interest earnings, and should help with reconciliation. Coliseum staff will still perform the reconciliation of amounts owed to promoters.

04-3 City Court Citations

Finding: Although the Police Department logs the issuance of citation books to police officers, there are no procedures to insure that all citations are issued, properly voided or returned as unused. As a result missing citations cannot be identified.

Recommendation: We recommend that citations be accounted for in a manner that will ensure that all issued citations have been returned to City Court or properly voided.

Management response: Police officers currently check citation books out at Teleserve and through the offices located at Central District and East District. The log sheet contains the date, name, and ticket numbers. Citations may be written for three different courts - Municipal (City), General Sessions (County) or Juvenile Court (County). Voided citations are sent to Records Section, which then enters the citation in the Records Management System under the Citations Module. The date and officer name are inputted and in the narrative, it says void.

In addition, officers may carry a citation book in their vehicle and only occasionally write a citation. This would pertain specifically to officers assigned to divisions and sections other than Patrol. For instance, an investigator may carry a book of citations but only write one occasionally. He may keep that book for months or longer and still have it in the vehicle.

Status of Prior year Findings

Findings 03-1, 03-2, 03-3 and 03-5 have been corrected. Finding 03-4 has been repeated as part of current year finding 04-1.

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2004

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

04-4 Grant Accounting

Finding: The City receives large amounts of federal and state financial assistance. The City has not designated anyone to overseeing the accounting for the grants and contracts.

The lack of a designated individual who is familiar with grants allows program costs and revenues to be recorded in incorrect funds or programs. In some instances entries for quarterly billings to grantors have been duplicated. In others, quarterly billings have not been recorded. Grant expenditures are balanced at year-end by adjusting revenue through accounts receivable or deferred revenue without regard to the validity of the entries. As a result the following errors in grant accounting occurred:

- KAT reimbursement claims are not reconciled to the City's general ledger. This understates receivables due from grantors and grant revenues until such time allowable costs are included in subsequent reimbursement requests.
- Fourth quarter police grant activity was not recorded until after the audit began.
- The Youth Mentoring Grant (Fund 250053) duplicated expenditures totaling \$19,873 on its reimbursement requests. The Offender Reintegration Grant (Fund 250056) duplicated expenditures totaling \$9,592 on its reimbursement requests.
- Emergency Management Grant reimbursement requests are prepared from a listing of invoices maintained on an electronic spreadsheet. The spreadsheet does not link the invoices to amounts paid, nor is the spreadsheet and the related grant reimbursement requests reconciled to the City's general ledger.

Recommendation: We recommend that the City designate an individual to reconcile its accounting records to grant requests prepared by departments administering the grants.

Management response: KAT grants have been reconciled at the time of reimbursement requests being filed. If a reimbursement request did not include a receivable then it has not been recorded. Going forward we will book the receivable at the time cash is disbursed by the City.

We agree that the fourth quarter Police grant activity was not recorded before July 30 because that information was not received from KPD due to the senior KPD grant person being in training in July. We consider this to be an anomaly and will work to correct in the future.

We agree that duplicative reimbursement requests were filed. These have been refunded.

It is correct that Emergency Management grant reimbursement requests are prepared from a listing of invoices maintained on an electronic spreadsheet. We have requested that this spreadsheet include purchase order and invoice information. This will be reconciled to the City's general ledger.

CITY OF KNOXVILLE, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended June 30, 2004

If staffing is available, we will consider assigning one individual to oversee grant management. However, it is more efficient to divide the accounting work among several individuals assigned to the various departments. Additional oversight will be provided to try and correct any reconciliation issues. We have no plans to hire a centralized grant coordinator and, are uncertain, given the wide variety of activities that the City performs, that one individual could handle all the work efficiently. We believe that it be may be better to have individuals with functional expertise to be responsible for the appropriate grants as is now the case.

Status of Prior year Findings

Portions of Finding 03-6 relating to grant management were corrected during the year ended June 30, 2004. Portions of Finding 03-6 relating to accounting for grant activities have been repeated as current year finding 04-4.