



CITY OF KNOXVILLE
BILL HASLAM, MAYOR

Making Knoxville America's Premier City
IN WHICH TO LIVE, WORK AND RAISE A FAMILY



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDING JUNE 30, 2010

KNOXVILLE, TENNESSEE
WWW.CITYOFKNOXVILLE.ORG

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF KNOXVILLE, TENNESSEE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

PREPARED BY:
CITY OF KNOXVILLE FINANCE DEPARTMENT

JAMES YORK,
DIRECTOR OF FINANCE
CLYDE 'BOE' COLE, CMFO, CGFO
COMPTROLLER

CITY OF KNOXVILLE, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2010

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal	i
GFOA Certificate of Achievement	ix
Organizational Chart	x
Officials of the City of Knoxville, Tennessee	xi

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	21
Statement of Activities	22
Fund Financial Statements	
Balance Sheet – Governmental Funds	24
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	25
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund	28
Statement of Net Assets – Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Net Assets– Proprietary Funds	31
Statement of Cash Flows - Proprietary Funds	32
Statement of Fiduciary Net Assets – Fiduciary Funds	34
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	35
Combining Statement of Net Assets – Discretely Presented Component Units	36
Combining Statement of Activities – Discretely Presented Component Units	37
Notes to Financial Statements	
Note 1 – Summary of Significant Accounting Policies	38
Note 2 – Reconciliation of Government-wide and Fund Financial Statements	44
Note 3 – Stewardship, Compliance and Accountability	44
Note 4 – Deposits and Investments	45
Note 5 – Receivables	49
Note 6 – Leases Receivable	50
Note 7 – Capital Assets	51
Note 8 – Interfund Receivables and Payables	54
Note 9 – Long-term Debt	55
Note 10 – Leases	68
Note 11 – Fund Balances Permanently Restricted and Designated for Future Use	68
Note 12 – Risk Management	68
Note 13 – Joint Ventures	70
Note 14 – Management Agreements	71
Note 15 – Commitments and Contingencies	72
Note 16 – Business and Credit Concentrations	75
Note 17 – Transfers	75
Note 18 – Retirement and Disability Plans and Prior Period Adjustment	77
Note 19 – Other Post-Employment Benefits (OPEB)	84
Note 20 – Related Party Transactions	87
Required Supplementary Information	
Schedule of Funding Progress – City of Knoxville Pension System	88
Schedule of Funding Progress – Knoxville Utility Board Pension Plan	89
Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds	92
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	94
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
State Street Aid	96
Community Development Block Grants	97
Abandoned Vehicles	98
City Inspections	99
City Court	100
Miscellaneous Special Revenue Funds	101
Miscellaneous Community Development Funds	102
Storm Water	103
Solid Waste	104

CITY OF KNOXVILLE, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2010

Table of Contents

Balance Sheet – Debt Service Funds.....	105
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	
Debt Service Funds	106
Balance Sheet – Capital Projects Funds	107
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - from	
Inception – Capital Projects Funds	108
Combining Statement of Net Assets – Nonmajor Enterprise Funds.....	110
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor	
Enterprise Funds	111
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	112
Combining Statement of Net Assets – Internal Service Funds.....	116
Combining Statement of Revenues, Expenditures and Changes in Net Assets – Internal	
Service Funds.....	117
Combining Statement of Cash Flows – Internal Service Funds	118
Combining Statement of Fiduciary Assets and Liabilities – Agency Funds.....	122
Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds.....	123
Statement of Net Assets – Knoxville Area Transit – Component Unit.....	126
Statement of Revenues, Expenses and Changes in Fund Net Assets –	
Knoxville Area Transit – Component Unit.....	127
Statement of Cash Flows – Knoxville Area Transit – Component Unit	128
 STATISTICAL SECTION	
Financial Trends	
Net Assets by Component	132
Changes in Net Assets	133
Fund Balances of Governmental Funds	135
Changes in Fund Balances, Governmental Funds.....	136
Revenue Capacity	
Assessed and Estimated Actual Value of Taxable Property	137
Property Tax Rates – Direct and Overlapping Governments	138
Principal Property Taxpayers.....	139
Property Tax Levies and Collections	140
Debt Capacity	
Ratios of Outstanding Debt by Type.....	141
Ratios of General Bonded Debt Outstanding	142
Legal Debt Margin	143
Pledged Revenue Coverages.....	143
Direct and Overlapping Governmental Activities Debt	144
Demographic and Economic Information	
Demographic and Economic Statistics	145
Principal Employers	146
Operating Information	
Full-time Equivalent City Government Employees by Function.....	147
Operating Indicators by Function.....	148
Capital Asset Statistics by Function.....	149
 COMPLIANCE SECTION	
Schedule of Expenditures of Federal and State Awards	152
Notes to the Schedule of Expenditures of Federal and State Awards.....	157
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.....	158
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each	
Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	160
Schedule of Findings and Questioned Costs.....	162
Schedule of Corrected Prior Audit Findings.....	168
Corrective Action Plan	172

INTRODUCTORY SECTION



January 26, 2011

In compliance with the City of Knoxville Charter requirements, I am submitting the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. This report discusses the financial results for the year, provides information on budgetary performance, and includes information on the financial condition of the City. I am pleased to report that the financial condition of the City remains strong.

The report has been prepared in accordance with the principles and standards for financial reporting as set forth by the Governmental Accounting Standards Board (GASB) and the requirements of the Single Audit Act of 1984 and related Office of Management and Budget (OMB) Circular A-133. Due to the changes required by the GASB 34 implementation, some of the schedules only reflect operating results since fiscal year ended June 30, 2002, the year the City implemented GASB Statement 34. Over time, these schedules will reflect the full ten year comparisons desired.

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

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

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

Profile of the Government

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

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

Local Economy

The overall economic health of the metropolitan Knoxville area reflects the nationwide economic downturn, and is expected to recover when the economy rebounds. The City of Knoxville has fared better than the nation and other major cities in Tennessee. The City serves as the economic hub of the East Tennessee area, and its trade sector is one of the strongest in the state. The City of Knoxville, located in Knox County, has one of the lowest sales tax rates in the state. Authorized by state law to levy up to 2.75%, the combined city/county rate is only 2.25%. Approximately seventy-six percent of the taxable sales within the County occur inside the corporate limits of Knoxville. The following table displays local sales tax collections (in thousands) of the City over the past eight years.

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

As shown above, the City experienced a 4.48% decrease in local sales tax. This is due to the overall economic decline of the nation's economy. However, Knoxville has a more diversified economy, and income fluctuations tend to be less volatile than in many other parts of the country.

The presence of the University of Tennessee along with Tennessee Valley Authority, Oak Ridge National Laboratories and other large governmental installations lend stability to the area, making the local economy less cyclical than either the national or state economy. This contributes to the fact that Knoxville's unemployment rate is lower than both the state and national average, which averaged 8.1% (Knoxville MSA) in FY2010. This compares very favorably to the national unemployment rate of 9.6% and as well as the other major metropolitan areas of the state (Chattanooga – 9.0%, Memphis – 10.6%, and Nashville – 10.4%). On a positive note, Knoxville's unemployment rate has continued to decrease. As of October 2010, Knoxville's unemployment rate has decreased to 7.3%. The Knoxville MSA had a labor force of 367,490 in 2010.

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

The Knoxville Utility Board (KUB) provides electricity, water and wastewater, and gas to approximately 439,000 customers in Knox, Union, Grainger, Jefferson and Sevier Counties. It is comprised of 5 major plants, 297 remote facilities, and has over 900 employees. Operating with an \$843 million budget and \$1.5 billion in plant assets, it is the fourth largest customer of the Tennessee Valley Authority.

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

Knoxville Area Transit (KAT) provides around 30 public bus routes, operating 100 vehicles and carrying around 3.6 million passengers a year in the City. A new downtown *John Duncan Jr. Knoxville Station Transit Center* was completed in August 2010. The total budget for the project is \$32,206,394 and the amount spent as of June 30, 2010 is \$28,337,337. This state of the art facility will serve as the major transportation hub for metropolitan Knoxville.

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

Knox County is the principal Gateway to the Great Smoky Mountains National Park, located 40 miles to the southeast. There are over 500,000 acres that make up the nation's most visited National Park, extending over the States of Tennessee and North Carolina. Between 8 and 10 million people visit the park annually, making it the most visited park in the country. Two tourist towns are located at the foothills of the Smoky Mountains, Gatlinburg and Pigeon Forge. Gatlinburg has accommodations for over 60,000 people, features numerous restaurants, craft shops, and gift stores, along with a ski lodge, ski-lifts, convention center and tramway, making it a year-round resort town. Pigeon Forge is also a shopper's mecca and has accommodations for approximately 40,000 people. Its attractions include Dollywood - a country-style theme park, a waterslide park, a rodeo dinner theater, and numerous miniature golf courses, bumper boat rides, and theme museums.

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

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

Knoxville consistently receives high honors for quality of life. According to the 2010 American Chamber of Commerce Researchers Association (ACCRA) Cost of Living (COL) Index, which measures the relative price levels for consumer goods and services in metropolitan and nonmetropolitan areas whose chambers agree to participate, Knoxville ranked as one of the top southeast urban areas with a COL Index of 89.0. With the average of all participating cities equaling 100.0, Knoxville ranked among the top markets for low cost of living.

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

In addition, Knoxville serves as the health, educational, and governmental center of East Tennessee. Knoxville is the home to the University of Tennessee's main campus with an average enrollment of 27,100 students, including its teaching hospital and veterinary school. The University of Tennessee Knoxville ranked 52nd among 164 national public universities by U.S. News and World Report. Six other colleges operate in Knoxville, with thirty trade/vocational schools completing Knoxville's higher education system. Also operating within the area are five hospitals including the only two trauma centers for a 27-county area. The presence of the Tennessee Valley Authority, UT-Battelle, and BWXT-Bechtel serve as a magnet for technology-based corporations in the East Tennessee area. The growing trend toward allowing technology transfer to private industry is also benefiting the region. The development of the multi-billion dollar spallation neutron source project at the Oak Ridge National Laboratory is also expected to enhance economic activity and lure newer companies to the area.

Relevant Financial Policies/Controls

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

Budgetary Controls

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

Debt Administration

Total general obligation indebtedness of the City in FY2010 decreased by \$8.9 million through budgeted debt repayments. New debt increased by \$13.5 million dollars for the Ameresco master purchase agreement. Ameresco was contracted by the City to implement energy conservation measures that will save the City of Knoxville millions of dollars while reducing its energy consumption and carbon emissions. These savings are expected to be sufficient to retire the debt. The total amount of general obligation debt outstanding as of June 30, 2010 is \$188.5 million. Of this amount, \$136.6 million represents proprietary

fund debt on the Convention Center and the Locust Street Garage. In addition the City has responsibility for \$1,017,290 in debt issued by Knox County relating to its portion of Animal Welfare Center.

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 2010 is as follows:

General Obligation Debt	G.O. Debt (in thousands)		Ratio of Debt to Total Assessed Valuation		Ratio of Debt To Est. Actual Value		Debt per Capita	
	FY 09/10	FY08/09	FY 09/10	FY 08/09	FY09/10	FY08/09	FY 09/10	FY08/09
Net direct bonded debt	\$188,465	\$197,370	4.50%	5.47%	1.40%	1.72%	\$997	\$1,095
Overlapping debt of:								
Knox County	153,079	157,611	1.54%	1.82%	1.05%	1.03%	1,361	1,400
Knox County Schools	105,157	103,146	1.06%	1.19%	0.72%	0.71%	1,361	1,400
Total	<u>\$446,701</u>	<u>\$458,127</u>	<u>7.10%</u>	<u>8.48%</u>	<u>3.17%</u>	<u>3.46%</u>	<u>\$3,719</u>	<u>\$3,895</u>

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

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

Debt Type	Fitch Ratings		Standard & Poor's		Moody's Investors Service	
	FY09/10	FY 08/09	FY09/10	FY 08/09	FY09/10	FY 08/09
City of Knoxville -						
General Obligation Bonds	AAA	AA+	AA+	AA+	Aa1	Aa2
Component Units -						
Knoxville Utilities Board Revenue Bonds						
Electric	N/A	N/A	AA+	AA+	Aa2	Aa3
Gas	N/A	N/A	AA	AA	Aa2	Aa3
Water	N/A	N/A	AA+	AA+	Aa2	Aa3
Waste Water	N/A	N/A	AA+	AA+	Aa2	Aa3
Metro Knoxville Airport	N/A	N/A	A -	A -	A3	A3

Cash Management

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

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

The average yield on investments, excluding the pension trust fund investments, was 0.73%. Average weighted maturities were 165 days. The average maturity during the preceding fiscal year was 66 days.

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

Risk Management

The City of Knoxville's risk management program is responsible for the administration of the City's self-insured liability and worker's compensation programs. The risk management division is also responsible for the administration of the City's commercial insurance and OSHA programs. Net assets of \$14.6 million was reported for the Risk Management fund as of June 30, 2010, an increase of \$2,065,990 from the previous fiscal year.

Other information

Independent Audit

The State of Tennessee requires an independent audit performed by independent certified public accountants. The City's audit committee selected Pugh & Company, P.C., Certified Public Accountants, to perform the fiscal year 2010 audit.

MAJOR INITIATIVES

I. Energy Efficiency – The City of Knoxville continues to be one of the leaders in the energy and sustainability efforts. Knoxville, one of only three southeastern cities to be selected as a U.S. Department of Energy Solar America City, has used its SAC grant funding to successfully encourage a dramatic increase in the use of solar technology in Knoxville. Since 2007, solar installation in Knoxville and Knox County has increased from 15 kilowatts to more than a megawatt (1,000 kilowatts).

The City also funded the first solar powered generation system to be installed in a city facility. This system was installed at the new Knoxville Station Transit Center, which was completed in August 2010.

In addition, Knoxville has completed about 30 percent of an ambitious energy conservation initiative—where the improvements are designed to pay for themselves by lowering the City's energy consumption and emissions while saving millions of dollars annually.

Knoxville and Knox County are the only city/county combination in the United States to have met the federal Energy Efficiency and Conservation Block Grant Program 20 percent spending deadline by 2010. The City is using its portion of the \$2 million block grant to install a 28.5 kW solar array on the roof of the Knoxville Convention Center, weatherize middle income homes and install improved HVAC systems to nearly a dozen Knoxville fire stations among other efforts.

The City of Knoxville has also leveraged its resources in a number of public/private partnerships aimed at increasing energy efficiency. The most notable of those efforts is its partnership with organizations like Nissan North America and General Motors/Chevrolet in the massive EV Project, which will introduce thousands of electric cars and charging stations to the United States beginning in late 2010. Knoxville is one of the test markets for the electric car initiative and is working with other partners to place more than 60 public charging stations in our area, including public garages.

Finally, the City is involved in pilot programs for LED streetlights, installing LED lights in new construction and is saving upwards of \$250,000 annually after finishing the conversion of its traffic lights to LEDs.

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

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

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

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

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

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

The PetSafe Downtown Dog Park, the result of a private/public partnership, opened during Fiscal 2009-2010, to the joy of downtown pet owners and much to the relief of their dogs.

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

Design work on the Downtown Wayfinding System was completed and the grant funding needed to implement the system has been obtained. The design work for street and sidewalk improvements to sections of both Market Street and Union Avenue was underway and construction is set to begin on Market in late November.

IV. Employee Compensation – The City is committed to bringing the total compensation of its employees in line with its peer institutions and is nearing the end of a \$9.3 million effort begun in FY 2008 to bring employee salaries up to levels of similar government organizations.

V. Economic Development - The City continues to work with developers to rehabilitate and redevelop historic buildings downtown. It has added several hundred parking spaces at lots along the periphery of downtown and is working with the Knoxville Chamber and other entities to recruit businesses to the City.

VI. Other – Planning continued on a plan to introduce a single-stream, curbside recycling program to the City and that initiative is expected to roll out in 2011.

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

As of June 30, 2010, the City has been awarded \$11,160,000 in ARRA (American Recovery and Reinvestment Act of 2009) grant funding, with \$3.9 million being spent as of the end of the fiscal year. ARRA funding has funded numerous infrastructure, energy and safety projects throughout the City.

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, 2009. This was the twenty-fourth 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, 2010. This marks the twenty-third consecutive year that the City has won this Award. The Distinguished Budget Presentation Award recognizes that the City's budget document is a proficient policy document, financial plan, operation guide and communications medium.

Acknowledgments

The preparation of this report results from the combined efforts of many people. Special recognition and appreciation goes to the City's Finance Department, Melissa Peters, the City's Internal Auditor, the City's independent auditors, Pugh & Company, P.C., and the City Council audit committee comprised of Marilyn Roddy (Chair), Daniel Brown, Duane Grieve, Brenda Palmer, and Nick Della Volpe. The national recognition afforded the City of Knoxville could not have been achieved without the increasing participation and enthusiasm of the citizens of this community. Their exceptional response has served as the foundation for many programs and projects developed during the budgetary process which strengthen and benefit the lives of all Knoxvilleians.

Sincerely,

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

James York
Director of Finance

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, 2009

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

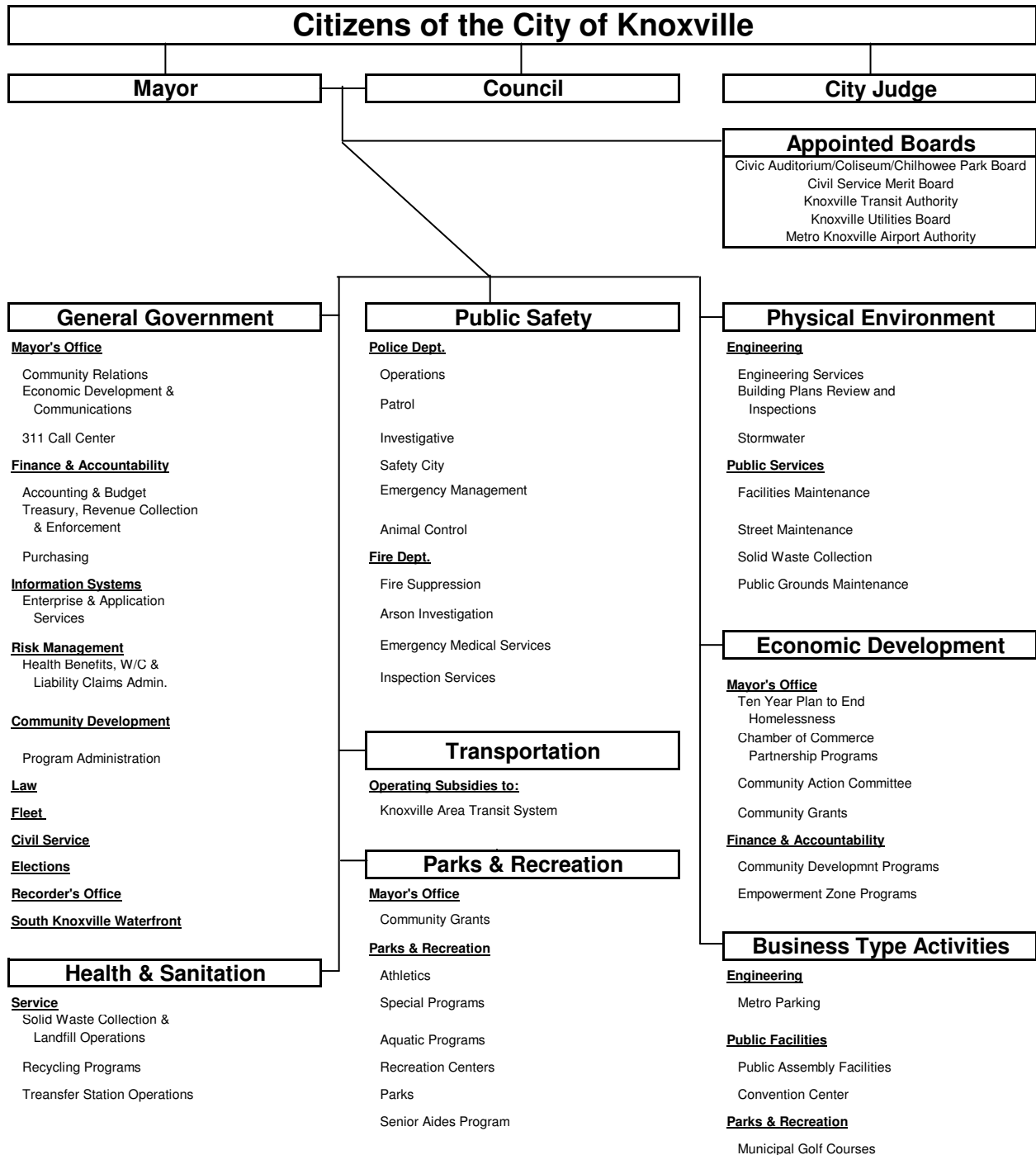


President

Executive Director

City of Knoxville, Tennessee

Organizational Structure by Function



OFFICIALS OF THE CITY OF KNOXVILLE, TENNESSEE

MAYOR
Bill Haslam

CITY COUNCIL

Nick Pavlis
Brenda Palmer
Joe Bailey

Bob Becker, Vice Mayor
Nick Della Volpe
Marilyn Roddy

Duane Grieve
Daniel Brown
Chris Woodhull

CITY JUDGE
John Rosson

PRINCIPAL DIRECTORS AND ADMINISTRATORS

Airport – Bill Marrison, President
City Recorder – Cindy Mitchell
Civil Service – Vicki Hatfield, Executive Secretary
Community Development – Madeline Rogero, Director
Community Relations – Thomas E. Strickland, Jr., Sr. Director
Deputy to the Mayor – Larry B. Martin, Sr. Director
Finance & Accountability – Jim York, Director
Fire – Stan Sharp, Chief
Information Systems – Janet Wright, Director
Knoxville Area Transit – Cindy McGinnis, General Manager
Knoxville Utilities Board – Mintha Roach, President
Law – Debra Poplin, Sr. Director
Police – Sterling P. Owen IV, Chief
Policy & Communication – William Lyons, Sr. Director
Public Assembly Facilities – Robert Polk, Director
Public Works – Steve King, Director
South Waterfront – Dave Hill, Sr. Director
Special Events – Mickey Mallonee, Director

FINANCIAL SECTION

PUGH & COMPANY, P.C.

WILL J. PUGH, CPA
RONNIE G. CATE, CPA
C. LARRY ELMORE, CPA
W. JAMES PUGH, JR., CPA
DANIEL C. FRANKLIN, CPA
JAMES H. JONES, CPA
LISA W. HILL, CPA
SUSAN R. FOARD, CPA
ANDREW R. HARPER, CPA
R.E. FOUST, CPA
A. TED HOTZ, CPA
BARRETT V. SIMONIS, CPA
JOHN W. BACON, CPA
CALVIN C. HOWARD, CPA

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES

HOME FEDERAL PLAZA - SUITE 200
315 NORTH CEDAR BLUFF ROAD
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TOLL FREE 800-332-7021
TELECOPIER 865-769-1660

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Knoxville Area Transit, which is presented as a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Knoxville Utilities Board or the Metropolitan Knoxville Airport Authority. The Knoxville Utilities Board comprises 85 percent of the assets, 83 percent of net assets and 89 percent of revenues of the total discretely presented component units. The Metropolitan Knoxville Airport Authority comprises 12 percent of the assets, 13 percent of net assets and 5 percent of revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Knoxville Utilities Board and Metropolitan Knoxville Airport Authority, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-19 and the schedules of funding progress of the pension plans on pages 88 and 89 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the combining and individual fund financial statements and schedules on pages 92 to 129, the statistical section, as well as the accompanying schedule of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, schedules and the schedule of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the data included in the introductory or statistical sections of this report and, accordingly, we express no opinion on such data.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 26, 2011

Management's Discussion and Analysis

The City of Knoxville is including this Management Discussion and Analysis (MD & A) to enhance the reader's understanding of the City's financial position. This section is intended to be an easily readable analysis of the City's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page "i" and with the financial statements that follow. All amounts are expressed in dollars, unless otherwise specified, for the results of operations for the Fiscal Year ending June 30, 2010.

Financial Highlights

- The assets of the City of Knoxville's primary government exceeded its liabilities at the close of the most recent fiscal year by \$522,127,192 (*net assets*). Of this amount, \$242,765,932 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets increased by \$31,195,972, an increase of 7.1% over fiscal 2009 as a result of effective budgetary controls and involvement of all employees in controlling expenses in light of declining revenues associated with the world-wide economic downturn.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$199,708,342, an increase of \$26,411,952 in comparison with the prior year. Approximately 98% (\$195,501,570) is available for spending at the city's discretion.
- Fund Balance for the City's General Fund increased by \$8,324,468, an increase of 15.9%. Weakness in elastic revenues such as sales tax were offset, by stronger than budgeted current period income tax revenues. Combined with departmental expenditures remaining within their budgetary constraints, the City was able to end with positive variances for the year. Only \$960,139 is reserved for specific purposes, and the remaining 98.4% (\$59,703,553) is available for spending at the City's discretion (unreserved fund balance).
- Overall, the City's total general obligation debt for the primary government decreased by \$8,905,000 (4.5%) to \$188,465,000 during the current fiscal year as a result of normal debt service payment activity.

Overview of the Financial Statements

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

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

Government-Wide Financial Statements

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

Primary Government

Governmental Activities
Business-Type Activities

Component Units

Knoxville Utilities Board
Metropolitan Knoxville Airport Authority
Knoxville Area Transit

STATEMENT OF NET ASSETS

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

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

STATEMENT OF ACTIVITIES

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

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

Funds Financial Statements

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

Governmental Funds

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

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

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

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

Major Governmental Funds	Non-Major Governmental Funds/Special Revenue Funds
General	State Street Aid
Debt Service	Community Development Block Grants
Capital Projects	Abandoned Vehicles
	City Inspections
	City Court
	Miscellaneous Grants
	Animal Control
	Miscellaneous Special Revenue Funds
	Miscellaneous Community Development Funds
	Storm Water
	Solid Waste
	Knoxville Civic Revitalization
Permanent Fund	
Krutch Park Trust	

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

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

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

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

Proprietary Funds

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

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

Business-Type Activities

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

Governmental Activities/Internal Service Funds

Fleet Maintenance
Risk Management
Health Insurance
Equipment Replacement
City Buildings

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

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

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

Fiduciary and Component Unit Statements

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

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

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

Notes to the Financial Statements

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

Other Information

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

Government-Wide Financial Analysis

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

Statement of Net Assets at June 30, 2010

A condensed version of the Statement of Net Assets follows:

Condensed Financial Information						
Statement of Net Assets						
Primary Government						
For Fiscal Year Ending June 30						
(In \$1,000's)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets:						
Cash and investments	\$ 256,244	\$ 219,747	\$ 19,943	\$ 16,811	\$ 276,187	\$ 236,558
Other assets	172,405	162,844	11,578	3,641	183,983	166,485
Capital assets	268,308	264,808	162,989	168,456	431,297	433,264
Total assets	<u>\$ 696,957</u>	<u>\$ 647,399</u>	<u>\$ 194,510</u>	<u>\$ 188,908</u>	<u>\$ 891,467</u>	<u>\$ 836,307</u>
Other liabilities	\$ 159,541	\$ 147,209	\$ 6,916	\$ 6,226	\$ 166,457	\$ 153,435
Noncurrent liabilities	66,223	63,161	136,660	136,688	202,883	199,849
Total liabilities	<u>\$ 225,764</u>	<u>\$ 210,370</u>	<u>\$ 143,576</u>	<u>\$ 142,914</u>	<u>\$ 369,340</u>	<u>\$ 353,284</u>
Net assets:						
Invested in capital assets, net of debt	\$ 213,568	\$ 205,877	\$ 26,344	\$ 28,212	\$ 239,912	\$ 234,089
Restricted	39,449	38,911	-	-	39,449	38,911
Unrestricted	218,176	192,241	24,590	17,782	242,766	210,023
Total net assets	<u><u>\$ 471,193</u></u>	<u><u>\$ 437,029</u></u>	<u><u>\$ 50,934</u></u>	<u><u>\$ 45,994</u></u>	<u><u>\$ 522,127</u></u>	<u><u>\$ 483,023</u></u>

Governmental Activities

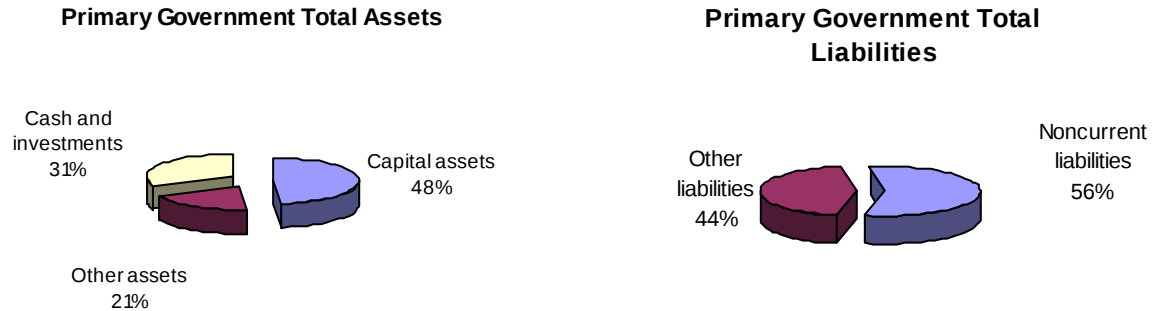
Assets have increased by 7.7% and liabilities have increased by 7.3% when compared to 2009 levels. The increase in assets is due primarily to favorable financial operations increasing available cash and investments. The increase in liabilities was the result of a combination of increased FY11 property taxes and increased debt due to the City entering a capital lease-purchase agreement for energy efficient projects. The net result of these changes is an increase of 7.65% in total net assets. No particular activity is responsible for a disproportionate amount of the changes. Overall positive financial performance of all activities contributed to the positive results of this category.

Business-Type Activities

Assets have increased by 3% and liabilities have also modestly increased by 0.5% from 2009 levels, resulting in an increase of 10.7% in total net assets. Unlike the Governmental Activities, two items comprise the bulk of the changes. The implementation of GASB 53 (Accounting and Financial Reporting for Derivative Instruments) required that we recognize the fair market value of the interest rate swap on debt in the amount of \$3.7 million as an asset and liability and the increased cash and investments from positive financial activities accounted for the balance of the increase.

Total Primary Government

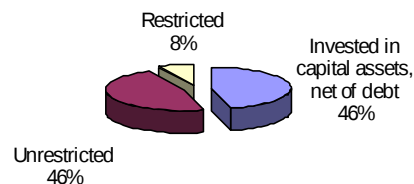
The City's capital assets, including land and buildings, equipment, furniture and fixtures, infrastructure and construction in progress account for 48% of \$891.5 million in total assets. Taxes and governmental receivables constitute 21%. Current liquidity, as shown by cash and investments, composes the remaining 31% in total assets.



Fifty-six percent of the total government liabilities are in long-term debt outstanding. Of long-term debt, approximately \$137.2 million, or 67.5% is related to debt issued to finance the convention center complex.

A portion of the City's total net assets is restricted for specific purposes. These restrictions represent legal or contractual limitations on how the assets may be expended. Within the governmental activities category are system development charges, bond proceeds, taxes and other collections limited to repayment of debt. The unrestricted net assets of the City's governmental activities represent 42% of total primary government net assets.

Primary Government Total Net Assets



STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

A summary version of the Statement of Activities follows:

Condensed Financial Information						
Primary Government						
Statement of Activities						
For Fiscal Year Ending June 30						
(In \$1,000's)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 13,571	\$ 11,877	\$ 10,008	\$ 10,501	\$ 23,579	\$ 22,378
Operating grants & contributions	15,758	10,387	1,434	1,430	17,192	11,817
Capital grants & contributions	4,724	5,161	-	-	4,724	5,161
General revenues:						
Taxes	194,400	190,530	9,330	6,794	203,730	197,324
Interest	2,940	5,009	136	457	3,076	5,466
Other	2,733	1,553	104	219	2,837	1,772
Total revenues	\$ 234,126	\$ 224,517	\$ 21,012	\$ 19,401	\$ 255,138	\$ 243,918
Expenses:						
General government	\$ 13,348	\$ 8,833	\$ -	\$ -	\$ 13,348	\$ 8,833
Public safety	81,664	80,936	-	-	81,664	80,936
Physical Environment	45,244	44,421	-	-	45,244	44,421
Transportation	9,647	12,131	-	-	9,647	12,131
Economic development	16,441	10,686	-	-	16,441	10,686
Parks and recreation	12,858	11,893	-	-	12,858	11,893
Health & Sanitation	10,430	10,094	-	-	10,430	10,094
Interest on long-term debt	2,398	2,754	-	-	2,398	2,754
Other	-	-	26,972	27,764	26,972	27,764
Total expenses	\$ 192,030	\$ 181,748	\$ 26,972	\$ 27,764	\$ 219,002	\$ 209,512
Increase (decrease) in net assets before transfers	\$ 42,096	\$ 42,769	\$ (5,960)	\$ (8,363)	\$ 36,136	\$ 34,406
Transfers	(10,900)	(9,561)	10,900	9,561	-	-
Changes in net assets	31,196	33,208	4,940	1,198	36,136	34,406
Beginning net assets (as restated)	439,997	403,821	45,994	44,796	485,991	448,617
Ending net assets	\$ 471,193	\$ 437,029	\$ 50,934	\$ 45,994	\$ 522,127	\$ 483,023

Governmental Activities

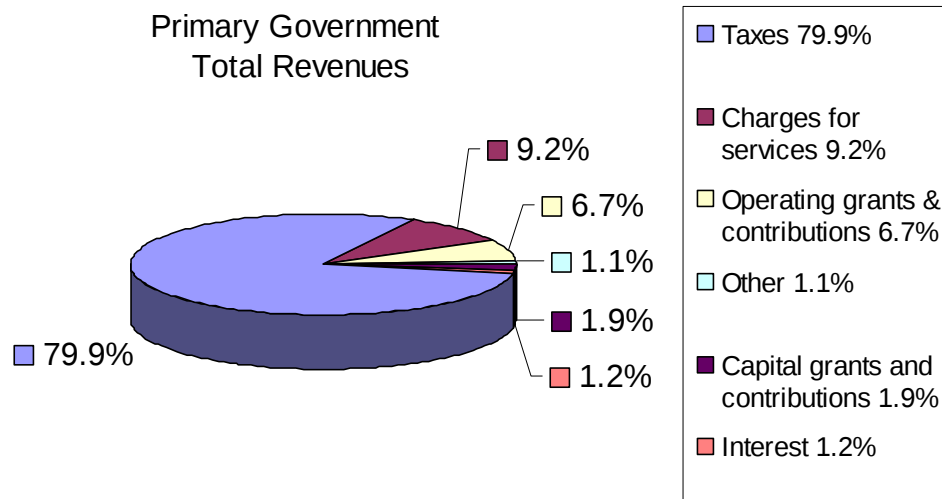
Reflected in the Government-Wide Statement of Activities for the year ending June 30, 2010, only the General Fund, State Street Aid, Animal Control, and Miscellaneous Special Revenue Funds (Police Forfeiture Operations) generated material revenues in excess of current expenditures. Excess revenue generated by the City Court is transferred to the General Fund to finance general operations. Grant revenue proceeds of \$11.02 million were earmarked for the City's Community Development efforts. Public safety operations accounted for approximately 42.5% of the City's total governmental operations of \$192 million. All other City of Knoxville sections and operations are financed by either local or state taxes, grants, or various shared revenues.

Business-type Activities

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

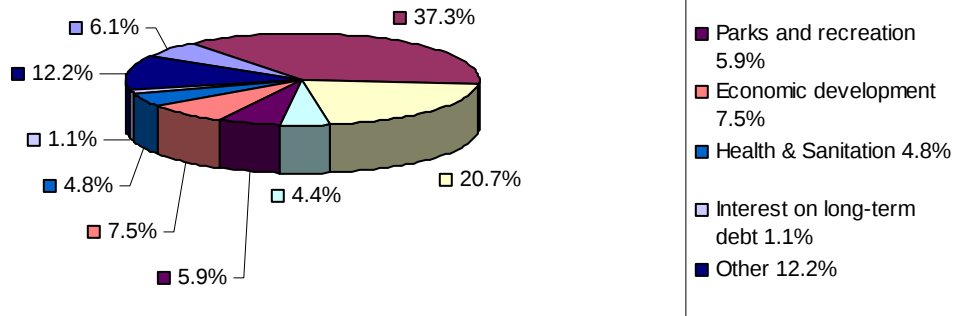
Total Government

Primary Government Revenues were \$255.1 million. The largest portion of these revenues (\$203.7 million - 80%) was from taxes.



Total primary government expenses totaled \$219 million, 37% of which was directed toward public safety.

Primary Government Total Expenses



Component Units

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

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

	Knoxville Utilities Board		Metropolitan Knoxville Airport Authority		Knoxville Area Transit		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Program Revenues	\$ 675,301	\$ 752,318	\$ 35,637	\$ 37,609	\$ 35,249	\$ 52,928	\$ 746,187	\$ 842,855
Program Expenses	(648,239)	(732,915)	(31,883)	(33,634)	(34,601)	(45,808)	(714,723)	(812,357)
Total General Revenues	2,291	3,657	1,024	1,575	8,640	10,679	11,955	15,911
Change in Net Assets	\$ 29,353	\$ 23,060	\$ 4,778	\$ 5,550	\$ 9,288	\$ 17,799	\$ 43,419	\$ 46,409
Net Assets at Year End	\$ 781,237	\$ 751,885	\$ 120,242	\$ 115,464	\$ 40,906	\$ 31,618	\$ 942,385	\$ 898,967

Financial Analysis of the Governmental Funds

Balance Sheet at June 30, 2010

The total Governmental Funds balance as of June 30, 2010 is \$199.7 million of which the general fund's balance is approximately \$60.7 million, debt service fund is \$38.6 million, capital projects comprise \$72.7 million and the remaining \$27.7 million is distributed between the various special revenue and permanent funds. In the aggregate, the governmental funds fund balances grew by \$26.4 million over the prior year. The general fund grew by \$8.3 million as a result of favorable financial operations. The debt service fund increased by \$0.5 million, capital projects increased by \$17.4 million as a result of advance funding for approved capital projects and the remaining \$.2 million was spread over various special revenue and permanent funds. Significant causes of the various increases are explained in the following section.

Statement of Revenues, Expenditures & Changes in Fund Balances for the Year Ended June 30, 2010

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, 2010, and the amount and percentage of increases and decreases in relation to prior year revenues.

Condensed Financial Information Total Governmental Funds - Revenues For Fiscal Year Ending June 30 (In \$1,000's)					
Revenues	2010	2009	Percent of Total 2010	Increase (Decrease) from Prior Year	Percent of Increase (Decrease)
Taxes, assessments, interest & penalties	\$ 168,880	\$ 169,521	72.85%	\$ (641)	(0.38%)
Licenses, permits and inspection charges	1,726	1,973	0.74%	(247)	(12.52%)
Intergovernmental revenue	40,729	31,540	17.57%	9,189	29.13%
Charges for services	6,997	6,021	3.02%	976	16.21%
Fines and forfeitures	5,924	5,397	2.56%	527	9.76%
Other	7,568	8,800	3.26%	(1,232)	(14.00%)
Totals	<u>\$ 231,824</u>	<u>\$ 223,252</u>	<u>100.00%</u>	<u>\$ 8,572</u>	<u>3.84%</u>

A comparison of revenues between FY09 and FY10 shows the total general government revenues increased by approximately \$8.6 million or 3.84%.

Revenues from Taxes was relatively flat for various reasons. Gains in the collection of current taxes offset minor shortfalls in the collection of delinquent taxes. License and permit revenues declined due to the overall downturn in the economy which was not unexpected. By far, the largest impact on our revenues was caused by the increase in income taxes. The Hall Income Tax accounted for \$4.4 million of the increase. It is collected by the state and exceeded prior year revenues significantly. Due to various privacy issues, we are unable to verify the cause of the change. The balance of the increase came from Community Development Fund proceeds associated with grant activities. While we also had swings in revenues from charges for services and fines and forfeits, the most significant decrease in Other revenues was caused by reduced investment earnings (\$0.375 million) resulting from lower interest rates.

The following schedule presents a more detailed summary of the general fund, special revenue fund, capital projects fund and debt service fund expenditures for the fiscal year ended June 30, 2010, and the percentage of increases and decreases in relation to prior year amounts.

Condensed Financial Information
Total Governmental Funds - Expenditures
For Fiscal Years Ending 06/30/10 and 06/30/09
(In \$1,000's)

Expenditures	FY 09/10	FY 08/09	Percent of Total FY 09/10	Increase (Decrease) from Prior Year	Percentage Change from Prior Year
Administration	\$ 2,482	\$ 2,482	1.21%	\$ -	0.00%
Finance and Accountability	6,901	7,269	3.38%	(368)	(5.06%)
Operations and Engineering	12,382	12,841	6.06%	(459)	(3.57%)
Community and Neighborhood Services	57,127	48,760	27.96%	8,367	17.16%
Law	2,433	2,562	1.19%	(129)	(5.04%)
Police	48,470	46,567	23.72%	1,903	4.09%
Fire	30,601	30,883	14.98%	(282)	(0.91%)
Legislative	962	1,072	0.47%	(110)	(10.26%)
Civil Service	932	925	0.46%	7	0.76%
City Elections	248	-	0.12%	248	0.00%
Metropolitan Planning Commission	800	763	0.39%	37	4.85%
Knoxville Zoological Park	906	907	0.44%	(1)	(0.11%)
Community agency grants	1,174	1,166	0.57%	8	0.69%
Waterfront operations	578	494	0.28%	84	17.00%
Community Action Committee	543	517	0.27%	26	5.03%
Mass Transit	9,105	11,594	4.46%	(2,489)	(21.47%)
Capital and grant projects	20,864	24,440	10.21%	(3,576)	(14.63%)
Debt service:					
Principal retirement	5,396	7,408	2.64%	(2,012)	(27.16%)
Interest on bonds and notes	2,439	2,754	1.19%	(315)	(11.44%)
Total Expenditures	<u>\$ 204,343</u>	<u>\$ 203,404</u>	<u>100.00%</u>	<u>\$ 939</u>	<u>0.46%</u>

Overall general government expenditures for FY10 increased by approximately \$0.9 million or 0.5%. Community and Neighborhood Service expenditures increased in the General Fund (\$2.25 million) due to routine cost increases and the additional funds needed for weather related emergencies. In the Community Development Grant Funds, \$5.56 million was due to increased redevelopment efforts associated with grant activities. Police expenditure increases went for fleet replacement funding. The reduction in Mass Transit funding came from savings in the maintenance of the Knoxville Area Transit system and our need to support the activity with general revenues. Capital and grant projects normally fluctuate as projects are completed or other projects are still in the planning stages

Proprietary Funds Statements

Statement of Net Assets at June 30, 2010

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

Statement of Revenues, Expenditures and Changes in Fund Net Assets for the Year Ended June 30, 2010

A summary of the revenues, expenses, and interfund transfers indicates that there is an increase in total proprietary fund net assets, including internal service funds, of \$13.9 million after transfers.

Statement of Cash Flows for the Year Ended June 30, 2010

The three main business type activities of the City are the Convention Center, Metro Parking, Public Assembly Facilities and the Municipal Golf Courses. As expected, overall operations experienced a net operating loss. The Convention Center continues to operate at a loss but the amount of the annual loss has continued to decline over the years. Both parking garages operate at a profit. The revenues from the combined properties are sufficient to cover total costs including debt service, with gains from the certain garages offsetting the loss on the others. Public Assembly Facilities operated at a loss this year due to a general decline in public amusement attendance. The City's two golf courses continued to operate at a loss with subsidies coming from the General Fund. When the city reacquired the courses from the private operators three years ago, the condition of the courses and their reputations had diminished. The City is working to rebuild the public's confidence in the courses and has achieved a certain degree of success but general economic factors have taken their toll by leveling off of customer revenues. Expenses remain high due to the rejuvenation of the courses which should level off over time. Expectations are that the combined operations will start showing favorable results in future periods.

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

Condensed Financial Information Proprietary Funds For Fiscal Year Ending June 30 (In \$1,000's)						
Proprietary Funds	Revenues		Expenses		Net Interfund Transfers	
	2010	2009	2010	2009	2010	2009
I. Business-type Activities						
A. Knoxville Convention Center	\$ 16,141	\$ 13,621	\$ 19,358	\$ 20,452	\$ 8,484	\$ 8,327
B. Other (Non-major enterprise funds)						
1. Metro Parking	1,700	2,239	1,364	1,565	(995)	(1,000)
2. Public Assembly Facilities	1,918	2,285	4,855	4,356	3,222	2,111
3. Municipal Golf Courses	1,225	1,234	1,368	1,379	189	122
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	13,817	13,892	10,670	10,793	1,269	2,097
2. Risk Management	6,589	7,195	4,913	6,352	390	861
3. Health Insurance	14,856	14,467	15,031	12,381	1,099	1,010
4. Equipment Replacement	2,412	2,768	2,246	2,297	856	270
5. City Buildings	1,813	1,589	1,550	1,517	27	-
Totals	<u>\$ 60,471</u>	<u>\$ 59,290</u>	<u>\$ 61,355</u>	<u>\$ 61,092</u>	<u>\$ 14,541</u>	<u>\$ 13,798</u>

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

	Capital Contributions		Change in Net Assets		Net Assets at Year End	
	2010	2009	2010	2009	2010	2009
I. Business-type Activities						
A. Knoxville Convention Center	\$ -	\$ -	\$ 5,267	\$ 1,496	\$ 18,448	\$ 13,181
B. Other (Non-major enterprise funds)						
1. Metro Parking	-	-	(659)	(326)	16,533	17,192
2. Public Assembly Facilities	-	-	285	40	15,717	15,432
3. Municipal Golf Courses	-	11	46	(12)	235	189
II. Governmental Activities						
A. Internal Service Funds						
1. Fleet Maintenance	215	105	4,631	5,301	43,355	38,724
2. Risk Management	-	-	2,066	1,704	14,597	12,531
3. Health Insurance	-	-	924	3,096	11,652	10,728
4. Equipment Replacement	-	-	1,022	741	18,440	17,418
5. City Buildings	-	-	290	72	4,126	3,836
Totals	<u>\$ 215</u>	<u>\$ 116</u>	<u>\$ 13,872</u>	<u>\$ 12,112</u>	<u>\$ 143,103</u>	<u>\$ 129,231</u>

Fiduciary Funds Statements

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

Condensed Financial Information
Pension Trust Fund Contribution Rates

	FY 09/10 Contribution Rates	FY 08/09 Contribution Rates
General Government Employees:		
Defined Contribution (G1)	9.22%	8.72%
Defined Benefit (G2)	7.72%	7.22%
Police and Fire Employees	16.54%	16.34%

The City's Pension Fund is being funded as required by the actuary and is currently funded at 88.7%. The fund, like similar funds, has been affected by the declining interest rate environment and relatively unstable stock market. It is expected that net outflows will exceed contributions, before investment income, in the near term. The loss in investments will result in increased contributions by the City in the future. These increases have been budgeted. The City Choice Plus Fund and the Employee Health Savings Fund account for employee contributions to IRS Section 125 health benefit plans.

General Fund Budgetary Highlights

During the year there was a \$3.5 million increase in appropriations between the original and final General Fund's budget. The following chart provides a snapshot of the changes in the budget.

General Fund
Budget Appropriation Changes
For Fiscal Year Ending June 30, 2010

Department	Carry Forward of Prior Year		Total Changes
	Encumbrances	Other	
Administration	\$ 52,344	\$ 12,717	\$ 65,061
Finance & Accountability:			
Finance	758	26	784
Information Systems	76,835	2,728	79,563
Community Development	20,555	-	20,555
South Knoxville Waterfront	-	28,000	28,000
Operations and Efficiency:			
Parks & Recreation	135,315	779,793	915,108
Public Works:			
Public Services	170,032	434,272	604,304
Engineering	98,086	15,916	114,002
Law	29,464	-	29,464
Public Safety:			
Police	176,419	(11,006)	165,413
Fire	21,940	147,789	169,729
Legislative	60,245	-	60,245
Board Administered & Other Departments:			
Civil Service	562	-	562
Second Creek Greenway	-	3,000	3,000
Community Action Committee	-	177,240	177,240
Downtown Cinema	-	(6,000)	(6,000)
Transfers	-	1,075,000	1,075,000
Total General Fund Expenditures	<u>\$ 842,555</u>	<u>\$ 2,659,475</u>	<u>\$ 3,502,030</u>

The largest changes occurred in Transfers, Public Services and Public Safety. Budgetary savings in the Police Department allowed \$1 million to be transferred to increase the funding available for additional police vehicles and to supplement the vehicle replacement funding plan. Winter storms required an additional \$300,000 to be allocated to Public Services for snow removal costs. Due to the relatively moderate weather in the Knoxville area, we do not normally budget for large snow events, preferring instead to do a supplemental appropriation if and when necessary. Additional budgetary savings in the Public Safety budgets for Police and Fire covered the snow event costs.

Capital Asset and Debt Administration

As of June 30, 2010 the primary government of the City had invested \$431.3 million in capital assets as reflected by the following table. The total belies the fact that the investment in infrastructure increased by \$5.9 million due to the completion of various projects and revitalization efforts throughout the city and in the downtown area. The City has ongoing paving programs as well as other maintenance programs designed to preserve and increase the life of existing assets in the other categories, primarily equipment, which includes vehicles. For additional information on the capital assets of the City, please refer to Note 7 of the Notes to Financial Statements.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land and site improvements	\$ 48,295	\$ 45,104	\$ 6,866	\$ 6,866	\$ 55,161	\$ 51,970
Buildings and improvements	56,998	54,698	222,315	221,813	279,313	276,511
Equipment, furniture & fixtures	70,735	70,020	5,426	5,419	76,161	75,439
Infrastructure	278,580	272,686	-	-	278,580	272,686
Construction in progress	8,233	3,863	350	50	8,583	3,913
Less accumulated depreciation	(194,533)	(181,563)	(71,968)	(65,691)	(266,501)	(247,254)
Totals	<u>\$ 268,308</u>	<u>\$ 264,808</u>	<u>\$ 162,989</u>	<u>\$ 168,457</u>	<u>\$ 431,297</u>	<u>\$ 433,265</u>

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

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Beginning balance	\$ 446,371	\$ 420,677	\$ 234,148	\$ 232,984	\$ 680,519	\$ 653,661
Additions	23,061	57,040	809	1,728	23,870	58,768
Deletions	(6,591)	(31,346)	-	(564)	(6,591)	(31,910)
Balance before depreciation	462,841	446,371	234,957	234,148	697,798	680,519
Accumulated depreciation	(194,533)	(181,563)	(71,968)	(65,691)	(266,501)	(247,254)
Balance after depreciation	<u>\$ 268,308</u>	<u>\$ 264,808</u>	<u>\$ 162,989</u>	<u>\$ 168,457</u>	<u>\$ 431,297</u>	<u>\$ 433,265</u>

As of the year-end, the City's Total Primary Government had \$188.4 million in general obligation debt outstanding. In addition to this amount the City is obligated to pay \$1.02 million to Knox County, representing the City's portion in the joint construction of the City/County animal shelter, \$253,783 for a note to purchase golf carts and \$90,000 for land acquisition at the Golf Course. New debt in the form of a Lease Purchase Agreement is included to recognize the City's liability under a master lease purchase agreement covering the construction and related debt associated with an energy savings construction and enhancement program as more fully described in Note 9.

Outstanding Debt at Year - End (In \$1,000's)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current - Due in 1 year						
General Obligation Bonds	\$ 5,325	\$ 5,325	\$ 3,735	\$ 3,580	\$ 9,060	\$ 8,905
Debt Participation Agreement	71	71	-	-	71	71
Note Payable	-	-	87	13	87	13
Total Current	5,396	5,396	3,822	3,593	9,218	8,989
Non Current - Due in more than 1 year						
General Obligation Bonds	45,910	51,235	133,495	137,230	179,405	188,465
Debt Participation Agreement	946	1,017	-	-	946	1,017
Lease Purchase Agreement	13,471	-	-	-	13,471	-
Note Payable	-	-	257	90	257	90
Total Non Current	60,327	52,252	133,752	137,320	194,079	189,572
Subtotal	65,723	57,648	137,574	140,913	203,297	198,561
Unamortized Premiums, Discounts and Gain on Refunding	1,178	1,284	(929)	(993)	249	291
Total Long Term Debt	\$ 66,901	\$ 58,932	\$ 136,645	\$ 139,920	\$ 203,546	\$ 198,852

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

	2010	2009
Moody's Investors Service	Aa1	Aa2
Standard & Poor's	AA+	AA+
Fitch Ratings	AAA	AA+

For additional information on the long-term debt of the City, please refer to Note 9 of the Notes to Financial Statements.

Economic Factors

Like most local governments, the largest source of revenue for the City of Knoxville is taxes. This category constitutes \$136.8 million or 82% of the total operating revenue to the General Fund. Within this category of revenue, the largest amount comes from property taxes. In turn, property taxes are divided among realty, personal, and public utility. The growth rate for assessed value on real estate has historically been relatively moderate, a trend that is expected to continue. In FY10 the taxable value of real property increased by 16.8% and the overall tax roll increased by 16.05%. Within this grouping the highest growth was 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 09/10 the assessed value of real property was \$3.7 billion. Historically, the city has collected an average of 95% of property taxes in the year they are due. The trend in recent years has been higher than the long-term average due to better economic conditions and enhanced collection efforts but has slipped somewhat with the current recession but not to a worrisome level. Personal property growth has been higher than real property in the past but has also declined with the economic downturn that is facing the country. We expect no real growth in the valuation of Public Utility property.

Local option sales tax revenues comprise approximately \$32.7 million or 19.5% of total General Fund revenues. Like the rest of the country, Knoxville experienced a decline in sales tax receipts in FY 09/10 – a trend continued from last fiscal year which started out strong but midway through the fiscal year, started to taper off. While our revenues have declined in this area, we have been fortunate in that our diverse economy has limited our decline in relation to the general economy.

The second largest revenue category of the General Fund is intergovernmental revenue, and accounts for \$25.1 million or 15% of total revenue. The increase in this category was due to the Hall Income Tax (an intangible tax on investments), generating \$9.4 million for the city, an increase of \$4.4 million from FY09. We have not been able to determine the nature of the root causes of the increase in this revenue and do budget or anticipate that it will continue at this high level.

Other revenue sources include fines and forfeitures and miscellaneous revenue items. Revenues coming from the City Municipal Court system have grown in the past two years and are expected to continue to do so. This is due to the imposition of some new charges as well as efficiency improvements in Court processes. The category of miscellaneous revenue includes interest earnings which have fallen due to the general reduction in short term interest rates.

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

Other areas experiencing particularly high expenditure growth include pension costs and utility increases. The city uses a multi-year smoothing technique to determine pension contributions. Lower than expected returns in the portfolio in the last few years has resulted in increased contributions. As a result of a city-wide energy audit, the City entered into a Master Lease Purchase Agreement with Ameresco for the replacement or rejuvenation of various energy using items in the City. This \$13.5 million contract provides that the City utilize projected energy savings to pay for its debt under the lease purchase agreement, thereby eliminating any direct cost to our taxpayers.

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

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

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

FINANCIAL CONTACT

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

THIS PAGE IS LEFT BLANK INTENTIONALLY

CITY OF KNOXVILLE, TENNESSEE

**Statement of Net Assets
June 30, 2010**

	Primary Government			Combined	Total
	Governmental	Business	Total	Discretely	
	Activities	Type	Primary	Presented	Reporting
		Activities	Government	Component	Unit
				Units	
Assets					
Cash & cash equivalents	\$ 19,351,300	\$ 3,251,184	\$ 22,602,484	\$ 125,765,874	\$ 148,368,358
Investments	236,843,089	16,691,315	253,534,404	100,603,101	354,137,505
Receivables (net of allowance for uncollectibles):					
Accounts	8,298,936	2,750,004	11,048,940	85,912,314	96,961,254
Taxes	128,277,127	-	128,277,127	-	128,277,127
Notes and leases	22,312,008	731,404	23,043,412	-	23,043,412
TVA conservation program	-	-	-	6,574,023	6,574,023
Other	50,204	-	50,204	15,417	65,621
Internal balances	252,003	(252,003)	-	-	-
Due from component units	5,150,693	3,400,000	8,550,693	-	8,550,693
Inventories	1,387,788	114,362	1,502,150	7,252,095	8,754,245
Prepaid items	33,899	82,550	116,449	12,421,333	12,537,782
Deferred outflow of resources - interest rate swap	-	3,729,497	3,729,497	7,985,359	11,714,856
Net pension obligation asset	2,941,343	-	2,941,343	-	2,941,343
Equity interest in joint venture	3,751,348	1,022,507	4,773,855	-	4,773,855
Deferred charges	-	-	-	6,134,678	6,134,678
Restricted assets:					
Temporarily restricted:					
Bond funds	-	-	-	18,408,257	18,408,257
Unused bond proceeds	-	-	-	14,247,824	14,247,824
Receivables	-	-	-	475,000	475,000
Other	-	-	-	231,077	231,077
Other assets	-	-	-	8,682,246	8,682,246
Capital assets:					
Land & site improvements	48,295,074	6,866,363	55,161,437	151,850,253	207,011,690
Building & building improvements	56,997,744	222,315,167	279,312,911	146,256,051	425,568,962
Utility plant in service	-	-	-	1,668,258,219	1,668,258,219
Equipment, furniture & fixtures	70,735,380	5,426,033	76,161,413	35,609,186	111,770,599
Infrastructure	278,578,961	-	278,578,961	-	278,578,961
Construction in progress	8,233,072	349,858	8,582,930	166,734,504	175,317,434
Less accumulated depreciation	(194,532,604)	(71,968,134)	(266,500,738)	(750,792,678)	(1,017,293,416)
Total assets	696,957,365	194,510,107	891,467,472	1,812,624,133	2,704,091,605
Liabilities					
Accounts payable	9,341,759	1,796,074	11,137,833	53,073,802	64,211,635
Matured principal & interest on bonds	-	-	-	9,580,581	9,580,581
Accrued liabilities	5,756,289	80,272	5,836,561	19,914,202	25,750,763
Due to primary government	-	-	-	8,550,693	8,550,693
Due to other governmental agencies	566,679	-	566,679	-	566,679
Unearned revenue	126,156,570	137,057	126,293,627	151,360	126,444,987
Customer deposits, plus accrued interest	429,620	656,853	1,086,473	12,558,063	13,644,536
Liabilities payable with restricted assets:					
Long-term debt due within one year	11,934,091	3,856,884	15,790,975	24,471,000	40,261,975
Accrued interest	355,925	389,202	745,127	161,243	906,370
Other noncurrent liabilities due within one year	5,000,000	-	5,000,000	-	5,000,000
Noncurrent liabilities:					
Long-term debt due in more than one year	62,723,093	132,930,415	195,653,508	719,704,952	915,358,460
Derivative instrument - interest rate swap	-	3,729,497	3,729,497	7,985,359	11,714,856
Other noncurrent liabilities	3,500,000	-	3,500,000	14,088,020	17,588,020
Total liabilities	225,764,026	143,576,254	369,340,280	870,239,275	1,239,579,555
Net assets					
Invested in capital assets, net of related debt	213,567,842	26,344,267	239,912,109	681,402,202	921,314,311
Restricted for:					
Debt service	38,644,135	-	38,644,135	8,142,708	46,786,843
Park Maintenance:					
Nonexpendable	624,065	-	624,065	-	624,065
Expendable	180,951	-	180,951	-	180,951
Other	-	-	-	1,391,045	1,391,045
Unrestricted	218,176,346	24,589,586	242,765,932	251,448,903	494,214,835
Total net assets	\$ 471,193,339	\$ 50,933,853	\$ 522,127,192	\$ 942,384,858	\$ 1,464,512,050

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Activities For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General Government	\$ 13,348,025	\$ 650,761	\$ 858,342	\$ -
Public Safety	81,664,376	9,436,115	2,489,289	1,261,270
Physical Environment	45,244,384	1,026,200	85,000	2,138,117
Transportation	9,647,350	760,091	-	-
Economic Development	16,440,523	955,373	12,324,973	1,240,563
Parks & Recreation	12,858,358	688,674	-	-
Health & Sanitation	10,429,809	54,259	-	84,242
Interest on Long-Term Debt	2,397,738	-	-	-
Total governmental activities	<u>192,030,563</u>	<u>13,571,473</u>	<u>15,757,604</u>	<u>4,724,192</u>
Business-type activities:				
Metro Parking	1,363,919	1,689,990	-	-
Public Assembly Facilities	4,846,904	1,399,768	-	-
Knoxville Convention Center	19,393,326	5,796,870	1,434,533	-
Municipal Golf Courses	1,367,707	1,121,016	-	-
Total business-type activities	<u>26,971,856</u>	<u>10,007,644</u>	<u>1,434,533</u>	<u>-</u>
Total primary government	<u>\$ 219,002,419</u>	<u>\$ 23,579,117</u>	<u>\$ 17,192,137</u>	<u>\$ 4,724,192</u>
Combined Discretely Presented Component Units	<u>\$ 717,865,665</u>	<u>\$ 700,442,182</u>	<u>\$ 6,220,394</u>	<u>\$ 42,667,160</u>
General revenues:				
Property taxes				
Intergovernmental revenue, unrestricted				
Admissions tax				
Hotel/motel tax				
Excise tax				
Alcoholic beverage tax				
Business tax				
Cable television franchise tax				
Other unrestricted revenue				
Unrestricted investment earnings				
Gain on disposal of capital assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning (as restated, see Note 18)				
Net assets - ending				

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Combined	Total
Governmental Activities	Business-type Activities	Total	Discretely Presented Component Units	Reporting Unit
\$ (11,838,922)	\$ -	\$ (11,838,922)	\$ -	\$ (11,838,922)
(68,477,702)	-	(68,477,702)	-	(68,477,702)
(41,995,067)	-	(41,995,067)	-	(41,995,067)
(8,887,259)	-	(8,887,259)	-	(8,887,259)
(1,919,614)	-	(1,919,614)	-	(1,919,614)
(12,169,684)	-	(12,169,684)	-	(12,169,684)
(10,291,308)	-	(10,291,308)	-	(10,291,308)
(2,397,738)	-	(2,397,738)	-	(2,397,738)
(157,977,294)	-	(157,977,294)	-	(157,977,294)
-	326,071	326,071	-	326,071
-	(3,447,136)	(3,447,136)	-	(3,447,136)
-	(12,161,923)	(12,161,923)	-	(12,161,923)
-	(246,691)	(246,691)	-	(246,691)
-	(15,529,679)	(15,529,679)	-	(15,529,679)
(157,977,294)	(15,529,679)	(173,506,973)	-	(173,506,973)
-	-	-	31,464,071	31,464,071
114,819,941	-	114,819,941	-	114,819,941
61,624,747	4,283,185	65,907,932	8,144,124	74,052,056
-	2,136,001	2,136,001	-	2,136,001
-	2,910,670	2,910,670	-	2,910,670
719,734	-	719,734	-	719,734
10,331,244	-	10,331,244	-	10,331,244
5,235,379	-	5,235,379	-	5,235,379
1,669,418	-	1,669,418	-	1,669,418
2,633,862	103,698	2,737,560	337,300	3,074,860
2,940,375	135,975	3,076,350	3,262,483	6,338,833
98,787	-	98,787	210,336	309,123
(10,900,221)	10,900,221	-	-	-
189,173,266	20,469,750	209,643,016	11,954,243	221,597,259
31,195,972	4,940,071	36,136,043	43,418,314	79,554,357
439,997,367	45,993,782	485,991,149	898,966,544	1,384,957,693
\$ 471,193,339	\$ 50,933,853	\$ 522,127,192	\$ 942,384,858	\$ 1,464,512,050

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet Governmental Funds June 30, 2010

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash & cash equivalents	\$ 108,660	\$ -	\$ 12,161,562	\$ 2,366,777	\$ 14,636,999
Investments	36,884,591	37,875,911	63,303,264	27,299,911	165,363,677
Accounts receivable	1,883,029	321,672	1,479,361	4,577,408	8,261,470
Taxes receivable	98,901,916	29,375,211	-	-	128,277,127
Notes receivable	-	1,737,300	-	20,574,708	22,312,008
Due from other funds	5,581,257	-	-	-	5,581,257
Due from component units	1,750,693	-	3,400,000	-	5,150,693
Inventories	354,104	-	-	351,914	706,018
Prepaid items	33,899	-	-	-	33,899
Total assets	<u>\$ 145,498,149</u>	<u>\$ 69,310,094</u>	<u>\$ 80,344,187</u>	<u>\$ 55,170,718</u>	<u>\$ 350,323,148</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 1,709,389	\$ -	\$ 3,819,274	\$ 2,101,142	\$ 7,629,805
Accrued liabilities	3,092,664	-	1,139,761	414,485	4,646,910
Customer deposits	-	-	-	429,620	429,620
Due to other funds	-	1,597,782	-	3,731,472	5,329,254
Due to other governmental agencies	563,729	-	-	2,950	566,679
Deferred revenue	79,468,675	29,068,177	2,730,891	20,744,795	132,012,538
Total liabilities	<u>84,834,457</u>	<u>30,665,959</u>	<u>7,689,926</u>	<u>27,424,464</u>	<u>150,614,806</u>
Fund balances:					
Reserved for:					
Encumbrances	572,136	-	-	533,354	1,105,490
Inventories	354,104	-	-	351,914	706,018
Prepaid items	33,899	-	-	-	33,899
Notes receivable	-	1,737,300	-	-	1,737,300
Permanent funds	-	-	-	624,065	624,065
Unreserved, designated for:					
Permanent funds	-	-	-	180,951	180,951
Unreserved, reported in:					
General fund	59,703,553	-	-	-	59,703,553
Special revenue	-	-	-	26,055,970	26,055,970
Debt service	-	36,906,835	-	-	36,906,835
Capital projects	-	-	72,654,261	-	72,654,261
Total fund balances	<u>60,663,692</u>	<u>38,644,135</u>	<u>72,654,261</u>	<u>27,746,254</u>	<u>199,708,342</u>
Total liabilities and fund balances	<u>\$ 145,498,149</u>	<u>\$ 69,310,094</u>	<u>\$ 80,344,187</u>	<u>\$ 55,170,718</u>	<u>\$ 350,323,148</u>

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

CITY OF KNOXVILLE, TENNESSEE

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

June 30, 2010

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

Ending fund balance - governmental funds	\$ 199,708,342
--	----------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheets of the governmental funds.	245,398,155
--	-------------

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.	5,855,968
--	-----------

Internal service funds are used by management to charge the costs of office service, fleet management, risk management, health insurance and equipment replacement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	92,169,557
--	------------

Accrued interest payable is not due and payable in the current period and therefore is not reported as a liability in the balance sheets of the governmental funds.	(355,925)
---	-----------

Negative net pension obligation recorded as an asset as an adjustment to net assets.	2,941,343
--	-----------

Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Debt	\$ (51,235,000)	
Debt Participation Agreement	(1,017,290)	
Capital Lease	(13,470,609)	
Discounts and Premiums (net)	(1,178,448)	
Compensated Absences	(7,622,754)	(74,524,101)

Net assets of governmental activities	<u>\$ 471,193,339</u>
---------------------------------------	-----------------------

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010**

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes, assessments, interest & penalties	\$ 136,823,048	\$ 26,633,265	\$ -	\$ 5,423,597	\$ 168,879,910
Licenses, permits & inspection charges	323,026	-	-	1,403,360	1,726,386
Intergovernmental	25,121,324	-	1,240,563	14,366,919	40,728,806
Charges for services	1,387,431	-	-	5,609,587	6,997,018
Fines & forfeitures	2,314,622	-	-	3,609,633	5,924,255
Other	1,443,152	1,521,958	2,715,592	1,887,430	7,568,132
Total revenues	167,412,603	28,155,223	3,956,155	32,300,526	231,824,507
Expenditures					
Current:					
Administration	2,262,997	-	-	219,294	2,482,291
Finance & accountability	6,900,607	-	-	-	6,900,607
Operations & engineering	5,394,456	-	-	6,987,934	12,382,390
Community & neighborhood services	29,949,323	-	-	26,526,506	56,475,829
Law	1,574,709	-	-	858,112	2,432,821
Police	45,168,331	-	-	3,301,930	48,470,261
Fire	30,600,823	-	-	-	30,600,823
Legislative	890,991	-	-	71,000	961,991
Civil service	931,793	-	-	-	931,793
City elections	248,422	-	-	-	248,422
Knoxville Partnership	651,300	-	-	-	651,300
Metropolitan Planning Commission	800,000	-	-	-	800,000
Knoxville Zoological Park	906,250	-	-	-	906,250
Agency grants	1,173,940	-	-	-	1,173,940
Waterfront	577,839	-	-	-	577,839
Community Action Committee	542,530	-	-	-	542,530
Mass transit	9,029,820	-	-	75,000	9,104,820
Capital & grant projects	-	-	20,864,172	-	20,864,172
Debt service:					
Principal retirement	-	5,395,620	-	-	5,395,620
Interest payments on bonds & notes	-	2,439,030	-	-	2,439,030
Total expenditures	137,604,131	7,834,650	20,864,172	38,039,776	204,342,729
Excess (deficiency) of revenues over (under) expenditures	29,808,472	20,320,573	(16,908,017)	(5,739,250)	27,481,778
Other financing sources (uses)					
Issuance of debt	-	-	13,470,609	-	13,470,609
Transfers in	5,684,113	-	24,139,582	12,985,760	42,809,455
Transfers out	(27,168,117)	(19,810,900)	(3,296,120)	(7,074,753)	(57,349,890)
Total other financing sources (uses)	(21,484,004)	(19,810,900)	34,314,071	5,911,007	(1,069,826)
Net change in fund balances	8,324,468	509,673	17,406,054	171,757	26,411,952
Fund balance - beginning	52,339,224	38,134,462	55,248,207	27,574,497	173,296,390
Fund balance - ending	\$ 60,663,692	\$ 38,644,135	\$ 72,654,261	\$ 27,746,254	\$ 199,708,342

The notes to the financial statements are an integral part of this statement. - 26 -

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, 2010

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

Net change in fund balances - total governmental funds	\$ 26,411,952
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which net capital outlay (\$15,714,949) exceed the depreciation expenses (\$12,805,188) and net gain on disposal (\$98,787).	3,008,548
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,253,065
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, the issuance of debt increases long-term liabilities in the statement of net assets and the principal payment of these liabilities decreases them. This is the amount by which the debt payments exceeded the debt issuance.	(8,424,698)
Accrued interest associated with long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds.	41,292
Change in net pension obligation.	(27,178)
The internal service fund is used by management to charge the costs of fleet maintenance.	4,630,687
The internal service fund is used by management to charge the costs of risk management.	2,065,990
The internal service fund is used by management to charge the costs of employee health insurance.	924,549
The internal service fund is used by management to charge the costs of equipment replacement.	1,021,746
The internal service fund is used by management to charge the costs of City buildings.	290,019
Change in net assets of governmental activities	<u>\$ 31,195,972</u>

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2010**

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
REVENUES						
Property taxes -						
Current	\$ 70,727,720	\$ 70,727,720	\$ 70,185,137	\$ -	\$ 70,185,137	\$ (542,583)
Prior years	3,132,520	3,132,520	3,717,765	-	3,717,765	585,245
Business taxes	4,814,140	4,814,140	5,234,753	-	5,234,753	420,613
Local shared sales tax	33,284,060	33,284,060	32,654,022	-	32,654,022	(630,038)
Alcoholic beverage taxes	10,729,770	10,729,770	10,331,244	-	10,331,244	(398,526)
Payments in lieu of taxes	12,890,920	12,890,920	13,030,709	-	13,030,709	139,789
Franchise fees	1,652,380	1,652,380	1,669,418	-	1,669,418	17,038
Intergovernmental -						
Federal	1,016,600	1,016,600	801,462	-	801,462	(215,138)
State -						
Sales tax	10,943,660	10,943,660	11,124,790	-	11,124,790	181,130
Income tax	3,215,900	3,215,900	9,449,630	-	9,449,630	6,233,730
Other	3,177,570	3,177,570	3,692,442	-	3,692,442	514,872
Local	53,000	53,000	53,000	-	53,000	-
Licenses & permits	301,160	301,160	323,026	-	323,026	21,866
Fines & forfeits	1,737,460	1,737,460	2,314,622	-	2,314,622	577,162
Charges for services	1,173,450	1,173,450	1,387,431	-	1,387,431	213,981
Other -						
Interest	1,400,000	1,400,000	632,487	-	632,487	(767,513)
Rents & concessions	337,000	337,000	405,144	-	405,144	68,144
Miscellaneous	112,470	176,912	405,521	-	405,521	228,609
Appropriated fund balance	-	2,017,555	-	-	-	(2,017,555)
Total revenues	160,699,780	162,781,777	167,412,603	-	167,412,603	4,630,826
EXPENDITURES						
Current:						
Administration	2,454,900	2,496,081	2,262,997	-	2,262,997	233,084
Finance & Accountability -						
Finance	3,499,930	3,497,553	3,263,390	131,746	3,395,136	102,417
Information systems	3,974,450	3,799,853	3,637,217	-	3,637,217	162,636
Community development	1,079,150	1,099,705	972,762	7,524	980,286	119,419
South Knoxville Waterfront	628,280	656,280	577,839	-	577,839	78,441
Operations & Efficiency -						
Parks & recreation	6,796,420	7,471,178	7,407,731	58,503	7,466,234	4,944
Mass transit	9,029,820	9,029,820	9,029,820	-	9,029,820	-
Public Works -						
Public services	20,077,210	20,681,514	20,641,113	27,840	20,668,953	12,561
Engineering	5,594,940	5,708,241	5,394,456	50,814	5,445,270	262,971
Law	1,822,840	1,851,404	1,574,709	26,846	1,601,555	249,849
Public Safety -						
Police	45,444,200	45,608,266	45,168,331	214,948	45,383,279	224,987
Fire	30,698,080	30,848,772	30,600,823	53,879	30,654,702	194,070
Board Administered & Other Departments -						
Legislative	916,480	970,986	890,991	-	890,991	79,995
Civil service	994,060	994,622	931,793	36	931,829	62,793

Continued:

CITY OF KNOXVILLE, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended June 30, 2010**

	Original Budget	Final Budget	Actual	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budgetary Basis Variance With Final Budget
Nondepartmental -						
City elections	\$ 280,000	\$ 280,000	\$ 248,422	\$ -	\$ 248,422	\$ 31,578
Knoxville Partnership	651,300	651,300	651,300	-	651,300	-
Metropolitan Planning Commission	800,000	800,000	800,000	-	800,000	-
Knoxville Zoological Gardens	906,250	906,250	906,250	-	906,250	-
Community agency grants	996,700	1,173,940	1,173,940	-	1,173,940	-
Second Creek Greenway	41,180	44,180	43,847	-	43,847	333
Community Action Committee	542,530	542,530	542,530	-	542,530	-
Downtown Cinema	148,920	142,920	142,313	-	142,313	607
Budgeted reserve	1,675,000	1,675,000	-	-	-	1,675,000
Tax increment payments	806,000	806,000	741,557	-	741,557	64,443
Total expenditures	139,858,640	141,736,395	137,604,131	572,136	138,176,267	3,560,128
Excess (deficiency) of revenues over (under) expenditures	20,841,140	21,045,382	29,808,472	(572,136)	29,236,336	8,190,954
OTHER FINANCING SOURCES (USES)						
Transfers in	4,643,180	6,127,655	5,684,113	-	5,684,113	(443,542)
Transfers out	(25,484,320)	(27,173,037)	(27,168,117)	-	(27,168,117)	4,920
Total other financing sources (uses)	(20,841,140)	(21,045,382)	(21,484,004)	-	(21,484,004)	(438,622)
Net change in fund balances	\$ -	\$ -	8,324,468	(572,136)	7,752,332	\$ 7,752,332
FUND BALANCE - BEGINNING			52,339,224	-	52,339,224	
FUND BALANCE - ENDING			<u>\$ 60,663,692</u>	<u>\$ (572,136)</u>	<u>\$ 60,091,556</u>	

CITY OF KNOXVILLE, TENNESSEE

**Statement of Net Assets
Proprietary Funds
June 30, 2010**

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Assets				
Current assets				
Cash & temporary investments	\$ 2,671,581	\$ 579,603	\$ 3,251,184	\$ 4,714,301
Investments	8,068,143	8,623,172	16,691,315	71,479,412
Accounts receivable	2,490,040	259,964	2,750,004	87,670
Leases receivable	-	731,404	731,404	-
Due from component units	3,400,000	-	3,400,000	-
Inventories	101,234	13,128	114,362	681,770
Prepaid items	47,373	35,177	82,550	-
Deferred outflow of resources - interest rate swap	3,729,497	-	3,729,497	-
Total current assets	20,507,868	10,242,448	30,750,316	76,963,153
Noncurrent assets				
Land & site improvements	2,952,020	3,914,343	6,866,363	-
Building & building improvements	180,237,377	42,077,790	222,315,167	257,391
Equipment	3,035,240	2,390,793	5,426,033	65,711,585
Construction in progress	101,610	248,248	349,858	13,506
Less: accumulated depreciation	(46,246,215)	(25,721,919)	(71,968,134)	(43,073,010)
Total capital assets (net of accumulated depreciation)	140,080,032	22,909,255	162,989,287	22,909,472
Equity interest in joint venture	228,684	793,823	1,022,507	3,751,348
Total noncurrent assets	140,308,716	23,703,078	164,011,794	26,660,820
Total assets	160,816,584	33,945,526	194,762,110	103,623,973
Liabilities				
Current liabilities				
Accounts payable	1,525,950	270,124	1,796,074	1,711,954
Accrued liabilities	389,202	80,272	469,474	1,109,379
Customer deposits	338,791	318,062	656,853	-
Due to other funds	-	252,003	252,003	-
Deferred revenue	84,216	52,841	137,057	-
Compensated absences	-	99,000	99,000	133,083
Long-term debt due within one year	3,670,847	87,037	3,757,884	-
Estimated litigation liability due within one year	-	-	-	5,000,000
Total current liabilities	6,009,006	1,159,339	7,168,345	7,954,416
Noncurrent liabilities				
Long-term debt due in more than one year	132,630,390	300,025	132,930,415	-
Estimated litigation liability	-	-	-	3,500,000
Derivative instrument - interest rate swap	3,729,497	-	3,729,497	-
Total noncurrent liabilities	136,359,887	300,025	136,659,912	3,500,000
Total liabilities	142,368,893	1,459,364	143,828,257	11,454,416
Net assets				
Invested in capital assets, net of related debt	3,778,795	22,565,472	26,344,267	22,909,472
Unrestricted	14,668,896	9,920,690	24,589,586	69,260,085
Total net assets	\$ 18,447,691	\$ 32,486,162	\$ 50,933,853	\$ 92,169,557

CITY OF KNOXVILLE, TENNESSEE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Funds			Internal
	Knoxville Convention Center	Other Nonmajor Activities	Total	Service Funds
Operating revenues				
Charges for services	\$ 5,761,864	\$ 4,210,774	\$ 9,972,638	\$ 38,170,019
Total operating revenues	5,761,864	4,210,774	9,972,638	38,170,019
Operating expenses				
Personal services	-	1,997,690	1,997,690	2,604,149
Materials & supplies	-	91,329	91,329	216,321
Maintenance	55,864	1,643,333	1,699,197	391,449
Depreciation & amortization	4,579,191	1,697,789	6,276,980	6,176,561
Other services and charges	9,490,296	2,144,699	11,634,995	25,021,198
Total operating expenses	14,125,351	7,574,840	21,700,191	34,409,678
Operating income (loss)	(8,363,487)	(3,364,066)	(11,727,553)	3,760,341
Nonoperating revenue (expense)				
Interest income	103,652	32,432	136,084	172,980
Intergovernmental revenue	10,275,637	488,752	10,764,389	377,365
Other revenues	-	103,589	103,589	109,800
Gain (loss) on disposal of capital assets	-	8,268	8,268	657,356
Interest expense	(5,232,969)	(11,958)	(5,244,927)	-
Total nonoperating revenue (expense)	5,146,320	621,083	5,767,403	1,317,501
Income (loss) before transfers and capital contributions	(3,217,167)	(2,742,983)	(5,960,150)	5,077,842
Other financing sources (uses)				
Transfers in	8,483,934	3,416,287	11,900,221	3,657,182
Transfers out	-	(1,000,000)	(1,000,000)	(16,968)
Capital contributions	-	-	-	214,935
Change in net assets	5,266,767	(326,696)	4,940,071	8,932,991
Total net assets - beginning	13,180,924	32,812,858	45,993,782	83,236,566
Total net assets - ending	\$ 18,447,691	\$ 32,486,162	\$ 50,933,853	\$ 92,169,557

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2010

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Operating activities				
Cash received from customers and users	\$ 5,388,741	\$ 4,266,428	\$ 9,655,169	\$ -
Receipts from interfund services provided	-	-	-	38,028,852
Cash paid to suppliers	(9,062,483)	(3,757,327)	(12,819,810)	(9,404,285)
Cash paid to employees	-	(1,965,087)	(1,965,087)	(2,588,478)
Cash paid for interfund services used	(66,371)	(238,447)	(304,818)	(232,627)
Payments of claims and insurance	-	-	-	(15,348,574)
Net cash provided by (used in) operating activities	(3,740,113)	(1,694,433)	(5,434,546)	10,454,888
Noncapital financing activities				
Transfers from other funds	8,483,934	3,335,935	11,819,869	3,278,663
Transfers to other funds	-	(999,293)	(999,293)	(16,968)
Transfers to component units	(3,400,000)	-	(3,400,000)	-
Tax and intergovernmental revenues	10,275,637	592,341	10,867,978	487,165
Net cash provided by (used in) noncapital financing activities	15,359,571	2,928,983	18,288,554	3,748,860
Capital and related financing activities				
Principal paid on general obligation bond maturities	(3,515,847)	(84,059)	(3,599,906)	-
Interest paid	(5,232,969)	(11,958)	(5,244,927)	-
Acquisition and construction of capital assets	(101,610)	(699,825)	(801,435)	(6,009,857)
Capital contributions	-	-	-	214,935
Net cash provided by (used in) capital and related financing activities	(8,850,426)	(795,842)	(9,646,268)	(5,794,922)
Investing activities				
Sales/(purchases) of investments	(2,593,740)	(847,892)	(3,441,632)	(7,518,663)
Investment earnings	103,652	32,432	136,084	172,980
Net change in equity investment in joint venture	23,808	(236,098)	(212,290)	(244,598)
Net cash provided by (used in) investing activities	(2,466,280)	(1,051,558)	(3,517,838)	(7,590,281)
Net increase (decrease) in cash and cash equivalents	302,752	(612,850)	(310,098)	818,545
Cash and cash equivalents				
Beginning of year	2,368,829	1,192,453	3,561,282	3,895,756
End of year	\$ 2,671,581	\$ 579,603	\$ 3,251,184	\$ 4,714,301

Continued:

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010**

	Enterprise Funds			Internal Service Funds
	Knoxville Convention Center	Other Nonmajor Activities	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (8,363,487)	\$ (3,364,066)	\$ (11,727,553)	\$ 3,760,341
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	4,579,191	1,697,789	6,276,980	6,176,561
Change in assets and liabilities				
(Increase) decrease in receivables	(270,706)	(212,278)	(482,984)	30,805
(Increase) decrease in prepayments	(12,919)	(13,183)	(26,102)	-
(Increase) decrease in inventories	(16,447)	9,362	(7,085)	(70,018)
Increase (decrease) in accounts payable	699,843	(112,592)	587,251	541,528
Increase (decrease) in accrued expenses	(253,171)	32,603	(220,568)	15,671
Increase (decrease) in deferred revenue	(39,996)	2,177	(37,819)	-
Increase (decrease) in customer deposits	(62,421)	265,755	203,334	-
Total adjustments	4,623,374	1,669,633	6,293,007	6,694,547
Net cash provided by (used in) operating activities	<u>\$ (3,740,113)</u>	<u>\$ (1,694,433)</u>	<u>\$ (5,434,546)</u>	<u>\$ 10,454,888</u>

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	City Employees' Pension Trust Fund	Combined Agency Funds
Assets		
Cash	\$ 3,487	\$ 273,797
Cash equivalents	5,882,471	-
United States government securities	23,927,298	-
State & municipal government securities	3,564,525	-
International securities	115,914,762	-
Corporate bonds & debentures	73,139,096	-
Real estate investment trusts	41,200,707	-
Domestic equity securities	135,409,855	-
Pending sales proceeds	5,208,303	-
Other receivables	12,093	249,550
Accrued interest & dividends	1,500,566	-
Equipment, furniture & fixtures	41,772	-
Accumulated depreciation	(37,456)	-
Due from other funds	-	189,745
Total assets	<u>405,767,479</u>	<u>\$ 713,092</u>
Liabilities		
Accounts payable	\$ 500,789	\$ 59,805
Investment purchases pending	6,169,560	-
Due to other funds	-	189,745
Health care claims liability	-	463,542
Total liabilities	<u>6,670,349</u>	<u>\$ 713,092</u>
Net assets		
Held in Trust for:		
Pension benefits	<u>\$ 399,097,130</u>	

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

CITY OF KNOXVILLE, TENNESSEE

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010**

	City Employees' Pension Trust Fund
Additions	
Employee contributions	\$ 3,556,280
Employer contributions	7,623,044
Total contributions	<u>11,179,324</u>
Investment earnings:	
Interest and dividends	7,965,925
Net appreciation/(depreciation) in the fair value of investments	46,730,025
Other income	447,598
Total investment earnings (loss)	<u>55,143,548</u>
Less investment expense	<u>(2,131,257)</u>
Net investment earnings (loss)	<u>53,012,291</u>
Total additions (net)	<u>64,191,615</u>
Deductions	
Benefits paid	37,337,938
Refunds	357,110
Administrative expenses	407,295
Total deductions	<u>38,102,343</u>
Change in net assets	26,089,272
Total net assets - beginning	<u>373,007,858</u>
Total net assets - ending	<u><u>\$ 399,097,130</u></u>

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

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Net Assets - Discretely Presented Component Units

June 30, 2010

	Component Units			
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Assets				
Cash & cash equivalents	\$ 119,290,700	\$ 6,466,627	\$ 8,547	\$ 125,765,874
Investments	65,618,481	32,809,095	2,175,525	100,603,101
Receivables (net of allowance for uncollectibles):				
Accounts	73,349,342	1,732,337	10,830,635	85,912,314
TVA conservation program	6,574,023	-	-	6,574,023
Other	15,417	-	-	15,417
Inventories	6,257,516	-	994,579	7,252,095
Prepaid items	12,141,570	45,878	233,885	12,421,333
Deferred outflow of resources - interest rate swap	-	7,985,359	-	7,985,359
Deferred charges	5,178,519	956,159	-	6,134,678
Restricted assets:				
Temporarily restricted:				
Bond funds	17,723,289	684,968	-	18,408,257
Unused bond proceeds	14,247,824	-	-	14,247,824
Receivables	-	475,000	-	475,000
Other	203,193	27,884	-	231,077
Other assets	6,972,317	1,709,929	-	8,682,246
Capital assets:				
Land & site improvements	-	149,995,473	1,854,780	151,850,253
Building & building improvements	-	141,028,284	5,227,767	146,256,051
Utility plant in service	1,668,258,219	-	-	1,668,258,219
Equipment, furniture & fixtures	-	9,767,332	25,841,854	35,609,186
Construction in progress	112,485,827	29,460,082	24,788,595	166,734,504
Less accumulated depreciation	(571,228,037)	(160,437,136)	(19,127,505)	(750,792,678)
Total assets	1,537,088,200	222,707,271	52,828,662	1,812,624,133
Liabilities				
Accounts payable	49,078,841	820,378	3,174,583	53,073,802
Matured principal & interest on bonds	9,580,581	-	-	9,580,581
Accrued liabilities	18,784,550	1,083,718	45,934	19,914,202
Due to primary government	-	-	8,550,693	8,550,693
Unearned revenue	-	-	151,360	151,360
Customer deposits, plus accrued interest	12,558,063	-	-	12,558,063
Liabilities payable with restricted assets:				
Long-term debt due within one year	21,071,000	3,400,000	-	24,471,000
Accrued interest	-	161,243	-	161,243
Noncurrent liabilities:				
Long-term debt due in more than one year	630,690,000	89,014,952	-	719,704,952
Derivative instrument - interest rate swap	-	7,985,359	-	7,985,359
Other noncurrent liabilities	14,088,020	-	-	14,088,020
Total liabilities	755,851,055	102,465,650	11,922,570	870,239,275
Net assets				
Invested in capital assets, net of related debt	564,961,131	77,855,580	38,585,491	681,402,202
Restricted for:				
Debt service	8,142,708	-	-	8,142,708
Other	203,193	1,187,852	-	1,391,045
Unrestricted	207,930,113	41,198,189	2,320,601	251,448,903
Total net assets	\$ 781,237,145	\$ 120,241,621	\$ 40,906,092	\$ 942,384,858

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Activities - Discretely Presented Component Units
For the Year Ended June 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Units			
					Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	Total Component Units
Component units:								
Knoxville Utilities Board	\$ 648,239,224	\$ 670,636,172	\$ -	\$ 4,665,009	\$ 27,061,957	\$ -	\$ -	\$ 27,061,957
Metropolitan Knoxville Airport Authority	31,882,868	25,865,605	-	9,771,088	-	3,753,825	-	3,753,825
Knoxville Area Transit	37,743,573	3,940,405	6,220,394	28,231,063	-	-	648,289	648,289
Total component units	\$ 717,865,665	\$ 700,442,182	\$ 6,220,394	\$ 42,667,160	27,061,957	3,753,825	648,289	31,464,071
General revenues:								
					-	-	8,144,124	8,144,124
					-	54,327	282,973	337,300
					2,290,989	965,301	6,193	3,262,483
					-	4,007	206,329	210,336
					<u>2,290,989</u>	<u>1,023,635</u>	<u>8,639,619</u>	<u>11,954,243</u>
					29,352,946	4,777,460	9,287,908	43,418,314
					751,884,199	115,464,161	31,618,184	898,966,544
					<u>\$ 781,237,145</u>	<u>\$ 120,241,621</u>	<u>\$ 40,906,092</u>	<u>\$ 942,384,858</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

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

Joint Ventures

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

Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA)
Knoxville, Knox County, KUB Geographic Information Systems
Knoxville-Knox County Animal Center

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related and Jointly Governed Organizations

The following related agencies provide services within the City:

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Assets, liabilities, and net assets or equity

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

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

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Total interest expense incurred by the Knoxville Convention Center was \$5,232,969 and no interest was capitalized because there were no major construction projects associated with the Convention Center in the current year. Total interest expense incurred by the Metropolitan Knoxville Airport Authority was \$3,326,014 and no interest was capitalized as part of construction.

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Accounting changes - Provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* became effective for the year ended June 30, 2010.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. Intangible assets have three characteristics: lack of physical substance; nonfinancial in nature; and a useful life that extends beyond a single reporting period. Assets that have these characteristics and are identifiable to the government should be recorded as capital assets and amortized over their useful lives. Easements, water rights, patents, and computer software are examples of intangible assets that should be recognized under GASB Statement No. 51. The implementation of GASB 51 had no significant impact on the City's financial statements as of and for the year ending June 30, 2010.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by city governments. Derivative instruments are financial arrangements used by governments as investments; hedges against identified financial risks; or to lower the costs of borrowings. Interest rate swaps and locks, options, swaptions, forward contracts, and futures contracts are among the commonly used types of derivatives mentioned in GASB Statement No. 53. Derivative instruments associated with fluctuating financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. For the same reasons, derivative instruments can expose governments to significant risks and liabilities. The requirements of GASB Statement No. 53 are intended to help users of financial information evaluate the effectiveness and associated risks involved with the City's derivative transactions. GASB Statement No. 53 requires most derivatives to be reported at fair value in the statement of net assets. Changes in fair value for derivative instruments that are intended for investment purposes or that are reported like investment derivative instruments because of ineffectiveness are reported as investment revenues in the statement of activities. Alternatively, the changes in fair value of derivative instruments that are classified as hedging (i.e. effective) derivative instruments are reported in the statement of net assets as assets and liabilities. Note 9, Long-term Debt, describes derivative transactions of the City as of and for the year ended June 30, 2010.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

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

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

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

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

The following supplemental budgetary appropriations were enacted by City Council during the fiscal year 2010.

General Fund	\$ 3,502,030
Special Revenue Funds	2,270,847
Capital Projects Funds	1,832,750

Encumbrance accounting is employed in governmental funds. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Outstanding 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. Encumbered appropriations are reappropriated in the ensuing year's budget.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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

	Revenues, Transfers In and Capital Contributions			Expenses and Transfers Out		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<i>Enterprise Funds</i>						
Knoxville Convention Center	\$ 22,535,408	\$ 24,625,087	\$ 2,089,679	\$ 22,535,408	\$ 19,358,320	\$ 3,177,088
Metro Parking	3,450,275	1,705,413	(1,744,862)	3,450,275	2,363,919	1,086,356
Public Assembly Facilities	5,649,792	5,140,613	(509,179)	5,649,792	4,855,172	794,620
City Golf Courses	1,549,724	1,414,076	(135,648)	1,549,724	1,367,707	182,017
Knoxville Area Transit (Component unit)	20,539,142	47,022,977	26,483,835	20,539,142	37,743,573	(17,204,431)
<i>Internal Service Funds</i>						
Fleet Maintenance	13,849,006	15,302,597	1,453,591	13,849,006	10,671,910	3,177,096
Risk Management	7,775,531	6,982,099	(793,432)	7,775,531	4,916,109	2,859,422
Employee Health Insurance	16,661,202	15,967,664	(693,538)	16,661,202	15,043,115	1,618,087
Equipment Replacement	2,857,388	3,267,613	410,225	2,857,388	2,245,867	611,521
City Buildings	1,627,848	1,839,664	211,816	1,627,848	1,549,645	78,203

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

Investment policies

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the City's investment policies limit investments to terms of no more than two years. As of June 30, 2010, the average weighted maturity of the City's portfolio was 165 days.

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

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

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

Concentration of Credit Risk: The City's Investment Policy imposes several limits on the amount and type of investments in order to avoid having a large percentage of the portfolio in a single issuer. First, the policy states that, with the exception of U.S. treasuries, agency securities, and the state investment pool, no more than thirty-five percent of the portfolio shall be invested in a single security type. The policy further limits, with respect to banker's acceptances and commercial paper, that no more than ten percent of the portfolio, or \$10 million whichever is less, shall be from a single issuer. As of June 30, 2010, the City held securities in various Tennessee municipal bonds of \$49.5 million or approximately 20% of the total portfolio. All U.S. Government Agency investments have an Aaa credit rating. The corporate equities investments have credit ratings ranging from Ba1 to Baa3 and are part of the permanent fund for Krutch Park.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2010, the City had the following investments and maturities.

Investments:	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 2 Years</u>	<u>2 - 4 Years</u>
U.S. Government Agencies:				
Federal Home Loan Bank (FHLB)	\$ 11,183,000	\$ 143,325	\$ 505,470	\$ 10,534,205
PEFCO	3,214,609	-	2,183,760	1,030,849
Federal Fam Credit Bureau (FFCB)	1,007,810	-	-	1,007,810
Tennessee Valley Authority (TVA)	1,028,720	1,028,720	-	-
Other Governmental Bonds	48,489,043	18,951,109	17,648,568	11,889,366
Corporate Equities	121,356	121,356	-	-
Tennessee Local Government				
Investment Pool	188,489,866	188,489,866	-	-
	<u>\$ 253,534,404</u>	<u>\$ 208,734,376</u>	<u>\$ 20,337,798</u>	<u>\$ 24,462,230</u>

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Deposits and investments of component units are classified in the statement of net assets and the statement of fiduciary net assets as follows:

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund		
Deposits:						
Bank balances	\$ 147,784,783	\$ 7,420,077	\$ 8,547	\$ 3,487		
Carrying amounts:						
Deposits (outstanding checks) in financial institutions	\$ 110,232,285	\$ 7,151,595	\$ 8,547	\$ 3,487		
Certificates of deposit	33,724,748	-	-	-		
Total deposits - carrying value	<u>\$ 143,957,033</u>	<u>\$ 7,151,595</u>	<u>\$ 8,547</u>	<u>\$ 3,487</u>		
	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund	Total Amount	Fair Value
Investments:						
Cash equivalents	\$ -	\$ -	\$ -	\$ 5,882,471	\$ 5,882,471	\$ 5,882,471
United States government securities	61,750,675	-	-	13,026,373	74,777,048	74,777,048
Domestic Equity securities	-	-	-	146,090,498	146,090,498	146,090,498
Corporate bonds	-	-	-	67,710,082	67,710,082	67,710,082
State and municipal government securities	-	-	-	3,564,525	3,564,525	3,564,525
International securities	-	-	-	115,914,762	115,914,762	115,914,762
Total classified investments	61,750,675	-	-	352,188,711	413,939,386	413,939,386
<i>Investments not categorized:</i>						
Investments held by broker-dealers under securities loans:						
Broker-dealers holding cash collateral:						
United States government securities	-	-	-	10,854,419	10,854,419	10,854,419
Equity securities	-	-	-	30,376,825	30,376,825	30,376,825
Corporate bonds	-	-	-	5,429,014	5,429,014	5,429,014
Third parties holding cash collateral:						
United States government securities	-	-	-	46,506	46,506	46,506
Domestic equity securities	-	-	-	143,239	143,239	143,239
Investments in state treasurer's						
Investment pool	11,007,972	32,809,095	2,175,525	-	45,992,592	45,992,592
Total investments	<u>\$ 72,758,647</u>	<u>\$ 32,809,095</u>	<u>\$ 2,175,525</u>	<u>\$ 399,038,714</u>	<u>\$ 506,781,981</u>	<u>\$ 506,781,981</u>
Total deposits and investments	<u>\$ 216,715,680</u>	<u>\$ 39,960,690</u>	<u>\$ 2,184,072</u>	<u>\$ 399,042,201</u>		

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

	Knoxville Utilities Board	Metropolitan Knoxville Airport Authority	Knoxville Area Transit	City Employees' Pension Trust Fund
Cash and cash equivalents	\$ 119,290,700	\$ 6,466,627	\$ 8,547	\$ 5,885,958
Investments	65,618,481	32,809,095	2,175,525	393,156,243
Unused bond proceeds	14,247,824	-	-	-
Bond funds	17,723,289	684,968	-	-
Other temporarily restricted assets	203,193	-	-	-
	<u>217,083,487</u>	<u>39,960,690</u>	<u>2,184,072</u>	<u>399,042,201</u>
Less accrued interest	367,807	-	-	-
Total deposits and investments	<u>\$ 216,715,680</u>	<u>\$ 39,960,690</u>	<u>\$ 2,184,072</u>	<u>\$ 399,042,201</u>

The Pension Trust Fund also has a credit risk exposure for cash held in its securities lending short-term collateral investment pools (not included in the Pension Trust Fund financial statements) for \$48,433,866 held by broker dealers and \$203,976 held by third parties. The contract with the Pension Trust Fund's custodian requires it to indemnify the Pension Trust Fund if the borrowers fail to return the borrowed securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan. Because collateral exceeds the fair value of securities lent, there is no credit risk exposure to the borrowers at June 30, 2010.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2010, including the applicable allowance for uncollectible accounts, consisted of the following:

	Intergovern- mental	Interest and Dividends	Grants	Customers	Other	Allowance for Doubtful Accounts	Total
General fund	\$ 762,746	\$ 8,596	\$ 1,111,687	\$ -	\$ -	\$ -	\$ 1,883,029
Debt service fund	-	22,905	-	-	298,767	-	321,672
Capital projects fund	-	18,291	1,461,070	-	-	-	1,479,361
Other governmental funds	848,637	412	3,728,359	-	-	-	4,577,408
Knoxville Convention Center	-	-	-	-	2,490,040	-	2,490,040
Other enterprise funds	-	-	-	259,964	-	-	259,964
Internal service funds	-	-	-	87,670	-	-	87,670
Total primary government	<u>1,611,383</u>	<u>50,204</u>	<u>6,301,116</u>	<u>347,634</u>	<u>2,788,807</u>	<u>-</u>	<u>11,099,144</u>
Component units:							
Knoxville Utilities Board	6,574,023	-	-	74,434,121	15,417	(1,084,779)	79,938,782
Metropolitan Knoxville Airport Authority	-	462,665	1,156,806	112,866	-	-	1,732,337
Knoxville Area Transit	-	-	10,830,635	-	-	-	10,830,635
Total reporting unit	<u>8,185,406</u>	<u>512,869</u>	<u>18,288,557</u>	<u>74,894,621</u>	<u>2,804,224</u>	<u>(1,084,779)</u>	<u>103,600,898</u>
City Employees' Pension Trust Fund	-	1,500,566	-	-	12,093	-	1,512,659
Total reporting entity	<u>\$ 8,185,406</u>	<u>\$ 2,013,435</u>	<u>\$ 18,288,557</u>	<u>\$ 74,894,621</u>	<u>\$ 2,816,317</u>	<u>\$ (1,084,779)</u>	<u>\$ 105,113,557</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

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, 2010, are as follows:

Total minimum lease payments receivable	\$ 1,275,275
Less unearned income	<u>543,871</u>
Net investment in lease receivable	<u><u>\$ 731,404</u></u>

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

Metropolitan Knoxville Airport Authority

The Metropolitan Airport Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2036. As of June 30, 2010, minimum future base rentals to be received on noncancellable leases are as follows:

Years ended June 30:	
2011	\$ 8,234,763
2012	7,389,125
2013	7,352,728
2014	4,245,102
2015	1,524,167
Thereafter	<u>13,252,824</u>
	<u><u>\$ 41,998,709</u></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 \$896,000 are included in other assets in the accompanying statement of net assets as of June 30, 2010. Airport Authority contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$3,432,480 for the year ended June 30, 2010.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Primary Government				
Governmental activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 45,104,316	\$ 3,247,012	\$ (56,254)	\$ 48,295,074
Construction in progress	<u>3,862,591</u>	<u>16,189,199</u>	<u>(11,818,718)</u>	<u>8,233,072</u>
Total nondepreciable capital assets	<u>48,966,907</u>	<u>19,436,211</u>	<u>(11,874,972)</u>	<u>56,528,146</u>
<i>Depreciable:</i>				
Buildings and building improvements	54,698,282	2,299,462	-	56,997,744
Equipment, furniture and fixtures	70,020,407	6,832,027	(6,117,054)	70,735,380
Infrastructure	<u>272,685,458</u>	<u>5,893,503</u>	<u>-</u>	<u>278,578,961</u>
Total depreciable capital assets	<u>397,404,147</u>	<u>15,024,992</u>	<u>(6,117,054)</u>	<u>406,312,085</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(24,035,701)	(1,747,649)	-	(25,783,350)
Equipment, furniture and fixtures	(45,551,272)	(6,694,610)	6,011,775	(46,234,107)
Infrastructure	<u>(111,975,654)</u>	<u>(10,539,493)</u>	<u>-</u>	<u>(122,515,147)</u>
Total accumulated depreciation	<u>(181,562,627)</u>	<u>(18,981,752)</u>	<u>6,011,775</u>	<u>(194,532,604)</u>
Total depreciable capital assets, net	<u>215,841,520</u>	<u>(3,956,760)</u>	<u>(105,279)</u>	<u>211,779,481</u>
Governmental activities capital assets, net	<u>\$ 264,808,427</u>	<u>\$ 15,479,451</u>	<u>\$ (11,980,251)</u>	<u>\$ 268,307,627</u>
Business-type activities:				
<i>Nondepreciable:</i>				
Land & site improvements	\$ 6,866,363	\$ -	\$ -	\$ 6,866,363
Artwork	764,875	-	-	764,875
Construction in progress	<u>49,805</u>	<u>802,385</u>	<u>(502,332)</u>	<u>349,858</u>
Total nondepreciable capital assets	<u>7,681,043</u>	<u>802,385</u>	<u>(502,332)</u>	<u>7,981,096</u>
<i>Depreciable:</i>				
Buildings and building improvements	221,812,835	502,332	-	222,315,167
Equipment, furniture and fixtures	<u>4,653,840</u>	<u>7,318</u>	<u>-</u>	<u>4,661,158</u>
Total depreciable capital assets	<u>226,466,675</u>	<u>509,650</u>	<u>-</u>	<u>226,976,325</u>
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(63,262,898)	(5,631,040)	-	(68,893,938)
Equipment, furniture and fixtures	<u>(2,428,256)</u>	<u>(645,940)</u>	<u>-</u>	<u>(3,074,196)</u>
Total accumulated depreciation	<u>(65,691,154)</u>	<u>(6,276,980)</u>	<u>-</u>	<u>(71,968,134)</u>
Total depreciable capital assets, net	<u>160,775,521</u>	<u>(5,767,330)</u>	<u>-</u>	<u>155,008,191</u>
Business-type activities capital assets, net	<u>\$ 168,456,564</u>	<u>\$ (4,964,945)</u>	<u>\$ (502,332)</u>	<u>\$ 162,989,287</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 7 - CAPITAL ASSETS (Continued)

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

Governmental activities	
General Government	\$ 1,654,542
Public Safety	3,936,085
Physical Environment	10,483,869
Economic Development	292,083
Parks & Recreation	2,583,700
Health & Sanitation	31,473
	<u>\$ 18,981,752</u>

Business-type activities	
Knoxville Convention Center	\$ 4,579,191
Metro Parking	812,898
Public Assembly Facilities	725,872
Municipal Golf Courses	159,019
	<u>\$ 6,276,980</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for component units for the year ended June 30, 2010 was as follows:

Component Units	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Knoxville Utilities Board:				
<i>Nondepreciable: Construction in Progress</i>	\$ 78,804,715	\$ 108,627,260	\$ (74,946,148)	\$ 112,485,827
<i>Depreciable:</i>				
Pumping and treatment plant	181,014,202	15,681,239	(4,305,119)	192,390,322
Distribution & collection plant	1,306,203,396	60,597,648	(7,666,787)	1,359,134,257
General plant	111,089,926	6,971,474	(1,327,760)	116,733,640
Total depreciable assets	1,598,307,524	83,250,361	(13,299,666)	1,668,258,219
Accumulated depreciation	(536,465,314)	(47,003,116)	12,240,393	(571,228,037)
Total depreciable capital assets, net	1,061,842,210	36,247,245	(1,059,273)	1,097,030,182
Total Knoxville Utilities Board	\$ 1,140,646,925	\$ 144,874,505	\$ (76,005,421)	\$ 1,209,516,009
Metropolitan Knoxville Airport Authority:				
<i>Nondepreciable:</i>				
Land	\$ 22,712,108	\$ 43,039	\$ -	\$ 22,755,147
Construction in progress	23,116,654	10,295,164	(3,951,736)	29,460,082
Total nondepreciable capital assets	45,828,762	10,338,203	(3,951,736)	52,215,229
<i>Depreciable:</i>				
Land improvements	125,693,669	1,546,657	-	127,240,326
Buildings and building improvements	140,111,564	1,149,346	(232,626)	141,028,284
Equipment, furniture and fixtures	9,517,565	1,850,284	(1,600,517)	9,767,332
Total depreciable assets	275,322,798	4,546,287	(1,833,143)	278,035,942
<i>Accumulated depreciation:</i>				
Land improvements	(87,993,028)	(5,082,614)	-	(93,075,642)
Buildings and building improvements	(54,676,484)	(5,658,473)	232,625	(60,102,332)
Equipment, furniture and fixtures	(8,094,961)	(726,201)	1,562,000	(7,259,162)
Total accumulated depreciation	(150,764,473)	(11,467,288)	1,794,625	(160,437,136)
Total depreciable capital assets, net	124,558,325	(6,921,001)	(38,518)	117,598,806
Total Metropolitan Knoxville Airport Authority	\$ 170,387,087	\$ 3,417,202	\$ (3,990,254)	\$ 169,814,035
Knoxville Area Transit:				
<i>Nondepreciable:</i>				
Land	\$ 1,854,780	\$ -	\$ -	\$ 1,854,780
Construction in progress	14,197,854	11,363,048	(772,307)	24,788,595
Total nondepreciable capital assets	16,052,634	11,363,048	(772,307)	26,643,375
<i>Depreciable:</i>				
Buildings and building improvements	5,025,175	202,592	-	5,227,767
Equipment, vehicles, furniture and fixtures	26,538,640	852,820	(1,549,606)	25,841,854
Total depreciable assets	31,563,815	1,055,412	(1,549,606)	31,069,621
<i>Accumulated depreciation:</i>				
Buildings and building improvements	(2,583,700)	(236,947)	-	(2,820,647)
Equipment, vehicles, furniture and fixtures	(15,695,545)	(1,977,322)	1,366,009	(16,306,858)
Total accumulated depreciation	(18,279,245)	(2,214,269)	1,366,009	(19,127,505)
Total depreciable capital assets, net	13,284,570	(1,158,857)	(183,597)	11,942,116
Total Knoxville Area Transit	\$ 29,337,204	\$ 10,204,191	\$ (955,904)	\$ 38,585,491
Knoxville Employees' Pension Plan				
<i>Depreciable: Equipment, furniture and fixtures</i>	\$ 41,772	\$ -	\$ -	\$ 41,772
<i>Accumulated Depreciation</i>	(34,591)	(2,865)		(37,456)
Total Knoxville Employees' Pension Plan	\$ 7,181	\$ (2,865)	\$ -	\$ 4,316

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables consist primarily of pooled cash balances. A detailed listing of interfund receivables and payables at June 30, 2010 is as follows:

	Due From Other Funds	Due to Other Funds	Internal Balances	Due From Component Units	Due to Primary Government
Governmental activities					
<i>General Fund</i>	\$ 5,581,257	\$ -	\$ 5,581,257	\$ 1,750,693	\$ -
<i>Special Revenue Fund:</i>					
Miscellaneous Special Revenue	-	410,253	(410,253)	-	-
Community Development Block Grants	-	1,056,748	(1,056,748)	-	-
City Inspections	-	65,808	(65,808)	-	-
Miscellaneous Grants	-	1,499,563	(1,499,563)	-	-
Storm Water	-	71,147	(71,147)	-	-
Solid Waste	-	397,000	(397,000)	-	-
Miscellaneous Community Development Funds	-	230,953	(230,953)	-	-
<i>Debt Service Fund</i>	-	1,597,782	(1,597,782)	-	-
<i>Capital Projects Fund</i>	-	-	-	3,400,000	-
Total governmental activities	<u>5,581,257</u>	<u>5,329,254</u>	<u>252,003</u>	<u>5,150,693</u>	<u>-</u>
Business-type activities					
Knoxville Convention Center	-	-	-	3,400,000	-
Public Assembly Facilities	-	67,107	(67,107)	-	-
Metro Parking	-	707	(707)	-	-
City Golf Courses	-	184,189	(184,189)	-	-
Total business-type activities	<u>-</u>	<u>252,003</u>	<u>(252,003)</u>	<u>3,400,000</u>	<u>-</u>
Component Units:					
Knoxville Area Transit	-	-	-	-	8,550,693
	<u>\$ 5,581,257</u>	<u>\$ 5,581,257</u>	<u>\$ -</u>	<u>\$ 8,550,693</u>	<u>\$ 8,550,693</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT

Bonds at June 30, 2010, are comprised of the following issues:

	General Obligation Bonds		
	Governmental Activities	Business-type Activities	Total
Primary Government			
General Improvement Bonds, Series 2004A maturing through 2024 at varying rates of interest ranging from 2.0% to 4.0%	\$ 26,010,000	\$ -	\$ 26,010,000
General Obligation Refunding Bonds, Series 2004B maturing through 2017 at varying rates of interest ranging from 4.0% to 5.5%	13,590,000	-	13,590,000
General Obligation Bonds Series 2009 - IV-L-1 through the Public Building Authority of Sevier County, Tennessee maturing through 2020 with a floating interest rate	-	29,460,000	29,460,000
General Obligation Public Improvement Bond Series A-4-A maturing through 2032 with a floating interest rate	-	59,970,000	59,970,000
General Obligation Public Improvement Bond Series 2002A maturing through 2024 at varying rates of interest ranging from 3.5% to 5.0%	-	47,800,000	47,800,000
General Obligation Public Improvement Bond Series 2005A maturing through 2020 at varying rates of interest ranging from 3.0% to 5.0%	11,635,000	-	11,635,000
Total Primary Government	<u>\$ 51,235,000</u>	<u>\$ 137,230,000</u>	<u>\$ 188,465,000</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units:	<u>Revenue Bonds</u>
<i>Knoxville Utilities Board:</i>	
Electric Revenue Bonds Series T to Y, maturing through 2032 at varying rates of interest ranging from 2.0% to 5.12%	\$ 142,620,000
Water Revenue Bonds Series Q to V maturing through 2045 at varying rates of interest ranging from 2.0% to 5.5%	85,675,000
Gas Revenue Bonds Series K to O, maturing through 2045 at varying rates of interest ranging from 2.0% to 5.0%	84,760,000
Waste Water Revenue Bonds Series 2004A, 2005 A&B, 2007, 2008, 2010, 2010B maturing through 2045 at varying rates of interest ranging from 2.0% to 6.5%	334,005,000 \$ <u>647,060,000</u>
<i>Metropolitan Knoxville Airport Authority:</i>	
Local Government Public Improvement Bonds, 2000 Series II-D-1 maturing through 2026. The remaining principal bears interest at 5.29%	\$ 14,435,000
Local Government Public Improvement Bonds, 2008 Series V-A-1 maturing through 2028. \$39,830,000 bears interest at a synthetic rate of 3.137%. The remaining principal bears interest at a variable rate (.35% at June 30, 2010).	79,400,000 \$ <u>93,835,000</u>

Each of the Divisions of the Knoxville Utilities Board have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2010, these requirements had been satisfied.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

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

	General Obligation Bonds			
	Governmental		Business-type	
	Activities		Activities	
	Principal	Interest	Principal	Interest
2011	\$ 4,560,000	\$ 2,135,560	\$ 3,735,000	\$ 6,359,560
2012	4,660,000	1,924,180	3,900,000	6,196,530
2013	4,770,000	1,707,190	4,075,000	6,024,530
2014	4,850,000	1,543,690	4,255,000	5,842,990
2015	4,935,000	1,372,070	4,450,000	5,651,510
2016-2020	18,510,000	4,081,210	25,545,000	25,000,120
2021-2025	8,950,000	926,360	32,355,000	18,241,250
2026-2030	-	-	40,405,000	9,761,650
2031-2032	-	-	18,510,000	1,257,530
	<u>51,235,000</u>	<u>\$ 13,690,260</u>	<u>137,230,000</u>	<u>\$ 84,335,670</u>
Unamortized premium	1,178,448		-	
Unamortized discounts	-		(928,763)	
Total	<u>\$ 52,413,448</u>		<u>\$ 136,301,237</u>	

	Revenue Bonds and Local Govt Public Improvement Bonds	
	Principal	Interest
2011	\$ 19,770,000	\$ 30,810,239
2012	21,295,000	29,996,641
2013	22,160,000	29,210,485
2014	22,960,000	28,421,010
2015	23,975,000	27,622,167
2016-2020	132,220,000	123,615,449
2021-2025	163,585,000	94,690,052
2026-2030	135,780,000	63,696,248
2031-3035	70,875,000	41,338,564
3036-2040	67,075,000	25,899,875
2041-2045	61,200,000	9,900,000
	<u>740,895,000</u>	<u>\$ 505,200,730</u>
Unamortized deferred loss on refunding	(1,420,048)	
Total	<u>\$ 739,474,952</u>	

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Interest Swap Agreements

Primary government

On May 15, 2002, the City entered into a \$45,000,000 interest rate swap agreement with Wachovia First Union Bank. The intention of the agreement was to effectively change the City's variable interest rates on its General Obligation Bonds Series III-F bonds to a synthetic fixed rate. Principal payments on this agreement run through June 1, 2020. On December 16, 2009, the City refinanced the Series III-F loan as Series VI L-1 while maintaining the original III-F amortization schedule. The refinancing was done to achieve lower rates on the bonds by reissuing them without an insurance provision. The principal outstanding on these notes, subject to the swap agreement, as of June 30, 2010, is \$29,460,000.

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

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

The terms, rates, fair values, and credit ratings of the outstanding swaps as of June 30, 2010, were as follows:

<u>Associated Debt Issue</u>	<u>Outstanding Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Estimated Fair Value</u>	<u>Swap Term Date</u>	<u>Counter- party Credit Rating</u>
<i>Business Type Activities</i> General Obligation Bonds Series VI-L-1 through Public Building Authority of Sevier County	\$45,000,000	12/16/09	3.955%	70% of 1 Month LIBOR	(\$3,729,497)	6/1/2020	A+

Fair Value - As of June 30, 2010, the swap had a negative fair value of \$3,729,497. The negative fair value of the swaps may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

The current notional and fair value amounts of the outstanding swap as of June 30, 2010, were as follows.

Associated Debt Issue	Changes in Fair Value		Fair Value at June 30, 2010		June 30, 2010
	Classification	Amount	Classification	Amount	Notional Amount
Business-Type Activities					
Hedging Derivative					
Loan Payable to the Public Building Authority of Sevier County - Series III ¹	Deferred Outflow of Resources	\$ (644,129)	Debt	\$ (3,729,497)	\$ 45,000,000

¹Refunded to Series VI-L1 in 2009

Credit Risk - As of June 30, 2010, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the derivative's fair value. During fiscal year 2009, Wells Fargo acquired Wachovia/First Union, thus assuming the swap agreement. This acquisition resulted in an improvement of the overall credit quality of the counterparty. As of June 30, 2010, the senior debt of Wells Fargo was rated A1 by Moody's Investor Services.

Basis Risk - The City is subject to basis risk as the variable interest payment the City receives from the counterparty is based upon LIBOR whereas the variable rate interest paid on the outstanding bonds is based upon BMA. This mismatch exposes the City to basis risk when the SIFMA increases to above 70% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the SIFMA to be below 70% of LIBOR, then the synthetic rate on the bonds will decrease. Normally the two indices track on a close basis. During the last half of the 2008 fiscal year disruptions in the municipal market created a deviation from the norm which resulted in the City paying more in interest on its bonds than it would otherwise do. The deviation was due to the fact that the Series IIIF bonds were insured by AMBAC and the financial uncertainty surrounding AMBAC. The City refinanced the Series III-F bonds on December 16, 2009, thereby removing the credit enhancement from the bonds and eliminating much of the basis risk.

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Swap payments and associated debt - As of June 30, 2010, debt service requirements of the variable-rate debt and net swap payments for their terms are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

For the year ending June 30,	Principal	Interest	Net Interest Rate Swap Payment	Total
2011	\$ 2,390,000	\$ 1,176,900	\$ 270,500	\$ 3,837,400
2012	2,500,000	1,081,400	248,500	3,829,900
2013	2,610,000	981,600	225,600	3,817,200
2014	2,730,000	877,300	201,600	3,808,900
2015	2,855,000	768,200	176,500	3,799,700
2016-2020	16,375,000	2,020,900	464,400	18,860,300
	<u>\$ 29,460,000</u>	<u>\$ 6,906,300</u>	<u>\$ 1,587,100</u>	<u>\$ 37,953,400</u>

Component units

Metropolitan Knoxville Airport Authority

Effective July 1, 2009, the Authority adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes recognition, measurement and disclosure requirements for derivative instruments. As a result of adopting this new pronouncement, the Authority recorded the fair value liability of its interest rate swaps which were approximately \$7,985,000 along with a related deferred outflows asset. The fair values were determined by an independent third-party advisory firm from a model that measures the statistical relationship between the fair value or cash flows of the potential hedging derivative and the hedgeable item.

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

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

Associated Bond Issues	Outstanding Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Estimated Fair Value	Swap Termination Date
Series II-D-1	\$14,435,000	9/8/2000	5.29%	SIFMA Municipal Swap Index	\$(3,121,567)	6/1/2026
Series V-A-1	39,830,000	6/28/2001	4.36%	62.5% of 5 Year LIBOR	(4,863,792)	6/1/2021
	<u>\$54,265,000</u>				<u>\$(7,985,359)</u>	

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Fair Value - The negative fair value of the swaps may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the rates on the Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

Credit Risk - As of June 30, 2010, the Authority is not exposed to credit risk because the swaps have a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. For the swap associated with Series II-D-1 bonds, the swap counterparty was unrated at the time of the swap. In order to mitigate the potential for credit risk, the Authority received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service at the time the interest rate swap agreement was entered. As of June 30, 2010, Ambac's credit rating has been severely downgraded and is rated "Caa2" by Moody's Investors Service. For the swap associated with Series V-A-1 bonds, the swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2010, with its Credit Support Provider, Deutsche Bank, rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Both counterparties have posted all collateral requirements with third-party custodians.

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

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

Swap payments and associated debt - As of June 30, 2010, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Interest Rate Swaps, Net		Total
	Principal	Interest			
2011	\$ 3,400,000	\$ 1,499,039	\$ 640,783	\$	5,539,822
2012	3,575,000	1,439,487	580,563		5,595,050
2013	3,755,000	1,376,101	517,822		5,648,923
2014	3,950,000	1,309,187	452,150		5,711,337
2015	4,155,000	1,238,287	383,446		5,776,733
2016-2020	24,190,000	4,967,784	775,752		29,933,536
2021-2025	31,570,000	2,423,310	(576,753)		33,416,557
2026-2028	19,240,000	175,911	(18,952)		19,396,959
Total	<u>\$ 93,835,000</u>	<u>\$ 14,429,106</u>	<u>\$ 2,754,811</u>	<u>\$</u>	<u>111,018,917</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

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

Advance and Current Refundings

Primary government

The City refunded Bond Series 1999 III-F with Bond Series 2009 VI-L-1 in December 2009. The refunding was undertaken to remove the insurance attachment. The interest rate swap associated with III-F was detached and continued with the VI-L-1 issuance without any changes to the interest rate terms or the swap termination date.

Component units

Knoxville Utilities Board

KUB's Electric Division issued Series T 2001 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on 1993 Series Q Revenue bonds and 1995 Series R Revenue bonds, as such amounts mature. In fiscal year 2001, KUB's Electric Division issued Series U 2001 bonds to fund electric system capital improvements. During fiscal year 2004, KUB issued Series V 2004 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series S 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 revenue bonds. During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. The outstanding principal balances on defeased bond issues were \$74.1 million at June 30, 2010.

KUB's Gas Division issued the issued Series I 2001 bonds in part to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series F Revenue bonds and 1997 Series G Revenue bonds, as such amounts mature. During fiscal year 2010, Series I 2001 was defeased with the issuance of Series O 2010 bonds. During fiscal year 2002, KUB's Gas division issued Series J 2001 bonds to fund capital improvements. During fiscal year 2004, KUB issued Series K 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series H 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Gas Division issued Series L 2005 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series J 2001 bonds, as such amounts mature. KUB's Gas Division also issued Series M 2006 bonds in part to retire certain existing debt and to fund capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series H 1998 revenue bonds. During fiscal year 2008, KUB issued Series N-2007 to fund gas system capital improvements. During fiscal year 2010, KUB issued Series O 2010 bonds to retire Series I 2001 bonds. The outstanding principal balances on defeased bond issues were \$60.7 million at June 30, 2010.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

KUB's Water Division issued the Series O 2001 bonds to retire certain existing debt. Concurrent with issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1992 Series L Revenue bonds and 1993 Series M Revenue bonds, as such amounts mature. During fiscal year 2010, Series O 2001 was defeased with the issuance of Series V 2010 bonds. During fiscal year 2001, KUB's Water division issued Series P 2001 bonds to fund capital improvements. During fiscal year 2004, KUB issued Series Q 2004 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series N 1998 revenue bonds as such amounts mature. During fiscal year 2006, KUB's Water Division issued Series R 2005 for the purpose of funding improvements and extensions to the water system. KUB's Water Division also issued Series S 2005 in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature. During fiscal year 2008, KUB issued Series T 2007 bonds to fund water system capital improvements. During fiscal year 2010, KUB issued Series U 2009 bonds to fund water system capital improvements. KUB's Water Division also issued Series V 2010 bonds to retire Series O 2001 bonds. The outstanding principal balances on defeased bond issues were \$18.7 million at June 30, 2010.

During fiscal year 2002, KUB's Wastewater Division issued the Series 2001 bonds in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the 1993 Series Q revenue bonds as such amounts mature. During fiscal year 2010, Series 2001 was defeased with the issuance of Series 2010B. KUB's Wastewater Division also issued Series 2001A to fund capital improvements to the wastewater system. During fiscal year 2004, the Wastewater Division issued Series 2004A bonds to fund Wastewater capital improvements. During fiscal year 2006, KUB's Wastewater Division issued Series 2005A for the purpose of funding improvements and extensions to the wastewater system and to pay off a previously issued \$30 million revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B in part to retire certain existing debt. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued line of credit, and to fund Wastewater capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, the Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. The outstanding principal balances on defeased bond issues were \$31 million at June 30, 2010.

Metropolitan Knoxville Airport Authority

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Other Agreements

Primary government

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

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

	Principal	Interest
2011	\$ 73,480	\$ 52,030
2012	76,520	47,990
2013	79,840	43,780
2014	83,360	39,590
2015	87,070	35,210
2016-2021	617,020	112,300
	<u>\$ 1,017,290</u>	<u>\$ 330,900</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 \$1,500,000 per year.

In fiscal year 2008, the City purchased land for the municipal golf course. Three annual payments of \$12,500 will be made July 31st of each year with a final installment of \$65,000 on July 31, 2012. The note is non-interest bearing and imputed interest at the effective rate of 4% is not considered material to the overall financial statements.

2011	\$ 12,500
2012	12,500
2013	65,000
	<u>\$ 90,000</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Capital Leases

Primary Government

In fiscal year 2009, the City entered into a lease agreement as lessee for financing the acquisition of grounds equipment for the municipal golf course. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The assets acquired through the capital lease have a net book value of \$316,282.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2010 were as follows:

2011	\$ 83,517
2012	83,517
2013	83,517
2014	<u>20,879</u>
Total minimum future lease payments	271,430
Less: amount representing interest	<u>(17,647)</u>
Present value of minimum lease payments	<u><u>\$ 253,783</u></u>

In fiscal year 2010, the City entered into a 15 year lease purchase agreement for energy efficiency upgrades and equipment for the majority of the City owned facilities. The terms of the agreement require total lease payments of \$19,082,061 including interest at 3.97%. Title to the upgrades and equipment transfers to the City immediately upon acceptance of each upgrade or item of equipment. The entire amount of the lease purchase agreement was placed in escrow. Invoices are submitted for payment and once approved and accepted by the City the invoice is paid from the escrow funds. The balance in the escrow account as of June 30, 2010 was \$12,161,562 which is included in cash in the capital projects fund. Interest accrues upon signing of the lease, but payments do not begin until January 30, 2012. The City capitalized \$483,297 as construction in progress for the initial upgrades that will meet the City's capital assets threshold.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2010 were as follows:

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units

Metropolitan Knoxville Airport Authority

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

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

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

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

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

Changes in Long-Term Liabilities

The following schedule is a summary of the changes in long-term debt (including current amounts) for the year ended June 30, 2010:

	Balance June 30, 2009	Additions and Transfers	Reductions and Transfers	Balance June 30, 2010	Due Within One Year
Primary Government					
Government Activities:					
General obligation bonds	\$ 56,560,000	\$ -	\$ 5,325,000	\$ 51,235,000	\$ 5,325,000
Debt participation agreement	1,087,910	-	70,620	1,017,290	70,630
Capital lease	-	13,470,609	-	13,470,609	-
	<u>57,647,910</u>	<u>13,470,609</u>	<u>5,395,620</u>	<u>65,722,899</u>	<u>5,395,630</u>
Add deferred amounts for issuance premiums	1,283,826	-	105,378	1,178,448	105,378
	<u>58,931,736</u>	<u>13,470,609</u>	<u>5,500,998</u>	<u>66,901,347</u>	<u>5,501,008</u>
Compensated absences payable	7,289,730	6,963,303	6,497,196	7,755,837	6,433,083
Total governmental activities long-term liabilities	<u>\$ 66,221,466</u>	<u>\$ 20,433,912</u>	<u>\$ 11,998,194</u>	<u>\$ 74,657,184</u>	<u>\$ 11,934,091</u>
Business-type Activities					
General obligation bonds	\$ 140,810,000	\$ 31,745,000	\$ 35,325,000	\$ 137,230,000	\$ 3,735,000
Less deferred amounts for issuance discounts	(992,916)	-	(64,153)	(928,763)	(64,153)
	<u>139,817,084</u>	<u>31,745,000</u>	<u>35,260,847</u>	<u>136,301,237</u>	<u>3,670,847</u>
Note payable	102,500	-	12,500	90,000	12,500
Capital lease	325,342	-	71,559	253,783	74,537
Compensated absences payable	122,662	118,732	99,115	142,279	99,000
Total business-type activities long-term liabilities	<u>\$ 140,367,588</u>	<u>\$ 31,863,732</u>	<u>\$ 35,444,021</u>	<u>\$ 136,787,299</u>	<u>\$ 3,856,884</u>

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Component Units	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Knoxville Utilities Board:					
Revenue bonds	\$ 604,600,000	\$ 77,025,000	\$ 34,565,000	\$ 647,060,000	\$ 16,370,000
Capital lease obligations	19,897	-	19,897	-	-
TVA conservation program	5,214,513	2,913,640	1,696,287	6,431,866	1,500,000
Accrued compensated absences	8,877,903	13,707,641	13,957,569	8,627,975	2,600,000
Customer advances for construction	1,312,877	288,276	512,348	1,088,805	150,000
Supplemental environmental project	500,000	-	200,000	300,000	150,000
Other	2,083,877	840,178	583,682	2,340,373	301,000
Total Knoxville Utilities Board	<u>622,609,067</u>	<u>94,774,735</u>	<u>51,534,783</u>	<u>665,849,019</u>	<u>21,071,000</u>
Metropolitan Knoxville Airport Authority:					
Revenue/general obligation bonds	97,070,000	-	3,235,000	93,835,000	3,400,000
Less deferred amounts for loss on refunding	<u>(1,564,581)</u>	<u>-</u>	<u>(144,533)</u>	<u>(1,420,048)</u>	<u>-</u>
Total Metropolitan Knoxville Airport Authority	<u>95,505,419</u>	<u>-</u>	<u>3,090,467</u>	<u>92,414,952</u>	<u>3,400,000</u>
Total component units	<u>\$ 718,114,486</u>	<u>\$ 94,774,735</u>	<u>\$ 54,625,250</u>	<u>\$ 758,263,971</u>	<u>\$ 24,471,000</u>

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$142,279 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

All bonds and loans are backed by the full faith and credit of the City. The City has pledged certain revenues, including its property tax, parking and convention center revenues, as collateral to repay its TN Series A-4-A and Series 2009 VI-L-1 long-term debt. These debt issues, which mature through 2032, were used primarily to fund convention center construction and parking facilities of the City. For the year ended June 30, 2010, principal and interest payments on these debt issues were approximately 14 percent of the pledged revenue. Principal and interest remaining to be paid on these debt issues is approximately \$288 million, based on market interest rates effective on June 30, 2010.

Conduit Debt

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 9 - LONG-TERM DEBT (Continued)

Conduit Debt (Continued)

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority's financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Northwest's parent company, Northwest Airlines Corporation, are the only security for the bondholders. The entire amount of the bonds was outstanding at June 30, 2010.

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, 2010 were \$1,253,950.

Component units

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

	Operating Leases
2011	\$ 40,139
2012	37,640
2013	22,932
2014	1,800
	<u>\$ 102,511</u>

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

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the Primary Government's program. The Krutch Park Trust fund is used to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used for maintenance and groundskeeping of the downtown City park. Therefore, the portion of the permanent fund representing the earnings from the permanent portion of the fund is designated for this purpose. The designated balance as of June 30, 2010 is \$180,951.

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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 12 - RISK MANAGEMENT (Continued)

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

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

Health Insurance Fund

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

	2010	2009
Claims liability, beginning of year	\$ 1,000,000	\$ 1,000,000
Provision for incurred claims	10,564,686	9,863,576
Payments made on claims	(10,564,686)	(9,863,576)
Claims liability, end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

Risk Management Fund

The City maintains, as an internal service fund, the Risk Management Fund, to account for legal claims and judgments incurred by the City. The City is currently the defendant in numerous lawsuits. Of these claims, the City has recorded a liability in the Risk Management Fund of \$8,500,000 for those lawsuits and claims that the City's attorney has advised will result in probable liabilities.

An analysis of claims activity for the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Claims liability, beginning of year	\$ 8,500,000	\$ 8,500,000
Provision for incurred claims	3,760,464	5,203,972
Payments made on claims	(3,760,464)	(5,203,972)
Claims liability, end of year	<u>\$ 8,500,000</u>	<u>\$ 8,500,000</u>

Additionally, the City's attorney believes that there is a possible liability to the City of approximately \$865,500 related to the remaining lawsuits and claims not determined to be probable liabilities. Since the outcome is not probable, a liability has not been recorded for these lawsuits and claims.

Estimated payments on insurance claims pending and claims incurred but not reported at June 30, 2010, were accrued in the financial statements of the fund based on pending claims filed and past experience, calculated in accordance with Governmental Accounting Standards Board Statement No. 10. The current portion of the claims liability is estimated to be \$5 million.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 12 - RISK MANAGEMENT (Continued)

Component units

Knoxville Utilities Board

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

The Knoxville Utilities Board is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The balance as of June 30, 2010 includes a contingent liability of \$700,000 for the Gas Division, which is described in greater detail in Note 15 (Commitments and Contingencies).

At June 30, 2010, the amount of these liabilities was \$2,773,985. This liability is the Utilities Board's best estimate based on available information. An analysis of claims activity for the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Claims liability, beginning of year	\$ 2,072,942	\$ 1,933,550
Provision for incurred claims	24,494,321	21,607,112
Payments made on claims	(23,793,278)	(21,467,720)
Claims liability, end of year	<u>\$ 2,773,985</u>	<u>\$ 2,072,942</u>

Metropolitan Knoxville Airport Authority

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

NOTE 13 - JOINT VENTURES

Public Building Authority

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 13 - JOINT VENTURES (Continued)

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

Knoxville, Knox County, KUB Geographic Information Systems

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

Knoxville-Knox County Animal Center

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

NOTE 14 - MANAGEMENT AGREEMENTS

The City has entered into the following management agreements:

Knoxville Zoo - The City entered into a new agreement on July 1, 2001, with Knoxville Zoological Gardens, Inc. whereby Knoxville Zoological Gardens, Inc. shall lease the Zoo to provide for its operation and management. Under terms of the agreement the City shall grant to Knoxville Zoological Park \$900,000 by August 1 each year through 2011.

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

Parking Garages - The City entered into an agreement with the Public Building Authority of the County of Knox and the City of Knoxville, Tennessee (PBA) on August 11, 2005 to manage and operate the State Street, Main Avenue, and Market Square Parking Garages and the Jackson Avenue Parking Lot. The terms of the agreement shall continue until terminated by either party. The terms call for the City and PBA to agree upon an annual budget for the management of the above, said budget to cover direct and indirect costs of PBA relating to the management of the facilities. The amount of this budget in fiscal year 2010 is \$2,645,525.

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 14 - MANAGEMENT AGREEMENTS (Continued)

Knoxville Convention Center - The City has an agreement beginning July 1, 2006, with SMG to manage the operations of the Convention Center for a period of five years, with an option for an additional five years. The agreement calls for a fixed base fee of \$250,000 in fiscal year 2008, and increasing by the CPI each year thereafter. SMG is also to receive an incentive fee each year depending upon the increase in various revenue categories as defined by the contract, but which in no instance exceed the fixed base fee. SMG shall also receive an additional incentive fee based upon various qualitative factors, but which shall not exceed \$267,450 in fiscal year 2010, said maximum to be annually adjusted by the CPI.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Primary Government

Federal Financial Assistance - The City participates in a number of federal financial assistance programs. These programs have been audited through June 30, 2010 in accordance with provisions of the Single Audit Act of 1984.

Construction Contracts - The following represents capital projects funds spent to date and current contractual obligations as of June 30, 2010:

	<u>Spent to Date</u>	<u>Contractual Commitment Remaining at June 30, 2010</u>
Bridge Maintenance Program	\$ 124,099	\$ 1,524,975
Building Maintenance	304,343	322,963
Drainage Improvements	1,534,316	1,429,932
Information Systems Upgrades	19,904	6,000
Parks Improvements	55,988	7,467
Paving Program	0	5,831,722
South Knoxville Waterfront	1,755,416	1,897,833
Roadway Improvements	3,889,891	1,349,221
	<u>\$ 7,683,957</u>	<u>\$ 12,370,113</u>

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.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Under the purchased gas adjustment mechanism, the Division tracks the actual over/under recovered amount in the unrecovered purchased gas costs accounts. These accounts are rolled into the purchased gas rate adjustment on June 30 of each year thereby assuring that any over/under recovered amounts are passed on to the Division's customers. The amount of over-recovered costs was \$3,517,099 at June 30, 2010.

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

TVA implemented a fuel cost adjustment (FCA) in October 2006 that is applied on a quarterly basis to wholesale power rates. KUB flowed changes to wholesale power rates, from TVA's fuel cost adjustment mechanism, directly through to its retail electric rates via the purchased power adjustment for each quarterly adjustment in fiscal year 2009. TVA's quarterly fuel cost adjustment became a monthly fuel cost adjustment effective October 2009. KUB flowed FCA changes to wholesale power rates directly through to its retail electric rates via its purchased power adjustment in July 2009 and each remaining month of the fiscal year beginning October 2009.

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

Natural Gas Supply Contract Commitments - For the year ended June 30, 2010, the Gas Division of the Knoxville Utilities Board locked the price on 61% of its total gas purchases via gas supply contracts. As of June 30, 2010, the Gas Division had hedged the price on approximately 14% of its anticipated gas purchases for fiscal year 2010.

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:

	2011	2012	2013	2014	2015
Demand:					
Transportation	\$ 16,420,200	\$ 15,839,511	\$ 14,386,731	\$ 14,386,731	\$ 14,386,731
Storage	3,960,920	3,960,920	4,239,785	4,332,740	4,332,740
Demand total	<u>\$ 20,381,120</u>	<u>\$ 19,800,431</u>	<u>\$ 18,626,516</u>	<u>\$ 18,719,471</u>	<u>\$ 18,719,471</u>
Commodity:					
Baseload	<u>\$ 10,375,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for BP Energy, Conoco, and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the Equitable contract is based upon firm supply obligations at locked prices and the applicable four month New York Mercantile Exchange ("NYMEX") strip prices at August 4, 2010.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 15 - COMMITMENTS AND CONTINGENCIES (Continued)

Other Commitments and Contingencies

In February 2005 a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, achieving the goal of remediation of identified sanitary sewer overflows ("SSOs") on KUB's wastewater system must be completed by December 31, 2016.

KUB anticipates the Division will spend approximately \$530 million in capital investments in order to comply with the terms of the Consent Decree related to the collection system. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

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

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

During fiscal year 2006, KUB launched the Private Lateral Program (PLP), as required by the Consent Decree, under which KUB tests private collection system laterals on its wastewater system over a ten-year period. Defective laterals and improper connections can introduce rainwater overloading the wastewater system and add pollution to area waterways. If a private lateral fails the respective inspection test, then the customer is required to have the lateral repaired/replaced within a specified time period. The \$2 million SEP provides funding for lateral repairs/replacements for eligible low-income customers. \$1.1 million in SEP funds has been disbursed since program inception through the end of June 2010.

KUB's funding plan for the Consent Decree through 2016 includes approximately \$680 million in bond issues through 2021 plus a series of rate increases phased in over the term of the order. As of June 30, 2010, the Wastewater Division has issued \$290 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008.

KUB has been placed on notice by the owners of a residence in the Gas Division service territory, along with their insurance carrier and insurance carriers for several neighbors, that they may seek to recover from KUB for damages as a result of a home explosion accident on December 9, 2009, that resulted in the death of one person, bodily injury to others and damage to one or more homes in the area. While the matter continues to be under investigation by other parties, KUB's investigation, testing and analysis of its facilities was not able to determine the cause of the incident. On September 20, 2010, an additional homeowner filed suit against KUB seeking to recover damages resulting from the accident. The maximum potential exposure to KUB for the claims arising out of this accident is \$700,000, which is the amount of KUB's self-insured retention under its excess insurance policy.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 16 - BUSINESS AND CREDIT CONCENTRATIONS

The Metropolitan Knoxville Airport Authority is dependent to a large extent on three major airlines and their subsidiaries in that a significant portion of aviation area revenue is generated by these airlines. These airlines accounted for \$2,627,149 in aviation area revenue during 2010. In addition, a significant portion of terminal area revenue is directly and indirectly generated from this airline's passengers, which accounted for approximately 64% of total passengers during 2010. As of June 30, 2010, 66% of trade accounts receivable are due from these major airlines.

NOTE 17 - TRANSFERS

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 17 - TRANSFERS (Continued)

A detailed reconciliation of operating transfers at June 30, 2010 is as follows:

Transfers To:	Transfers From:											Business Type Activities					Total
	Governmental Activities											Internal Service Funds					
	General Fund	Debt Service	Capital Projects	State Street Aid	Abandoned Vehicles	City Court	Animal Control	Misc. Spec. Rev. Grants	Misc. Grants	Misc. Comm. Dev.	Solid Waste	Metro Parking	Fleet Maintenance	Risk Management	Heath Insurance		
Primary Government:																	
Governmental Activities:																	
General Fund	\$ -	\$ -	\$ 1,484,475	\$ -	\$ -	\$ 4,098,180	\$ -	\$ 1,422	\$ 100,036	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,684,113	
Capital Projects Fund	5,550,000	15,010,000	-	560,000	14,000	-	-	1,993,832	-	4,000	-	1,000,000	-	-	-	24,139,582	
Abandoned Vehicles	-	-	642	-	-	-	-	-	-	-	-	-	-	-	-	642	
Animal Control	-	-	135	-	-	-	-	-	-	-	-	-	-	-	-	135	
City Inspections	612,250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	612,250	
Miscellaneous Community Development Fund	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	75,000	
Miscellaneous Special Revenue	741,030	-	3,549	-	-	-	-	-	10,002	-	-	-	-	-	-	754,581	
Miscellaneous Grants	65,350	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,350	
Storm Water	2,418,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,418,700	
Solid Waste	9,024,220	-	34,882	-	-	-	-	-	-	-	-	-	-	-	-	9,059,102	
Business-type Activities:																	
Metro Parking	-	-	4,670	-	-	-	-	-	-	-	-	-	-	-	-	4,670	
Convention Center	3,731,060	4,595,400	157,474	-	-	-	-	-	-	-	-	-	-	-	-	8,483,934	
Public Assembly Facilities	1,905,360	165,000	869,236	-	-	-	-	282,550	-	-	-	-	-	-	-	3,222,146	
City Golf Courses	127,190	-	62,281	-	-	-	-	-	-	-	-	-	-	-	-	189,471	
Internal Service Funds:																	
Fleet Maintenance	1,134,419	40,500	96,170	-	-	-	-	-	-	-	-	-	-	-	-	1,271,089	
Risk Management	393,080	-	-	-	-	-	-	-	-	-	-	-	-	-	-	393,080	
Health Insurance	1,105,810	-	4,499	-	-	-	-	-	-	-	-	-	-	-	-	1,110,309	
Equipment Replacement	284,648	-	551,362	-	2,142	-	6,063	1,482	-	-	1,044	-	1,821	3,341	4,056	855,959	
City Buildings	-	-	26,745	-	-	-	-	-	-	-	-	-	-	-	-	26,745	
	\$ 27,168,117	\$ 19,810,900	\$ 3,296,120	\$ 560,000	\$ 16,142	\$ 4,098,180	\$ 6,063	\$ 2,279,286	\$ 110,038	\$ 4,000	\$ 1,044	\$ 1,000,000	\$ 1,821	\$ 3,341	\$ 11,806	\$ 58,366,858	

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 18 - RETIREMENT AND DISABILITY PLANS AND PRIOR PERIOD ADJUSTMENT

Defined Benefit Pension Plans

City of Knoxville Pension System

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

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 18 - RETIREMENT AND DISABILITY PLANS AND PRIOR PERIOD ADJUSTMENT (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Board of Education Division - The City of Knoxville School System was abolished effective July 1, 1987 and absorbed into the operations of the Knox County School System. A court ruling has held and the Tennessee Court of Appeals has affirmed that the City is liable for the accrued pension liability, through June 30, 1987, for those former City School employees who remain in the City of Knoxville Pension System. Because of the abolition of the City School System, the Board of Education Division of the City of Knoxville Pension System has, in substance, been terminated. The City is responsible for any unfunded pension liability for the benefits that former City School employees would be entitled to if their earned benefits were frozen at July 1, 1987. No liability existed at June 30, 2010.

At July 1, 2010, the Plan had 2,293 retirees and beneficiaries currently receiving benefits and 33 employees currently participating in the Delayed Retirement Option Program (DROP) and 89 deferred vested participants. Of the approximately 1,539 active employees in the Plan, 1,099 were fully vested at July 1, 2010. Benefit provisions are established in the City's Charter and can be amended by voter referendum. The City of Knoxville Pension System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Knoxville Pension Board, 917B East Fifth Avenue, Knoxville, Tennessee 37917. The assets of the Plan are also included in the reporting entity as a fiduciary pension trust fund.

Annual Pension Costs

Employer contributions represent a percentage of the monthly earnings of Plan members based on an actuarial valuation within three years of the base year. The recommended contributions are determined using the entry age normal funding method. Unfunded actuarial accrued liabilities are being amortized as level dollar annual payments over an amortization period not to exceed thirty years. Projected covered payroll for the years beginning on July 1, 2010 and 2009 (without Board of Education amounts) amounted to approximately \$63,977,132 and \$60,585,868 respectively.

Employer contributions, excluding Board of Education contributions, and percentages of employer-covered payroll for the years ended June 30, 2010 and 2009 were as follows:

	2010		2009	
	Amount	Rate - %	Amount	Rate - %
Uniformed Police and Fire	\$ 5,020,898	15.61%	\$ 4,829,577	16.33%
General Government Contribution	2,336,728	7.38%	2,075,497	6.76%
Division G Matching Contribution	265,418	0.84%	254,133	0.83%
Total	<u>\$ 7,623,044</u>		<u>\$ 7,159,207</u>	

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 18 - RETIREMENT AND DISABILITY PLANS AND PRIOR PERIOD ADJUSTMENT (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Funded Status

The System has adopted the use of the entry age normal method effective with the July 2007 valuation. As of July 1, 2010, the most recent actuarial valuation date, the plan was 88.7% funded. The actuarial accrued liability for benefits was \$578.1 million, and the actuarial value of assets was \$512.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$65.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$64.0 million, and the ratio of the UAAL to the covered payroll was 102.0%.

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

For the year ended June 30, 2010, the annual pension cost for the System exceeded the required contributions for the uniformed police and fire and was equal to the required contribution for the general government contribution. Significant actuarial assumptions used in the valuation as of July 1, 2010 include: (a) rate of return on investment of present and future assets of 8%; (b) the assumed salary scale is based on a review of the experience study of the plan, the assumed salary increases are greater at younger ages and lower at older ages; and (c) projected post retirement increases of 3.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a ten-year period.

Fiscal Year Ending	Annual Pension Percentage of APC		Net Pension Obligation
	Cost (APC)	Contributed	
June 30, 2010	\$ 7,385,690	100%	\$ (2,941,343)
June 30, 2009	6,935,152	100%	(2,968,521)
June 30, 2008	6,693,672	145%	(2,998,600)

The two significant actuarial assumptions used by the System are the investment return assumption of 8% and the increase in salary scale assumption which is based on an experience study shown below:

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 18 - RETIREMENT AND DISABILITY PLANS AND PRIOR PERIOD ADJUSTMENT (Continued)

Defined Benefit Pension Plans (Continued)

City of Knoxville Pension System (Continued)

Net Pension Obligation

The calculation of the net pension obligation is as follows for June 30, 2010:

⁽¹⁾ Determination of Annual Pension Cost / Net Pension Obligation for 2010

Annual required contribution (with interest to middle of year)	\$ 5,016,895
Interest on net pension obligation	(237,482)
Adjustment to annual required contribution	<u>268,663</u>
Annual pension cost	5,048,076
Contributions made	<u>(5,020,898)</u>
Increase in net pension obligation	27,178
Net pension obligation beginning of year	<u>(2,968,521)</u>
Net pension obligation end of year	<u><u>\$ (2,941,343)</u></u>

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

Prior Period Adjustment

The beginning net assets of the governmental activities were increased by \$2,968,521 for the prior year due to erroneously not recording the negative net pension obligation of the pension trust fund as an asset in the government-wide financial statements. The net assets beginning balance on the Statement of Activities was restated as follows:

	<u>Governmental Activities</u>
Net assets, as previously reported	\$ 437,028,846
Adjustment for negative net pension obligation	<u>2,968,521</u>
Net assets, as restated	<u><u>\$ 439,997,367</u></u>

Knoxville Utilities Board Pension Plan

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 18 - RETIREMENT AND DISABILITY PLANS AND PRIOR PERIOD ADJUSTMENT (Continued)

Defined Benefit Pension Plans (Continued)

Knoxville Utilities Board Pension Plan (Continued)

At December 31, 2009, the Plan had 669 retirees and beneficiaries currently receiving benefits and 56 terminated employees entitled to benefits but not yet receiving them. Of the approximately 945 current employees in the Plan, 731 were fully vested at December 31, 2009. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

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

Career Equity Program (CEP)

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

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

Plan A

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

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

Plan B

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

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

Funding Policy and Annual Pension Costs

The Plan has adopted the use of the individual entry age normal method effective with the December 2007 valuation. As of December 31, 2009, the most recent actuarial valuation date, the plan was 106.8% funded. The actuarial accrued liability for benefits was \$190.7 million, and the actuarial value of assets was \$203.7 million, resulting in an overfunded actuarial accrued asset (UAAL) of \$13 million. The covered payroll (annual payroll of active employees covered by the plan) was \$48.2 million, and the ratio of the UAAL to the covered payroll was -27.0%.

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 18 - RETIREMENT AND DISABILITY PLANS AND PRIOR PERIOD ADJUSTMENT (Continued)

Defined Benefit Pension Plans (Continued)

Knoxville Utilities Board Pension Plan (Continued)

For the plan year ended December 31, 2009 the actuarial-accrued liability for the Plan was less than the actuarial value of assets; however, a contribution of \$5,540,720 is required to be made because the amortization of the negative unfunded actuarial liability is less than the normal cost. The contribution is required to be made during the plan sponsor's fiscal year ending June 30, 2011. The annual required contribution was determined as part of the January 1, 2008 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8%, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 3.21% to 6.26%, and (d) cost of living adjustment of 4% in 2001 and 3% annually for years 2002 through 2006. Use of the RP2000 Mortality Table for 2006 and 2005 in the actuarial valuation represents a change in actuarial assumption from prior years, when the 1983 Group Annuity Mortality Table was used. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

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

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
December 31, 2009	\$ 5,540,720	100%
December 31, 2008	194,031	100%
December 31, 2007	564,538	100%

Defined Contribution Plans

Knoxville Utilities Board

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

401(k) matching contributions for employees eligible to participate in the KUB Pension Plan were funded by the Pension Plan for the year ended June 30, 2010, using a portion of excess pension assets accumulated during past years. These funds are held by the trustee custodian until necessary for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 18 - RETIREMENT AND DISABILITY PLANS AND PRIOR PERIOD ADJUSTMENT (Continued)

Defined Contribution Plans (Continued)

Metropolitan Knoxville Airport Authority

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

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled \$734,060 in 2010. There were no employee contributions in 2010.

Knoxville Area Transit

Knoxville Area Transit ("KAT") provides retirement benefits for all of its full-time employees through a defined contribution plan (Knoxville Transit Retirement Plan) which was established and amended under the authority of the Board of Directors and is administered by ERISA Services, Inc. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon attaining a minimum age of twenty-one years and completing one year of eligible service.

KAT's contributions for each employee (and investment income allocated to the employees' account) are vested after five years of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Directors. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled \$348,308 in 2010. Employee contributions totaled \$463,481 in 2010.

Deferred Compensation Plans

Primary government

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

Component unit

Metropolitan Knoxville Airport Authority

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The Plan, available to all Authority employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were \$107,483 in 2010.

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 19 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

Primary government

Plan Description

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

Funding Policies

The contribution requirements of the Plan members and City are established and may be amended by the Health Insurance Fund. The required contribution is based on projected pay-as-you-go financing requirements whereby contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. The City contributes 40% of the premium payments and the retirees contribute 60%. For the fiscal year ended June 30, 2010, the City and the retirees contributed \$565,370 and \$848,055, respectively.

Annual OPEB Cost and Net OPEB Obligation

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

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

For the City for June 30, 2010 the City's annual OPEB cost of \$1,413,425 was equal to the required contribution. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 1,413,425	100.00%	\$ -
June 30, 2009	1,582,785	100.00%	-
June 30, 2008	1,641,422	100.00%	-

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

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

Primary government (Continued)

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the Plan was 0% funded. Since the current contribution amounts exceeded the ARC, the City will not record any additional liability for OPEB and has chosen not to establish a trust for these benefits. The City will evaluate the funding status each year and will obtain actuarial evaluations of the potential liability on a bi-annual basis.

The actuarial accrued liability for benefits was \$15.4 million. Since there are no plan assets, the unfunded actuarial accrued liability is \$15.4. The covered payroll was \$58.9 million and the ratio of the UAAL to covered payroll is 26%.

Actuarial Valuations, Methods and Assumptions

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

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

In the July 1, 2009 valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% rate of return (net of administrative expenses). Annual medical costs are assumed to increase 11% in the first year of valuation. Future annual increases are assumed to grade uniformly to 5% over a six year period. The estimated actuarial accrued liability (AAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010 was 30 years.

Component units

Knoxville Utilities Board

KUB currently provides post-employment health care benefits to 654 former employees and 682 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of GASB 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2010, 492 active employees were eligible for individual and dependent coverage at separation if the employee meets the Rule of 80 (age plus years of service) with a minimum of 20 years of service.

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

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

Component Units (Continued)

Knoxville Utilities Board (Continued)

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

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

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

An actuarial study was completed in 2009 to determine KUB's actuarial accrued liability for post-employment health care benefits. The present value of the unfunded actuarial accrued OPEB liability is \$101 million. This valuation is based on fully funding the liability through the OPEB trust for a period of thirty years, with an assumed annual rate of return of 8 percent. The total ARC (annual required contribution) for FY 2010 was \$12.9 million.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	\$0	\$ 108,329,141	\$ 108,329,141	0%	\$ 31,234,509	347%
June 30, 2009	0	147,211,690	147,211,690	0%	31,420,890	469%
June 30, 2008	0	138,806,038	138,806,038	0%	32,131,503	432%

Actual contributions for FY 2010 totaled \$12.9 million, including \$6.0 million in deposits to the Trust for future claims and \$6.9 million in actual claim payments. As a result, KUB's unfunded liability as of June 30, 2010 was \$2.4 million.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 12,900,000	84.31%	\$ 2,400,000
June 30, 2009	14,400,000	80.90%	3,400,000
June 30, 2008	14,406,186	89.85%	1,627,850

Metropolitan Knoxville Airport Authority and Knoxville Area Transit

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

CITY OF KNOXVILLE, TENNESSEE
Notes to Financial Statements (Continued)
June 30, 2010

NOTE 20 - RELATED PARTY TRANSACTIONS

Related party transactions are summarized as follows:

Amounts billed by the Knoxville Utilities Board to the City of Knoxville for electric, gas, water and sewer service	\$ 11,319,213
Payments by the Knoxville Utilities Board to the City of Knoxville in lieu of property tax	12,367,150
Payments by the Knoxville Utilities Board to the City of Knoxville for services provided	1,637,150
Subsidies paid by the City to Knoxville Area Transit	9,271,007

CITY OF KNOXVILLE

Required Supplementary Information

June 30, 2010

Schedule of Funding Progress - City of Knoxville Pension System

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability * (b)	Unfunded Actuarial Accrued Liability (UAAL) * (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2010 \$	512,943,851 \$	578,180,826 \$	65,236,975	88.7% \$	63,977,132	102.0%
July 1, 2009	523,121,786	561,660,015	38,538,229	93.1%	60,585,868	63.6%
July 1, 2008	524,596,859	544,826,299	20,229,440	96.3%	58,226,253	34.7%
July 1, 2007	509,837,414	528,228,802	18,391,388	96.5%	56,599,723	32.5%

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

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

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

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009 \$	-	\$ 15,445,521 \$	15,445,521	0.0% \$	58,946,845	26.2%
July 1, 2008	-	15,524,797	15,524,797	0.0%	58,215,528	26.7%
July 1, 2007	-	17,704,000	17,704,000	0.0%	55,396,816	32.0%

CITY OF KNOXVILLE

**Required Supplementary Information
June 30, 2010**

Schedule of Funding Progress - Knoxville Utilities Board Pension Plan

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

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

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	\$ -	\$ 108,329,141	\$ 108,329,141	0.0%	\$ 31,234,509	346.8%
June 30, 2009	-	147,211,690	147,211,690	0.0%	31,420,890	468.5%
June 30, 2008	-	138,806,038	138,806,038	0.0%	32,131,503	432.0%

THIS PAGE IS LEFT BLANK INTENTIONALLY

Nonmajor Governmental Funds

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

Special Revenue Funds

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

Permanent Fund

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

CITY OF KNOXVILLE, TENNESSEE

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Assets						
Cash & cash equivalents	\$ -	\$ 14,353	\$ 117,397	\$ 100	\$ 625,733	\$ 1,221,059
Investments	2,031,076	-	1,823,281	390,348	566,942	-
Accounts receivable	848,637	1,397,915	-	5,046	18,444	993,020
Notes receivable	-	10,171,174	-	-	-	-
Inventories	-	83,773	-	-	-	-
Total assets	<u>\$ 2,879,713</u>	<u>\$ 11,667,215</u>	<u>\$ 1,940,678</u>	<u>\$ 395,494</u>	<u>\$ 1,211,119</u>	<u>\$ 2,214,079</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 289,106	\$ 267,416	\$ 32,068	\$ 3,609	\$ 60,384	\$ 171,125
Accrued liabilities	-	38,090	15,649	101,577	57,359	50,906
Customer deposits	-	50,014	-	-	-	-
Due to other funds	-	1,056,748	-	65,808	-	1,499,563
Due to other governmental agencies	-	-	-	-	-	-
Deferred revenue	-	10,171,174	-	-	-	115,000
Total liabilities	<u>289,106</u>	<u>11,583,442</u>	<u>47,717</u>	<u>170,994</u>	<u>117,743</u>	<u>1,836,594</u>
Fund balances:						
Reserved for:						
Encumbrances	-	-	132	88	12	-
Inventories	-	83,773	-	-	-	-
Permanent funds	-	-	-	-	-	-
Designated for:						
Permanent funds	-	-	-	-	-	-
Unreserved, undesignated	2,590,607	-	1,892,829	224,412	1,093,364	377,485
Total fund balances	<u>2,590,607</u>	<u>83,773</u>	<u>1,892,961</u>	<u>224,500</u>	<u>1,093,376</u>	<u>377,485</u>
Total liabilities and fund balances	<u>\$ 2,879,713</u>	<u>\$ 11,667,215</u>	<u>\$ 1,940,678</u>	<u>\$ 395,494</u>	<u>\$ 1,211,119</u>	<u>\$ 2,214,079</u>

Special Revenue Funds (continued)						Permanent Fund		
Animal Control	Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ 416	\$ 138,511	\$ -	\$ 50	\$ 100	\$ -	\$ 2,117,719	\$ 249,058	\$ 2,366,777
428,152	11,439,409	917,307	830,908	5,733,441	2,583,501	26,744,365	555,546	27,299,911
135	9,046	1,285,272	20	19,461	-	4,576,996	412	4,577,408
-	-	10,403,534	-	-	-	20,574,708	-	20,574,708
-	-	268,141	-	-	-	351,914	-	351,914
<u>\$ 428,703</u>	<u>\$ 11,586,966</u>	<u>\$ 12,874,254</u>	<u>\$ 830,978</u>	<u>\$ 5,753,002</u>	<u>\$ 2,583,501</u>	<u>\$ 54,365,702</u>	<u>\$ 805,016</u>	<u>\$ 55,170,718</u>
\$ -	\$ 46,384	\$ 698,777	\$ 13,105	\$ 519,168	\$ -	\$ 2,101,142	\$ -	\$ 2,101,142
-	22,483	15,225	86,966	26,230	-	414,485	-	414,485
-	368,075	11,531	-	-	-	429,620	-	429,620
-	410,253	230,953	71,147	397,000	-	3,731,472	-	3,731,472
-	2,950	-	-	-	-	2,950	-	2,950
-	9,995	10,448,626	-	-	-	20,744,795	-	20,744,795
-	860,140	11,405,112	171,218	942,398	-	27,424,464	-	27,424,464
259	65,315	280,024	22,958	164,566	-	533,354	-	533,354
-	-	268,141	-	-	-	351,914	-	351,914
-	-	-	-	-	-	-	624,065	624,065
-	-	-	-	-	-	-	180,951	180,951
428,444	10,661,511	920,977	636,802	4,646,038	2,583,501	26,055,970	-	26,055,970
428,703	10,726,826	1,469,142	659,760	4,810,604	2,583,501	26,941,238	805,016	27,746,254
<u>\$ 428,703</u>	<u>\$ 11,586,966</u>	<u>\$ 12,874,254</u>	<u>\$ 830,978</u>	<u>\$ 5,753,002</u>	<u>\$ 2,583,501</u>	<u>\$ 54,365,702</u>	<u>\$ 805,016</u>	<u>\$ 55,170,718</u>

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010**

	Special Revenue Funds					
	State Street Aid	Community Development Block Grants	Abandoned Vehicles	City Inspections	City Court	Miscellaneous Grants
Revenues						
Taxes, assessments, interest & penalties	\$ 4,618,602	\$ -	\$ -	\$ -	\$ 804,995	\$ -
Licenses, permits & inspection charges	-	-	-	1,403,360	-	-
Intergovernmental	-	3,469,485	-	-	-	3,200,607
Charges for services	-	-	374,557	-	2,644,950	-
Fines & forfeitures	-	-	-	-	1,493,801	-
Other	5,447	192,486	322,358	1,070	7,564	38,162
Total revenues	<u>4,624,049</u>	<u>3,661,971</u>	<u>696,915</u>	<u>1,404,430</u>	<u>4,951,310</u>	<u>3,238,769</u>
Expenditures						
Current:						
Administration	-	-	-	-	-	147,035
Operations & engineering	3,289,342	-	744,456	-	-	139,854
Community & neighborhood services	-	3,745,853	-	2,227,748	-	679,777
Law	-	-	-	-	858,112	-
Police	-	-	-	-	-	2,342,428
Legislative	-	-	-	-	-	-
Mass transit	-	-	-	-	-	-
Total expenditures	<u>3,289,342</u>	<u>3,745,853</u>	<u>744,456</u>	<u>2,227,748</u>	<u>858,112</u>	<u>3,309,094</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,334,707</u>	<u>(83,882)</u>	<u>(47,541)</u>	<u>(823,318)</u>	<u>4,093,198</u>	<u>(70,325)</u>
Other financing sources (uses)						
Transfers in	-	-	642	612,250	-	65,350
Transfers out	(560,000)	-	(16,142)	-	(4,098,180)	(110,038)
Total other financing sources (uses)	<u>(560,000)</u>	<u>-</u>	<u>(15,500)</u>	<u>612,250</u>	<u>(4,098,180)</u>	<u>(44,688)</u>
Net change in fund balances	<u>774,707</u>	<u>(83,882)</u>	<u>(63,041)</u>	<u>(211,068)</u>	<u>(4,982)</u>	<u>(115,013)</u>
Fund balance - beginning	<u>1,815,900</u>	<u>167,655</u>	<u>1,956,002</u>	<u>435,568</u>	<u>1,098,358</u>	<u>492,498</u>
Fund balance - ending	<u>\$ 2,590,607</u>	<u>\$ 83,773</u>	<u>\$ 1,892,961</u>	<u>\$ 224,500</u>	<u>\$ 1,093,376</u>	<u>\$ 377,485</u>

Special Revenue Funds (continued)							Permanent Fund	
Animal Control	Miscellaneous Special Revenue Funds	Miscellaneous Community Development Funds	Storm Water	Solid Waste	Knoxville Civic Revitalization	Total Special Revenue Funds	Krutch Park	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,423,597	\$ -	\$ 5,423,597
-	-	-	-	-	-	1,403,360	-	1,403,360
-	145,935	7,550,892	-	-	-	14,366,919	-	14,366,919
54,259	682,843	955,373	141,918	705,196	50,491	5,609,587	-	5,609,587
-	2,115,832	-	-	-	-	3,609,633	-	3,609,633
1,435	323,173	567,325	2,354	388,902	9,063	1,859,339	28,091	1,887,430
55,694	3,267,783	9,073,590	144,272	1,094,098	59,554	32,272,435	28,091	32,300,526
-	72,259	-	-	-	-	219,294	-	219,294
-	333,333	-	2,480,949	-	-	6,987,934	-	6,987,934
16,126	472,047	9,258,976	-	10,125,979	-	26,526,506	-	26,526,506
-	-	-	-	-	-	858,112	-	858,112
-	959,502	-	-	-	-	3,301,930	-	3,301,930
-	-	71,000	-	-	-	71,000	-	71,000
-	75,000	-	-	-	-	75,000	-	75,000
16,126	1,912,141	9,329,976	2,480,949	10,125,979	-	38,039,776	-	38,039,776
39,568	1,355,642	(256,386)	(2,336,677)	(9,031,881)	59,554	(5,767,341)	28,091	(5,739,250)
135	754,581	75,000	2,418,700	9,059,102	-	12,985,760	-	12,985,760
(6,063)	(2,279,286)	(4,000)	-	(1,044)	-	(7,074,753)	-	(7,074,753)
(5,928)	(1,524,705)	71,000	2,418,700	9,058,058	-	5,911,007	-	5,911,007
33,640	(169,063)	(185,386)	82,023	26,177	59,554	143,666	28,091	171,757
395,063	10,895,889	1,654,528	577,737	4,784,427	2,523,947	26,797,572	776,925	27,574,497
\$ 428,703	\$ 10,726,826	\$ 1,469,142	\$ 659,760	\$ 4,810,604	\$ 2,583,501	\$ 26,941,238	\$ 805,016	\$ 27,746,254

CITY OF KNOXVILLE, TENNESSEE

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

State Street Aid For the Year Ended June 30, 2010

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes, assessments, interest & penalties	\$ 4,425,000	\$ 4,425,000	\$ 4,618,602	\$ 193,602
Other	20,000	20,000	5,447	(14,553)
Total revenues	<u>4,445,000</u>	<u>4,445,000</u>	<u>4,624,049</u>	<u>179,049</u>
Expenditures				
Current:				
Operations & engineering	3,885,000	3,885,000	3,289,342	595,658
Total expenditures	<u>3,885,000</u>	<u>3,885,000</u>	<u>3,289,342</u>	<u>595,658</u>
Excess (deficiency) of revenues over (under) expenditures	<u>560,000</u>	<u>560,000</u>	<u>1,334,707</u>	<u>774,707</u>
Other financing sources (uses)				
Transfers out	(560,000)	(560,000)	(560,000)	-
Total other financing sources (uses)	<u>(560,000)</u>	<u>(560,000)</u>	<u>(560,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	774,707	<u>\$ 774,707</u>
Fund balance - beginning			<u>1,815,900</u>	
Fund balance - ending			<u>\$ 2,590,607</u>	

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -
GAAP Basis
Community Development Block Grants
For the Year Ended June 30, 2010**

	Budget			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 1,879,840	\$ 3,700,000	\$ 3,469,485	\$ (230,515)
Other	100,000	100,000	192,486	92,486
Total revenues	<u>1,979,840</u>	<u>3,800,000</u>	<u>3,661,971</u>	<u>(138,029)</u>
Expenditures				
Current:				
Community & neighborhood services	<u>1,979,840</u>	<u>3,800,000</u>	<u>3,745,853</u>	<u>54,147</u>
Total expenditures	<u>1,979,840</u>	<u>3,800,000</u>	<u>3,745,853</u>	<u>54,147</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(83,882)</u>	<u>(83,882)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(83,882)</u>	<u>\$ (83,882)</u>
Fund balance - beginning			<u>167,655</u>	
Fund balance - ending			<u>\$ 83,773</u>	

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis Abandoned Vehicles For the Year Ended June 30, 2010

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 417,100	\$ 417,100	\$ 374,557	\$ (42,543)
Other	411,890	411,911	322,358	(89,553)
Total revenues	<u>828,990</u>	<u>829,011</u>	<u>696,915</u>	<u>(132,096)</u>
Expenditures				
Current:				
Operations & engineering	814,990	812,869	744,456	68,413
Total expenditures	<u>814,990</u>	<u>812,869</u>	<u>744,456</u>	<u>68,413</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,000</u>	<u>16,142</u>	<u>(47,541)</u>	<u>(63,683)</u>
Other financing sources (uses)				
Transfers in	-	-	642	642
Transfers out	(14,000)	(16,142)	(16,142)	-
Total other financing sources (uses)	<u>(14,000)</u>	<u>(16,142)</u>	<u>(15,500)</u>	<u>642</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(63,041)	<u>\$ (63,041)</u>
Fund balance - beginning			<u>1,956,002</u>	
Fund balance - ending			<u>\$ 1,892,961</u>	

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis City Inspections For the Year Ended June 30, 2010

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Licenses, permits & inspection charges	\$ 1,694,850	\$ 1,694,938	\$ 1,403,360	\$ (291,578)
Other	19,130	19,130	1,070	(18,060)
Total revenues	1,713,980	1,714,068	1,404,430	(309,638)
Expenditures				
Current:				
Community & neighborhood services	2,326,230	2,326,318	2,227,748	98,570
Total expenditures	2,326,230	2,326,318	2,227,748	98,570
Excess (deficiency) of revenues over (under) expenditures	(612,250)	(612,250)	(823,318)	(211,068)
Other financing sources (uses)				
Transfers in	612,250	612,250	612,250	-
Total other financing sources (uses)	612,250	612,250	612,250	-
Net change in fund balances	\$ -	\$ -	(211,068)	\$ (211,068)
Fund balance - beginning			435,568	
Fund balance - ending			\$ 224,500	

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis City Court For the Year Ended June 30, 2010

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes, assessments, interest & penalties	\$ 877,700	\$ 877,700	\$ 804,995	\$ (72,705)
Charges for services	2,889,200	2,889,200	2,644,950	(244,250)
Fines & forfeitures	1,627,300	1,627,300	1,493,801	(133,499)
Other	26,600	26,924	7,564	(19,360)
Total revenues	<u>5,420,800</u>	<u>5,421,124</u>	<u>4,951,310</u>	<u>(469,814)</u>
Expenditures				
Current:				
Law	777,620	877,944	858,112	19,832
Total expenditures	<u>777,620</u>	<u>877,944</u>	<u>858,112</u>	<u>19,832</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,643,180</u>	<u>4,543,180</u>	<u>4,093,198</u>	<u>(449,982)</u>
Other financing sources (uses)				
Transfers out	<u>(4,643,180)</u>	<u>(4,543,180)</u>	<u>(4,098,180)</u>	<u>445,000</u>
Total other financing sources (uses)	<u>(4,643,180)</u>	<u>(4,543,180)</u>	<u>(4,098,180)</u>	<u>445,000</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(4,982)</u>	<u>\$ (4,982)</u>
Fund balance - beginning			<u>1,098,358</u>	
Fund balance - ending			<u>\$ 1,093,376</u>	

CITY OF KNOXVILLE, TENNESSEE

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

Miscellaneous Special Revenue Funds For the Year Ended June 30, 2010

	Budget		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 300,000	\$ 300,000	\$ 145,935	\$ (154,065)
Charges for services	710,800	696,160	682,843	(13,317)
Fines & forfeitures	2,006,450	2,006,450	2,115,832	109,382
Other	843,420	1,196,285	323,173	(873,112)
Total revenues	<u>3,860,670</u>	<u>4,198,895</u>	<u>3,267,783</u>	<u>(931,112)</u>
Expenditures				
Current:				
Administration	76,300	78,800	72,259	6,541
Operations & engineering	333,340	333,340	333,333	7
Community & neighborhood services	554,590	602,899	472,047	130,852
Police	1,688,210	1,571,573	959,502	612,071
Mass transit	75,000	75,000	75,000	-
Total expenditures	<u>2,727,440</u>	<u>2,661,612</u>	<u>1,912,141</u>	<u>749,471</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,133,230</u>	<u>1,537,283</u>	<u>1,355,642</u>	<u>(181,641)</u>
Other financing sources (uses)				
Transfers in	719,930	742,159	754,581	12,422
Transfers out	(1,853,160)	(2,279,442)	(2,279,286)	156
Total other financing sources (uses)	<u>(1,133,230)</u>	<u>(1,537,283)</u>	<u>(1,524,705)</u>	<u>12,578</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(169,063)	<u>\$ (169,063)</u>
Fund balance - beginning			<u>10,895,889</u>	
Fund balance - ending			<u>\$ 10,726,826</u>	

CITY OF KNOXVILLE, TENNESSEE

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

Miscellaneous Community Development Funds

For the Year Ended June 30, 2010

	Budget			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 7,691,760	\$ 8,222,619	\$ 7,550,892	\$ (671,727)
Charges for services	-	200,000	955,373	755,373
Other	850,000	851,513	567,325	(284,188)
Total revenues	<u>8,541,760</u>	<u>9,274,132</u>	<u>9,073,590</u>	<u>(200,542)</u>
Expenditures				
Current:				
Community & neighborhood services	8,541,760	9,274,132	9,258,976	15,156
Legislative	80,000	71,000	71,000	-
Total expenditures	<u>8,621,760</u>	<u>9,345,132</u>	<u>9,329,976</u>	<u>15,156</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(80,000)</u>	<u>(71,000)</u>	<u>(256,386)</u>	<u>(185,386)</u>
Other financing sources (uses)				
Transfers in	80,000	75,000	75,000	-
Transfers out	-	(4,000)	(4,000)	-
Total other financing sources (uses)	<u>80,000</u>	<u>71,000</u>	<u>71,000</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(185,386)</u>	<u>\$ (185,386)</u>
Fund balance - beginning			<u>1,654,528</u>	
Fund balance - ending			<u>\$ 1,469,142</u>	

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis Storm Water For the Year Ended June 30, 2010

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Charges for services	\$ 130,200	\$ 130,200	\$ 141,918	\$ 11,718
Other	15,000	63,516	2,354	(61,162)
Total revenues	<u>145,200</u>	<u>193,716</u>	<u>144,272</u>	<u>(49,444)</u>
Expenditures				
Current:				
Operations & engineering	2,563,900	2,489,816	2,480,949	8,867
Total expenditures	<u>2,563,900</u>	<u>2,489,816</u>	<u>2,480,949</u>	<u>8,867</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,418,700)</u>	<u>(2,296,100)</u>	<u>(2,336,677)</u>	<u>(40,577)</u>
Other financing sources (uses)				
Transfers in	2,418,700	2,311,100	2,418,700	107,600
Transfers out	-	(15,000)	-	15,000
Total other financing sources (uses)	<u>2,418,700</u>	<u>2,296,100</u>	<u>2,418,700</u>	<u>122,600</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	82,023	<u>\$ 82,023</u>
Fund balance - beginning			<u>577,737</u>	
Fund balance - ending			<u>\$ 659,760</u>	

CITY OF KNOXVILLE, TENNESSEE

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis Solid Waste For the Year Ended June 30, 2010

	Budget		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Charges for services	\$ 643,400	\$ 643,400	\$ 705,196	\$ 61,796
Other	320,000	2,243,404	388,902	(1,854,502)
Total revenues	<u>963,400</u>	<u>2,886,804</u>	<u>1,094,098</u>	<u>(1,792,706)</u>
Expenditures				
Current:				
Community & neighborhood services	<u>10,357,620</u>	<u>11,909,974</u>	<u>10,125,979</u>	<u>1,783,995</u>
Total expenditures	<u>10,357,620</u>	<u>11,909,974</u>	<u>10,125,979</u>	<u>1,783,995</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,394,220)</u>	<u>(9,023,170)</u>	<u>(9,031,881)</u>	<u>(8,711)</u>
Other financing sources (uses)				
Transfers in	9,394,220	9,024,220	9,059,102	34,882
Transfers out	<u>-</u>	<u>(1,050)</u>	<u>(1,044)</u>	<u>6</u>
Total other financing sources (uses)	<u>9,394,220</u>	<u>9,023,170</u>	<u>9,058,058</u>	<u>34,888</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	26,177	<u>\$ 26,177</u>
Fund balance - beginning			<u>4,784,427</u>	
Fund balance - ending			<u>\$ 4,810,604</u>	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet Debt Service Funds June 30, 2010

Assets

Investments	\$ 37,875,911
Accounts receivable	321,672
Taxes receivable	29,375,211
Notes receivable	1,737,300
Total assets	<u>\$ 69,310,094</u>

Liabilities and fund balances

Liabilities:	
Due to other funds	1,597,782
Deferred revenue	<u>29,068,177</u>
Total liabilities	<u>30,665,959</u>

Fund balances:

Reserved for:	
Notes receivable	1,737,300
Unreserved	<u>36,906,835</u>
Total fund balances	<u>38,644,135</u>

Total liabilities and fund balances	<u>\$ 69,310,094</u>
-------------------------------------	----------------------

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - GAAP Basis
Debt Service Funds
For the Year Ended June 30, 2010**

	Budget			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes, assessments, interest & penalties	\$ 26,374,500	\$ 26,374,500	\$ 26,633,265	\$ 258,765
Other	1,274,240	1,274,240	1,521,958	247,718
Total revenues	<u>27,648,740</u>	<u>27,648,740</u>	<u>28,155,223</u>	<u>506,483</u>
Expenditures				
Current:				
Debt service:				
Principal retirement	6,305,630	5,395,630	5,395,620	10
Interest payments on bonds & notes	3,232,210	2,442,210	2,439,030	3,180
Other services & charges	50,000	-	-	-
Total expenditures	<u>9,587,840</u>	<u>7,837,840</u>	<u>7,834,650</u>	<u>3,190</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,060,900</u>	<u>19,810,900</u>	<u>20,320,573</u>	<u>509,673</u>
Other financing sources (uses)				
Transfers out	<u>(18,060,900)</u>	<u>(19,810,900)</u>	<u>(19,810,900)</u>	<u>-</u>
Total other financing sources (uses)	<u>(18,060,900)</u>	<u>(19,810,900)</u>	<u>(19,810,900)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	509,673	<u>\$ 509,673</u>
Fund balance - beginning			<u>38,134,462</u>	
Fund balance - ending			<u>\$ 38,644,135</u>	

CITY OF KNOXVILLE, TENNESSEE

Balance Sheet Capital Projects Fund June 30, 2010

Assets

Cash & cash equivalents	\$	12,161,562
Investments		63,303,264
Accounts receivable		1,479,361
Due from component units		3,400,000
Total assets	\$	<u>80,344,187</u>

Liabilities and fund balances

Liabilities:

Accounts payable	\$	3,819,274
Accrued liabilities		1,139,761
Deferred revenue		<u>2,730,891</u>
Total liabilities		<u>7,689,926</u>

Fund balances:

Unreserved		<u>72,654,261</u>
Total fund balances		<u>72,654,261</u>

Total liabilities and fund balances	\$	<u>80,344,187</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, 2010**

	Actual				Actual
	Prior Years	Current Year	Total to Date	Project Authorization	Over (Under) Final Budget
Revenues					
Intergovernmental	\$ 3,262,933	\$ 1,240,563	\$ 4,503,496	\$ 15,124,742	\$ (10,621,246)
Other	3,820,728	2,715,592	6,536,320	8,212,184	(1,675,864)
Total revenues	<u>7,083,661</u>	<u>3,956,155</u>	<u>11,039,816</u>	<u>23,336,926</u>	<u>(12,297,110)</u>
Expenditures					
Current:					
Capital & grant projects	45,531,941	20,864,172	66,396,113	125,851,345	(59,455,232)
Total expenditures	<u>45,531,941</u>	<u>20,864,172</u>	<u>66,396,113</u>	<u>125,851,345</u>	<u>(59,455,232)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(38,448,280)</u>	<u>(16,908,017)</u>	<u>(55,356,297)</u>	<u>(102,514,419)</u>	<u>47,158,122</u>
Other financing sources (uses)					
Issuance of debt	856,662	13,470,609	14,327,271	14,327,271	-
Transfers in	37,591,618	24,139,582	61,731,200	91,483,268	(29,752,068)
Transfers out	-	(3,296,120)	(3,296,120)	(3,296,120)	-
Total other financing sources (uses)	<u>38,448,280</u>	<u>34,314,071</u>	<u>72,762,351</u>	<u>102,514,419</u>	<u>(29,752,068)</u>
Net change in fund balances	<u>\$ -</u>	<u>17,406,054</u>	<u>\$ 17,406,054</u>	<u>\$ -</u>	<u>\$ 17,406,054</u>
Fund balance - beginning		<u>55,248,207</u>			
Fund balance - ending		<u>\$ 72,654,261</u>			

Nonmajor Enterprise Funds

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

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

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2010

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Assets				
Current assets				
Cash & temporary investments	\$ 409,126	\$ 1,250	\$ 169,227	\$ 579,603
Investments	2,159,412	6,463,760	-	8,623,172
Accounts receivable	237,130	21,649	1,185	259,964
Leases receivable	-	731,404	-	731,404
Inventories	-	-	13,128	13,128
Prepaid items	-	-	35,177	35,177
Total current assets	2,805,668	7,218,063	218,717	10,242,448
Noncurrent assets				
Land & site improvements	2,079,796	1,711,454	123,093	3,914,343
Building & building improvements	21,594,627	20,472,152	11,011	42,077,790
Equipment	4,450	1,633,411	752,932	2,390,793
Construction in progress	-	202,858	45,390	248,248
Less: accumulated depreciation	(10,599,196)	(14,823,945)	(298,778)	(25,721,919)
Total capital assets (net of accumulated depreciation)	13,079,677	9,195,930	633,648	22,909,255
Equity interest in joint venture	793,823	-	-	793,823
Total noncurrent assets	13,873,500	9,195,930	633,648	23,703,078
Total assets	16,679,168	16,413,993	852,365	33,945,526
Liabilities				
Current liabilities				
Accounts payable	99,900	92,425	77,799	270,124
Accrued liabilities	-	80,272	-	80,272
Customer deposits	3,536	314,526	-	318,062
Due to other funds	707	67,107	184,189	252,003
Deferred revenue	41,603	-	11,238	52,841
Compensated absences	-	99,000	-	99,000
Long-term debt due within one year	-	-	87,037	87,037
Total current liabilities	145,746	653,330	360,263	1,159,339
Noncurrent liabilities				
Long-term debt due in more than one year	-	43,279	256,746	300,025
Total noncurrent liabilities	-	43,279	256,746	300,025
Total liabilities	145,746	696,609	617,009	1,459,364
Net assets				
Invested in capital assets, net of related debt	13,079,677	9,195,930	289,865	22,565,472
Unrestricted	3,453,745	6,521,454	(54,509)	9,920,690
Total net assets	\$ 16,533,422	\$ 15,717,384	\$ 235,356	\$ 32,486,162

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010**

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating revenues				
Charges for services	\$ 1,689,990	\$ 1,399,768	\$ 1,121,016	\$ 4,210,774
Total operating revenues	1,689,990	1,399,768	1,121,016	4,210,774
Operating expenses				
Personal services	-	1,997,690	-	1,997,690
Materials & supplies	-	91,329	-	91,329
Maintenance	4,669	1,621,773	16,891	1,643,333
Depreciation & amortization	812,898	725,872	159,019	1,697,789
Other services and charges	546,352	418,508	1,179,839	2,144,699
Total operating expenses	1,363,919	4,855,172	1,355,749	7,574,840
Operating income (loss)	326,071	(3,455,404)	(234,733)	(3,364,066)
Nonoperating revenue (expense)				
Interest income	10,753	21,679	-	32,432
Intergovernmental revenue	-	488,752	-	488,752
Other revenues	-	-	103,589	103,589
Gain (loss) on disposal of capital assets	-	8,268	-	8,268
Interest expense	-	-	(11,958)	(11,958)
Total nonoperating revenue (expense)	10,753	518,699	91,631	621,083
Income (loss) before transfers and capital contributions	336,824	(2,936,705)	(143,102)	(2,742,983)
Transfers:				
Transfers in	4,670	3,222,146	189,471	3,416,287
Transfers out	(1,000,000)	-	-	(1,000,000)
Change in net assets	(658,506)	285,441	46,369	(326,696)
Total net assets - beginning	17,191,928	15,431,943	188,987	32,812,858
Total net assets - ending	\$ 16,533,422	\$ 15,717,384	\$ 235,356	\$ 32,486,162

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

	Metro Parking	Public Assembly Facilities	Municipal Golf Courses	Total Nonmajor Enterprise Funds
Operating activities				
Cash received from customers and users	\$ 1,452,860	\$ 1,682,153	\$ 1,131,415	\$ 4,266,428
Cash paid to suppliers	(545,223)	(1,939,208)	(1,272,896)	(3,757,327)
Cash paid to employees	-	(1,965,087)	-	(1,965,087)
Cash paid for interfund services used	(6,300)	(232,147)	-	(238,447)
Net cash provided by (used in) operating activities	901,337	(2,454,289)	(141,481)	(1,694,433)
Noncapital financing activities				
Transfers from other funds	4,670	3,182,012	149,253	3,335,935
Transfers to other funds	(999,293)	-	-	(999,293)
Tax and intergovernmental revenues	-	488,752	103,589	592,341
Net cash provided by (used in) noncapital financing activities	(994,623)	3,670,764	252,842	2,928,983
Capital and related financing activities				
Principal paid on general obligation bond maturities	-	-	(84,059)	(84,059)
Interest paid	-	-	(11,958)	(11,958)
Acquisition and construction of capital assets	-	(647,117)	(52,708)	(699,825)
Net cash provided by (used in) capital and related financing activities	-	(647,117)	(148,725)	(795,842)
Investing activities				
Sales/(purchases) of investments	(254,442)	(593,450)	-	(847,892)
Investment earnings	10,753	21,679	-	32,432
Net change in equity investment in joint venture	(236,098)	-	-	(236,098)
Net cash provided by (used in) investing activities	(479,787)	(571,771)	-	(1,051,558)
Net increase (decrease) in cash and cash equivalents	(573,073)	(2,413)	(37,364)	(612,850)
Cash and cash equivalents				
Beginning of year	982,199	3,663	206,591	1,192,453
End of year	\$ 409,126	\$ 1,250	\$ 169,227	\$ 579,603

Continued:

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

	<u>Metro Parking</u>	<u>Public Assembly Facilities</u>	<u>Municipal Golf Courses</u>	<u>Total Nonmajor Enterprise Funds</u>
Reconciliation of operating income (loss)				
to net cash provided by				
(used in) operating activities				
Operating income (loss)	\$ 326,071	\$ (3,455,404)	\$ (234,733)	\$ (3,364,066)
Adjustments to reconcile operating income (loss)				
to net cash provided by (used in) operating				
activities:				
Depreciation	812,898	725,872	159,019	1,697,789
Change in assets and liabilities				
(Increase) decrease in receivables	(237,130)	16,630	8,222	(212,278)
(Increase) decrease in prepayments	-	-	(13,183)	(13,183)
(Increase) decrease in inventories	-	-	9,362	9,362
Increase (decrease) in accounts payable	(502)	(39,745)	(72,345)	(112,592)
Increase (decrease) in accrued expenses	-	32,603	-	32,603
Increase (decrease) in deferred revenue	-	-	2,177	2,177
Increase (decrease) in customer deposits	-	265,755	-	265,755
Total adjustments	<u>575,266</u>	<u>1,001,115</u>	<u>93,252</u>	<u>1,669,633</u>
Net cash provided by (used in) operating				
activities	<u>\$ 901,337</u>	<u>\$ (2,454,289)</u>	<u>\$ (141,481)</u>	<u>\$ (1,694,433)</u>

THIS PAGE IS LEFT BLANK INTENTIONALLY

Internal Service Funds

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

Fleet Maintenance Fund

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

Risk Management Fund

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

Health Insurance Fund

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

Equipment Replacement Fund

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

City Buildings Fund

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

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Net Assets
Internal Service Funds
June 30, 2010**

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Assets						
Current assets						
Cash & temporary investments	\$ 2,795,630	\$ 576,797	\$ 801,632	\$ 436,971	\$ 103,271	\$ 4,714,301
Investments	23,918,749	22,591,993	12,132,102	12,371,649	464,919	71,479,412
Accounts receivable	-	8,264	78,180	1,226	-	87,670
Inventories	681,770	-	-	-	-	681,770
Total current assets	27,396,149	23,177,054	13,011,914	12,809,846	568,190	76,963,153
Noncurrent assets						
Building & building improvements	257,391	-	-	-	-	257,391
Equipment	47,952,652	13,400	-	17,745,533	-	65,711,585
Construction in progress	-	-	-	13,506	-	13,506
Less: accumulated depreciation	(30,939,159)	(13,400)	-	(12,120,451)	-	(43,073,010)
Total capital assets (net of accumulated depreciation)	17,270,884	-	-	5,638,588	-	22,909,472
Equity interest in joint venture	-	-	-	-	3,751,348	3,751,348
Total noncurrent assets	17,270,884	-	-	5,638,588	3,751,348	26,660,820
Total assets	44,667,033	23,177,054	13,011,914	18,448,434	4,319,538	103,623,973
Liabilities						
Current liabilities						
Accounts payable	1,120,088	49,931	339,955	8,552	193,428	1,711,954
Accrued liabilities	88,415	12,152	1,008,812	-	-	1,109,379
Compensated absences	104,022	18,153	10,908	-	-	133,083
Estimated litigation liability due within one year	-	5,000,000	-	-	-	5,000,000
Total current liabilities	1,312,525	5,080,236	1,359,675	8,552	193,428	7,954,416
Noncurrent liabilities						
Estimated litigation liability	-	3,500,000	-	-	-	3,500,000
Total noncurrent liabilities	-	3,500,000	-	-	-	3,500,000
Total liabilities	1,312,525	8,580,236	1,359,675	8,552	193,428	11,454,416
Net assets						
Invested in capital assets, net of related debt	17,270,884	-	-	5,638,588	-	22,909,472
Unrestricted	26,083,624	14,596,818	11,652,239	12,801,294	4,126,110	69,260,085
Total net assets	\$ 43,354,508	\$ 14,596,818	\$ 11,652,239	\$ 18,439,882	\$ 4,126,110	\$ 92,169,557

CITY OF KNOXVILLE, TENNESSEE

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2010**

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating revenues						
Charges for services	\$ 13,195,498	\$ 6,479,905	\$ 14,373,878	\$ 2,309,080	\$ 1,811,658	\$ 38,170,019
Total operating revenues	13,195,498	6,479,905	14,373,878	2,309,080	1,811,658	38,170,019
Operating expenses						
Personal services	2,090,288	326,288	187,573	-	-	2,604,149
Materials & supplies	207,308	6,624	2,389	-	-	216,321
Maintenance	273,331	-	4,499	-	113,619	391,449
Depreciation & amortization	3,930,694	-	-	2,245,867	-	6,176,561
Other services and charges	4,168,468	4,579,856	14,836,848	-	1,436,026	25,021,198
Total operating expenses	10,670,089	4,912,768	15,031,309	2,245,867	1,549,645	34,409,678
Operating income (loss)	2,525,409	1,567,137	(657,431)	63,213	262,013	3,760,341
Nonoperating revenue (expense)						
Interest income	78,265	-	43,099	50,355	1,261	172,980
Intergovernmental revenue	337,557	-	-	39,808	-	377,365
Other revenues	686	109,114	-	-	-	109,800
Gain (loss) on disposal of capital assets	204,567	-	440,378	12,411	-	657,356
Total nonoperating revenue (expense)	621,075	109,114	483,477	102,574	1,261	1,317,501
Income (loss) before transfers and capital contributions	3,146,484	1,676,251	(173,954)	165,787	263,274	5,077,842
Transfers:						
Transfers in	1,271,089	393,080	1,110,309	855,959	26,745	3,657,182
Transfers out	(1,821)	(3,341)	(11,806)	-	-	(16,968)
Capital contributions	214,935	-	-	-	-	214,935
Change in net assets	4,630,687	2,065,990	924,549	1,021,746	290,019	8,932,991
Total net assets - beginning	38,723,821	12,530,828	10,727,690	17,418,136	3,836,091	83,236,566
Total net assets - ending	\$ 43,354,508	\$ 14,596,818	\$ 11,652,239	\$ 18,439,882	\$ 4,126,110	\$ 92,169,557

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2010

	Fleet Maintenance	Risk Management	Health Insurance	Equipment Replacement	City Buildings	Total
Operating activities						
Receipts from interfund services provided	\$ 13,195,498	\$ 6,491,252	\$ 14,384,859	\$ 2,145,585	\$ 1,811,658	\$ 38,028,852
Cash paid to suppliers	(3,770,100)	(924,264)	(3,347,443)	-	(1,362,478)	(9,404,285)
Cash paid to employees	(2,077,879)	(329,879)	(180,720)	-	-	(2,588,478)
Cash paid for interfund services used	(205,299)	(26,168)	(1,160)	-	-	(232,627)
Payments of claims and insurance	-	(3,738,683)	(11,609,891)	-	-	(15,348,574)
Net cash provided by (used in) operating activities	7,142,220	1,472,258	(754,355)	2,145,585	449,180	10,454,888
Noncapital financing activities						
Transfers from other funds	1,271,089	350,656	774,214	855,959	26,745	3,278,663
Transfers to other funds	(1,821)	(3,341)	(11,806)	-	-	(16,968)
Tax and intergovernmental revenues	338,243	109,114	-	39,808	-	487,165
Net cash provided by (used in) noncapital financing activities	1,607,511	456,429	762,408	895,767	26,745	3,748,860
Capital and related financing activities						
Acquisition and construction of capital assets	(4,572,712)	-	440,378	(1,877,523)	-	(6,009,857)
Capital contributions	214,935	-	-	-	-	214,935
Net cash provided by (used in) capital and related financing activities	(4,357,777)	-	440,378	(1,877,523)	-	(5,794,922)
Investing activities						
Sales/(purchases) of investments	(5,570,345)	(1,351,890)	310,102	(777,213)	(129,317)	(7,518,663)
Investment earnings	78,265	-	43,099	50,355	1,261	172,980
Net change in equity investment in joint venture	-	-	-	-	(244,598)	(244,598)
Net cash provided by (used in) investing activities	(5,492,080)	(1,351,890)	353,201	(726,858)	(372,654)	(7,590,281)
Net increase (decrease) in cash and cash equivalents	(1,100,126)	576,797	801,632	436,971	103,271	818,545
Cash and cash equivalents						
Beginning of year	3,895,756	-	-	-	-	3,895,756
End of year	\$ 2,795,630	\$ 576,797	\$ 801,632	\$ 436,971	\$ 103,271	\$ 4,714,301

Continued:

CITY OF KNOXVILLE, TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2010

	<u>Fleet Maintenance</u>	<u>Risk Management</u>	<u>Health Insurance</u>	<u>Equipment Replacement</u>	<u>City Buildings</u>	<u>Total</u>
Reconciliation of operating income (loss)						
to net cash provided by						
(used in) operating activities						
Operating income (loss)	\$ 2,525,409	\$ 1,567,137	\$ (657,431)	\$ 63,213	\$ 262,013	\$ 3,760,341
Adjustments to reconcile operating income (loss)						
to net cash provided by (used in) operating						
activities:						
Depreciation	3,930,694	-	-	2,245,867	-	6,176,561
Change in assets and liabilities						
(Increase) decrease in receivables	-	11,347	10,981	8,477	-	30,805
(Increase) decrease in inventories	(70,018)	-	-	-	-	(70,018)
Increase (decrease) in accounts payable	743,726	(102,635)	(114,758)	(171,972)	187,167	541,528
Increase (decrease) in accrued expenses	12,409	(3,591)	6,853	-	-	15,671
Total adjustments	<u>4,616,811</u>	<u>(94,879)</u>	<u>(96,924)</u>	<u>2,082,372</u>	<u>187,167</u>	<u>6,694,547</u>
Net cash provided by (used in) operating activities	<u>\$ 7,142,220</u>	<u>\$ 1,472,258</u>	<u>\$ (754,355)</u>	<u>\$ 2,145,585</u>	<u>\$ 449,180</u>	<u>\$ 10,454,888</u>

THIS PAGE IS LEFT BLANK INTENTIONALLY

Fiduciary Funds

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

Agency Funds

City Choice Plus Fund	To account for funds deducted from employee's pay pursuant to IRS Section 125 regulations to be applied to eligible health related expenses incurred by the employees.
Employee Health Savings Fund	To account for city contributions to a wellness incentive type fund that may be utilized by the employees for eligible health related expenses.

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2010

	City Choice Plus	Employee Health Savings Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash	\$ -	\$ 273,797	\$ 273,797
Other receivables	249,550	-	249,550
Due from other funds	-	189,745	189,745
Total assets	<u>\$ 249,550</u>	<u>\$ 463,542</u>	<u>\$ 713,092</u>
	<u> </u>	<u> </u>	<u> </u>
Liabilities			
Accounts payable	\$ 59,805	\$ -	\$ 59,805
Due to other funds	189,745	-	189,745
Health care claims liability	-	463,542	463,542
Total liabilities	<u>\$ 249,550</u>	<u>\$ 463,542</u>	<u>\$ 713,092</u>
	<u> </u>	<u> </u>	<u> </u>

CITY OF KNOXVILLE, TENNESSEE

Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2010

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>
<u>City Choice Fund</u>				
Assets				
Cash	\$ -	\$ 522,087	\$ 522,087	\$ -
State & municipal government securities	124,303	-	124,303	-
Other receivables	163,953	522,087	436,490	249,550
Total assets	<u>\$ 288,256</u>	<u>\$ 1,044,174</u>	<u>\$ 1,082,880</u>	<u>\$ 249,550</u>
Liabilities				
Accounts payable	\$ 64,115	\$ 517,777	\$ 522,087	\$ 59,805
Due to other funds	224,141	189,745	224,141	189,745
Total liabilities	<u>\$ 288,256</u>	<u>\$ 707,522</u>	<u>\$ 746,228</u>	<u>\$ 249,550</u>
<u>Employee Health Savings Fund</u>				
Assets				
Cash	\$ 130,009	\$ 463,542	\$ 319,754	\$ 273,797
Due from other funds	224,141	189,745	224,141	189,745
Total assets	<u>\$ 354,150</u>	<u>\$ 653,287</u>	<u>\$ 543,895</u>	<u>\$ 463,542</u>
Liabilities				
Health care claims liability	\$ 354,150	\$ 463,542	\$ 354,150	\$ 463,542
Total liabilities	<u>\$ 354,150</u>	<u>\$ 463,542</u>	<u>\$ 354,150</u>	<u>\$ 463,542</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 130,009	\$ 985,629	\$ 841,841	\$ 273,797
State & municipal government securities	124,303	-	124,303	-
Other receivables	163,953	522,087	436,490	249,550
Due from other funds	224,141	189,745	224,141	189,745
Total assets	<u>\$ 642,406</u>	<u>\$ 1,697,461</u>	<u>\$ 1,626,775</u>	<u>\$ 713,092</u>
Liabilities				
Accounts payable	\$ 64,115	\$ 517,777	\$ 522,087	\$ 59,805
Due to other funds	224,141	189,745	224,141	189,745
Health care claims liability	354,150	463,542	354,150	463,542
Total liabilities	<u>\$ 642,406</u>	<u>\$ 1,171,064</u>	<u>\$ 1,100,378</u>	<u>\$ 713,092</u>

THIS PAGE IS LEFT BLANK INTENTIONALLY

COMPONENT UNIT

CITY OF KNOXVILLE, TENNESSEE
Statement of Net Assets
Knoxville Area Transit - Component Unit
June 30, 2010

Assets

Current assets:

Cash & temporary investments	\$ 8,547
Investments	2,175,525
Accounts receivable	10,830,635
Inventories	994,579
Prepaid items	233,885
Total current assets	<u>14,243,171</u>

Noncurrent assets:

Land & site improvements	1,854,780
Building & building improvements	5,227,767
Equipment	25,841,854
Construction in progress	24,788,595
Less: accumulated depreciation	(19,127,505)
Total noncurrent assets	<u>38,585,491</u>
Total assets	<u>52,828,662</u>

Liabilities:

Current liabilities:

Accounts payable	3,174,583
Accrued liabilities	45,934
Due to primary government	8,550,693
Deferred revenue	151,360
Total current liabilities	<u>11,922,570</u>
Total liabilities	<u>11,922,570</u>

Net assets:

Invested in capital assets, net of related debt	38,585,491
Unrestricted	2,320,601
Total net assets	<u>\$ 40,906,092</u>

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

CITY OF KNOXVILLE, TENNESSEE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Knoxville Area Transit - Component Unit
For the Year Ended June 30, 2010

Operating revenues	
Charges for services	\$ 3,940,405
Total operating revenues	<u>3,940,405</u>
Operating expenses	
Personal services	13,823,741
Materials & supplies	1,862,144
Maintenance	2,343,252
Depreciation & amortization	2,214,271
Other services and charges	17,500,165
Total operating expenses	<u>37,743,573</u>
Operating income (loss)	<u>(33,803,168)</u>
Nonoperating revenue (expense)	
Interest income	6,193
Intergovernmental revenue	42,595,581
Other revenues	282,973
Gain (loss) on disposal of capital assets	206,329
Total nonoperating revenue (expense)	<u>43,091,076</u>
Change in net assets	9,287,908
Total net assets - beginning	<u>31,618,184</u>
Total net assets - ending	<u><u>\$ 40,906,092</u></u>

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

CITY OF KNOXVILLE, TENNESSEE

Statement of Cash Flows Knoxville Area Transit - Component Unit For the Year Ended June 30, 2010

Operating activities

Cash received from customers and users	\$ 4,091,765
Cash paid to suppliers	(23,096,142)
Cash paid to employees	<u>(13,787,416)</u>
Net cash used in operating activities	<u>(32,791,793)</u>

Noncapital financing activities

Transfers from other funds	993,230
Tax and intergovernmental revenues	<u>44,427,939</u>
Net cash provided by noncapital financing activities	<u>45,421,169</u>

Capital and related financing activities

Acquisition and construction of capital assets	<u>(11,256,229)</u>
Net cash used in capital and related financing activities	<u>(11,256,229)</u>

Investing activities

Sales/(purchases) of investments	(1,370,793)
Investment earnings	<u>6,193</u>
Net cash used in investing activities	<u>(1,364,600)</u>

Net increase in cash and cash equivalents

8,547

Cash and cash equivalents

Beginning of year	<u>-</u>
End of year	<u><u>\$ 8,547</u></u>

Continued:

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

CITY OF KNOXVILLE, TENNESSEE
Statement of Cash Flows
Knoxville Area Transit - Component Unit
For the Year Ended June 30, 2010

Reconciliation of operating income (loss)

to net cash provided by

(used in) operating activities

Operating income (loss)	\$ (33,803,168)
-------------------------	-----------------

Adjustments to reconcile operating income (loss)

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

Depreciation	2,214,271
--------------	-----------

Change in assets and liabilities

(Increase) decrease in prepayments	(233,885)
------------------------------------	-----------

(Increase) decrease in inventories	(17,731)
------------------------------------	----------

Increase (decrease) in accounts payable	(1,138,965)
---	-------------

Increase (decrease) in accrued expenses	36,325
---	--------

Increase (decrease) in deferred revenue	151,360
---	---------

Total adjustments	<u>1,011,375</u>
-------------------	------------------

Net cash used in operating activities

<u><u>\$ (32,791,793)</u></u>

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

STATISTICAL SECTION

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

Contents	Page
----------	------

Financial Trends

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

Net Assets by Component	132
Changes in Net Assets	133-134
Fund Balances of Governmental Funds	135
Changes in Fund Balances, Governmental Funds	136

Revenue Capacity

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

Assessed and Estimated Actual Value of Taxable Property	137
Property Tax Rates - Direct and Overlapping Governments	138
Principal Property Taxpayers	139
Property Tax Levies and Collections	140

Debt Capacity

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

Ratios of Outstanding Debt by Type	141
Ratios of General Bonded Debt Outstanding	142
Legal Debt Margin	143
Pledged-Revenue Coverage:	
Primary Government	143
Component Units:	
Knoxville Utilities Board	143
Metropolitan Knoxville Airport Authority	143
Direct and Overlapping Governmental Activities Debt	144

Demographic and Economic Information

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

Demographic and Economic Statistics	145
Principal Employers	146

Operating Information

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

Full-time Equivalent City Government Employees by Function	147
Operating Indicators by Function	148
Capital Asset Statistics by Function	149

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

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental Activities									
Invested in capital assets, net of related debt	\$ 111,609	\$ 155,214	\$ 157,139	\$ 137,765	\$ 139,547	\$ 162,108	\$ 186,466	\$ 205,877	\$ 213,568
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487	38,911	39,449
Unrestricted	109,435	140,737	67,800	101,204	114,881	157,067	179,868	192,241	218,176
Total Governmental Activities Net Assets	<u>\$ 245,222</u>	<u>\$ 312,950</u>	<u>\$ 251,740</u>	<u>\$ 270,088</u>	<u>\$ 287,275</u>	<u>\$ 354,954</u>	<u>\$ 403,821</u>	<u>\$ 437,029</u>	<u>\$ 471,193</u>
Business-type Activities									
Invested in capital assets, net of related debt	\$ 22,412	\$ 52,821	\$ 21,070	\$ 18,712	\$ 32,217	\$ 31,546	\$ 30,268	\$ 28,212	\$ 26,344
Unrestricted	1,235	(26,531)	6,226	8,838	9,350	12,266	16,682	17,782	24,590
Total Business-type Activities Net Assets	<u>\$ 23,647</u>	<u>\$ 26,290</u>	<u>\$ 27,296</u>	<u>\$ 27,550</u>	<u>\$ 41,567</u>	<u>\$ 43,812</u>	<u>\$ 46,950</u>	<u>\$ 45,994</u>	<u>\$ 50,934</u>
Primary Government									
Invested in capital assets, net of related debt	\$ 134,021	\$ 208,035	\$ 178,209	\$ 156,477	\$ 171,764	\$ 193,654	\$ 216,734	\$ 234,089	\$ 239,912
Restricted	24,178	16,999	26,801	31,119	32,847	35,779	37,487	38,911	39,449
Unrestricted	110,670	114,206	74,026	110,042	124,231	169,333	196,550	210,023	242,766
Total Primary Government Net Assets	<u>\$ 268,869</u>	<u>\$ 339,240</u>	<u>\$ 279,036</u>	<u>\$ 297,638</u>	<u>\$ 328,842</u>	<u>\$ 398,766</u>	<u>\$ 450,771</u>	<u>\$ 483,023</u>	<u>\$ 522,127</u>

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

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenses									
Governmental Activities:									
General government	\$ 11,657	\$ 10,331	\$ 13,200	\$ 12,218	\$ 15,015	\$ 11,671	\$ 9,630	\$ 8,833	\$ 13,348
Public safety	62,146	67,423	66,325	65,384	69,949	60,882	78,172	80,936	81,664
Physical environment	29,135	28,920	27,910	49,678	70,289	40,686	42,048	44,421	45,244
Transportation	24,149	6,273	5,791	6,844	5,728	7,783	9,614	12,131	9,647
Economic Development	6,937	7,872	6,924	12,428	8,070	8,314	8,732	10,686	16,441
Parks & Recreation	7,075	4,217	6,542	10,484	10,760	10,068	11,634	11,893	12,858
Health & Sanitation	8,446	9,729	9,209	9,696	9,740	9,498	9,833	10,094	10,430
Interest on long-term debt	5,269	4,706	3,199	4,754	4,005	3,585	3,138	2,754	2,398
Other	10,574	13,721	13,412	1,830	1,683	-	-	-	-
Total governmental activities expenses	<u>165,388</u>	<u>153,192</u>	<u>152,512</u>	<u>173,316</u>	<u>195,239</u>	<u>152,487</u>	<u>172,801</u>	<u>181,748</u>	<u>192,030</u>
Business-type Activities:									
Metro parking	893	928	740	857	819	1,264	1,464	1,565	1,364
Public assembly facilities	3,296	3,778	3,696	3,974	3,718	3,902	4,174	4,356	4,847
Knoxville Convention Center	5,363	20,328	18,573	19,562	20,848	20,734	21,246	20,452	19,393
Municipal Golf Courses	-	-	-	-	-	306	886	1,390	1,368
Total business-type activities	<u>9,552</u>	<u>25,034</u>	<u>23,009</u>	<u>24,393</u>	<u>25,385</u>	<u>26,206</u>	<u>27,770</u>	<u>27,763</u>	<u>26,972</u>
Total primary government	<u>\$ 174,940</u>	<u>\$ 178,226</u>	<u>\$ 175,521</u>	<u>\$ 197,709</u>	<u>\$ 220,624</u>	<u>\$ 178,693</u>	<u>\$ 200,571</u>	<u>\$ 209,511</u>	<u>\$ 219,002</u>
Program Revenues									
Governmental Activities:									
Charges for Services:									
General government	\$ 2,204	\$ 2,424	\$ 6,506	\$ 480	\$ 519	\$ 697	\$ 629	\$ 540	\$ 651
Public safety	1,059	912	1,191	6,995	7,473	9,016	9,233	9,191	9,436
Physical environment	565	594	772	815	856	924	1,135	717	1,026
Transportation	188	2,219	114	674	665	830	857	688	760
Economic Development	1,318	1,636	1,946	-	-	78	-	-	955
Parks & recreation	160	289	217	408	634	666	801	694	689
Health & sanitation	657	916	682	26	30	48	43	47	54
Other	2,867	3,216	5,734	1,170	-	-	-	-	-
Operating grants and contributions	9,857	8,770	9,033	14,899	13,662	9,656	9,804	10,387	15,758
Capital grants and contributions	350	1,574	890	4,064	9,693	4,558	5,753	5,161	4,724
Total governmental activities program revenues	<u>19,225</u>	<u>22,550</u>	<u>27,085</u>	<u>29,531</u>	<u>33,532</u>	<u>26,473</u>	<u>28,255</u>	<u>27,425</u>	<u>34,053</u>
Business-type Activities:									
Charges for Services:									
Metro parking	742	967	999	1,397	698	1,308	1,716	2,188	1,690
Public assembly facilities	1,555	1,923	1,810	1,725	1,994	2,210	2,863	1,812	1,400
Knoxville Convention Center	609	4,111	3,748	5,048	4,814	5,975	6,409	5,396	5,797
Municipal Golf Courses	-	-	-	-	-	211	776	1,105	1,121
Operating grants and contributions	-	-	-	-	-	-	-	1,430	1,434
Capital grants and contributions	-	11,998	-	-	-	80	-	-	-
Total business-type activities program revenues	<u>2,906</u>	<u>18,999</u>	<u>6,557</u>	<u>8,170</u>	<u>7,506</u>	<u>9,784</u>	<u>11,764</u>	<u>11,931</u>	<u>11,442</u>
Total primary government program revenues	<u>\$ 22,131</u>	<u>\$ 41,549</u>	<u>\$ 33,642</u>	<u>\$ 37,701</u>	<u>\$ 41,038</u>	<u>\$ 36,257</u>	<u>\$ 40,019</u>	<u>\$ 39,356</u>	<u>\$ 45,495</u>
Net expense:									
Governmental Activities	\$ 146,163	\$ 130,642	\$ 125,427	\$ 143,785	\$ 161,707	\$ 126,014	\$ 144,546	\$ 154,323	\$ 157,977
Business-type Activities	6,646	6,035	16,452	16,223	17,879	16,422	16,006	15,832	15,530
Total primary government net expense	<u>\$ 152,809</u>	<u>\$ 136,677</u>	<u>\$ 141,879</u>	<u>\$ 160,008</u>	<u>\$ 179,586</u>	<u>\$ 142,436</u>	<u>\$ 160,552</u>	<u>\$ 170,155</u>	<u>\$ 173,507</u>

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

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Revenues and Other Changes in Net Assets									
Governmental Activities:									
Property taxes, interest and penalties	\$ 100,157	\$ 93,991	\$ 94,957	\$ 99,274	\$ 104,290	\$ 107,901	\$ 109,619	\$ 113,846	\$ 117,760
Intergovernmental revenues	45,801	45,957	47,215	61,816	56,902	64,449	65,482	58,776	61,625
Other taxes	13,496	14,907	10,052	6,962	16,392	17,259	17,883	17,908	17,955
Other revenue	11,260	8,431	3,104	5,113	10,845	11,454	10,670	6,562	2,733
Transfers	(12,957)	(8,356)	(11,040)	(11,032)	(9,535)	(10,261)	(11,010)	(9,561)	(10,900)
Total governmental activities	<u>157,757</u>	<u>154,930</u>	<u>144,288</u>	<u>162,133</u>	<u>178,894</u>	<u>190,802</u>	<u>192,644</u>	<u>187,531</u>	<u>189,173</u>
Business-type Activities:									
Other taxes	-	-	4,975	3,978	7,085	6,517	6,820	6,418	5,047
Intergovernmental revenues	-	-	1,382	1,367	155	1,296	671	375	4,283
Grants & contributions	113	-	-	-	-	-	-	-	-
Other revenue	4	322	61	100	15,120	594	643	676	240
Transfers	8,135	8,356	11,040	11,032	9,535	10,261	11,010	9,561	10,900
Total business-type activities	<u>8,252</u>	<u>8,678</u>	<u>17,458</u>	<u>16,477</u>	<u>31,895</u>	<u>18,668</u>	<u>19,144</u>	<u>17,030</u>	<u>20,470</u>
Total primary government	<u>\$ 166,009</u>	<u>163,608</u>	<u>161,746</u>	<u>178,610</u>	<u>210,789</u>	<u>209,470</u>	<u>211,788</u>	<u>204,561</u>	<u>209,643</u>
Changes in Net Assets									
Governmental activities	\$ 11,594	\$ 24,288	\$ 18,861	\$ 18,348	\$ 17,187	\$ 64,788	\$ 48,098	\$ 33,208	\$ 31,196
Business-type activities	1,606	2,643	1,006	254	14,016	2,246	3,138	1,198	4,940
Prior period adjustment	-	43,440	(80,072)	-	-	-	-	-	-
Total primary government	<u>\$ 13,200</u>	<u>\$ 70,371</u>	<u>\$ (60,205)</u>	<u>\$ 18,602</u>	<u>\$ 31,203</u>	<u>\$ 67,034</u>	<u>\$ 51,236</u>	<u>\$ 34,406</u>	<u>\$ 36,136</u>

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

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund									
Reserved	\$ 3,146	\$ 1,802	\$ 1,953	\$ 1,298	\$ 248	\$ 1,366	\$ 1,333	\$ 1,303	\$ 960
Unreserved	24,851	16,696	18,239	23,748	34,501	45,200	48,223	51,036	59,704
Total general fund	<u>\$ 27,997</u>	<u>\$ 18,498</u>	<u>\$ 20,192</u>	<u>\$ 25,046</u>	<u>\$ 34,749</u>	<u>\$ 46,566</u>	<u>\$ 49,556</u>	<u>\$ 52,339</u>	<u>\$ 60,664</u>
All other governmental funds									
Reserved/Designated	\$ 36,192	\$ 44,038	\$ 62,791	\$ 35,609	\$ 13,132	\$ 15,017	\$ 7,082	\$ 5,312	\$ 3,428
Unreserved, reported in:									
Special Revenue funds	5,671	5,645	7,664	(2,284)	8,583	11,527	22,903	24,138	26,056
Debt Service funds	-	-	-	28,722	30,571	32,941	34,623	36,259	36,907
Capital Projects funds	1,885	783	8,831	17,499	28,008	44,688	53,084	55,248	72,654
Total all other governmental funds	<u>\$ 43,748</u>	<u>\$ 50,466</u>	<u>\$ 79,286</u>	<u>\$ 79,546</u>	<u>\$ 80,294</u>	<u>\$ 104,173</u>	<u>\$ 117,692</u>	<u>\$ 120,957</u>	<u>\$ 139,045</u>

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

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

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues									
Taxes, assessments, interest & penalties	\$ 131,697	\$ 133,667	\$ 135,130	\$ 153,817	\$ 160,146	\$ 168,434	\$ 169,632	\$ 169,521	\$ 168,880
Licenses, permits & inspection charges	1,551	1,838	2,110	2,312	2,342	2,565	2,281	1,973	1,726
Intergovernmental revenue	35,977	31,210	30,995	31,632	36,907	34,185	34,986	31,540	40,729
Charges for services	3,664	4,240	4,906	5,547	5,405	6,030	6,323	6,021	6,997
Fines & forfeitures	2,665	2,315	3,302	1,536	3,127	4,231	4,953	5,397	5,924
Other	38,571	9,187	5,276	8,714	12,727	9,303	10,711	8,800	7,568
Total revenues	<u>214,125</u>	<u>182,457</u>	<u>181,719</u>	<u>203,558</u>	<u>220,654</u>	<u>224,748</u>	<u>228,886</u>	<u>223,252</u>	<u>231,824</u>
Expenditures									
Current									
General government	13,405	12,742	12,039	11,715	12,974	12,461	16,914	14,310	13,958
Public safety	60,925	64,328	63,888	64,643	68,447	70,466	75,821	77,449	79,071
Physical environment	27,870	30,470	29,321	21,377	22,742	25,441	21,696	24,435	21,487
Solid waste	8,440	9,675	9,193	9,369	-	-	-	-	-
Parks & recreation	6,634	6,867	6,832	6,567	738	908	910	907	906
Economic development	8,750	10,426	8,658	26,423	41,325	41,810	48,007	51,701	60,222
Other	7,539	4,779	5,483	162	446	-	-	-	-
Capital Outlay	30,836	19,547	23,317	27,802	27,666	12,504	22,684	24,440	20,864
Debt Service									
Principal	11,837	12,158	19,304	10,973	10,646	9,773	8,540	7,408	5,396
Interest	5,398	4,796	2,973	4,592	4,004	3,585	3,138	2,754	2,439
Total expenditures	<u>181,634</u>	<u>175,788</u>	<u>181,008</u>	<u>183,623</u>	<u>188,988</u>	<u>176,948</u>	<u>197,710</u>	<u>203,404</u>	<u>204,343</u>
Excess of revenues over expenditures	32,491	6,669	711	19,935	31,666	47,800	31,176	19,848	27,481
Other Financing Sources (Uses)									
Proceeds from issuance of debt	1,521	1,929	42,967	256	-	-	-	-	13,471
Transfers in	32,085	39,995	29,637	40,566	29,474	47,722	45,175	40,845	42,809
Transfers out	(41,662)	(51,374)	(42,801)	(55,642)	(50,689)	(59,826)	(60,611)	(54,645)	(57,350)
Total other financing sources (uses)	<u>(8,056)</u>	<u>(9,450)</u>	<u>29,803</u>	<u>(14,820)</u>	<u>(21,215)</u>	<u>(12,104)</u>	<u>(15,436)</u>	<u>(13,800)</u>	<u>(1,070)</u>
Net changes in fund balances	<u>\$ 24,435</u>	<u>\$ (2,781)</u>	<u>\$ 30,514</u>	<u>\$ 5,115</u>	<u>\$ 10,451</u>	<u>\$ 35,696</u>	<u>\$ 15,740</u>	<u>\$ 6,048</u>	<u>\$ 26,411</u>
Debt service as a percentage of noncapital expenditures	11.4%	10.9%	14.1%	10.0%	9.1%	8.1%	6.7%	5.7%	4.2%

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

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

Fiscal Year	Real Property (1)					Personal Property (1)			Public Utilities (2)			Totals		Assessed Value as a Percentage of Actual Value
	Estimated Actual Value:					Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value	Estimated Actual Value	Assessed Taxable Value		
	Commercial	Industrial	Farm	Residential & Exempt Properties	Totals									
2001	\$ 2,708,735	\$ 172,468	\$ 3,503,801	N/A	\$ 6,385,004	\$ 2,028,589	\$ 868,832	\$ 260,949	\$ 247,421	\$ 136,081	\$ 7,501,257	\$ 2,425,619	3.04	32%
2002	3,216,225	189,705	4,085,050	N/A	7,490,980	2,383,807	987,686	296,306	327,312	180,022	8,805,978	2,860,135	2.70	32%
2003	3,294,907	189,562	4,185,521	N/A	7,669,990	2,438,015	1,015,340	304,602	317,501	174,626	9,002,831	2,917,243	2.70	32%
2004	3,373,811	186,034	4,225,783	N/A	7,785,628	2,474,149	979,508	293,852	273,208	150,265	9,038,344	2,918,266	2.70	32%
2005	3,425,002	187,470	4,317,168	N/A	7,929,640	2,525,477	1,008,959	302,688	287,068	157,887	9,225,667	2,986,052	3.05	32%
2006	3,801,543	202,532	5,041,704	176,170	9,221,949	2,862,056	1,052,507	315,752	293,389	161,364	10,567,845	3,339,172	2.81	32%
2007	3,877,677	205,211	5,149,924	189,974	9,422,786	2,920,636	1,098,949	329,685	264,552	145,503	10,786,287	3,395,824	2.81	31%
2008	4,080,438	192,241	5,351,751	219,839	9,844,269	3,047,010	1,024,933	307,481	269,757	148,366	11,138,959	3,502,857	2.81	31%
2009	4,256,046	189,664	5,511,802	261,830	10,219,342	3,156,234	1,016,750	305,026	270,210	148,615	11,506,302	3,609,875	2.81	31%
2010	4,887,267	204,716	6,601,700	358,028	12,051,711	3,687,218	1,115,939	334,782	304,404	167,422	13,472,054	4,189,422	2.81	31%

Note:

- (1) Assessed by the Knox County Property Assessor's Office
- (2) Assessed by the Division of State Assessed Properties, State Comptroller's Office
- (3) Assessment Ratios:
 - a) Real property:
 - Commercial at 40%
 - Industrial at 40%
 - Residential and Farm at 25%
 - b) Personal property at 30%
 - c) Public utilities at 55%

N/A - Not Available

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

Fiscal Year	City of Knoxville Tax Rate Distribution					Overlapping Knox County Tax Rate Distribution				Total Direct & Overlapping Rates
	General Operations	Debt Service	City County Building Lease	Street Paving	Total	General Operations	Debt Service	School Construction	Total	
2001	2.20	0.52	0.09	0.04	2.85	1.51	0.31	1.50	3.32	6.17
2002	2.09	0.82	0.09	0.04	3.04	1.58	0.31	1.43	3.32	6.36
2003	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	5.66
2004	1.85	0.81	-	0.04	2.70	1.34	0.28	1.34	2.96	5.66
2005	2.20	0.81	-	0.04	3.05	1.34	0.28	1.34	2.96	6.01
2006	2.06	0.75	-	-	2.81	1.24	0.22	1.23	2.69	5.50
2007	2.06	0.75	-	-	2.81	1.24	0.22	1.23	2.69	5.50
2008	2.06	0.75	-	-	2.81	1.13	0.33	1.23	2.69	5.50
2009	2.06	0.75	-	-	2.81	1.10	0.36	1.23	2.69	5.50
2010	1.80	0.66	-	-	2.46	0.97	0.31	1.08	2.36	4.82

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

Taxpayer	Type of Business	2010			2001		
		Taxable	Rank	Percentage	Taxable	Rank	Percentage
		Assessed		of Total	Assessed		of Total
		Value ⁽¹⁾		Taxable	Value ⁽¹⁾		Taxable
				Assessed			Assessed
				Value			Value
Bell South Telecom	Communications	53,190	1	1.27%	\$ 99,779	1	3.54%
West Town Mall	Retail	36,954	2	0.88%			
Wal-Mart Corporation	Retail	29,016	3	0.69%			
AT&T Telecommunications	Communications	25,894	4	0.62%	21,778	7	0.77%
Tennessee Holdings	Property Management	24,659	5	0.59%			
First American National Bank	Financial Services	22,419	6	0.54%			
Scripps Network Inc	Cable Television	18,438	7	0.44%			
Knoxville Center Mall	Retail	16,800	8	0.40%			0.00%
Ft Sanders Hospital	Medical services	16,306	9	0.39%			0.00%
Rohm & Haas	Manufacturing	14,902	10	0.36%			
East Towne Mall	Retail				58,091	2	2.06%
First American National Bank	Financial Services				42,087	3	1.49%
Goody's Family Clothing	Retail				34,428	4	1.22%
Parkway Property	Property Management				27,926	5	0.99%
Centre at Deanne Hill	Property Management				23,339	6	0.83%
Talisman Knoxville, LLC	Property Management				19,600	8	0.70%
Dillard, Tennessee	Retail				18,495	9	0.66%
White Realty	Property Management				15,495	10	0.55%
		<u>\$ 258,578</u>		<u>6.18%</u>	<u>\$ 361,018</u>		<u>12.81%</u>

⁽¹⁾Data Source: City property tax office

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

Fiscal Year Ended June 30,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2001	\$ 73,953	\$ 69,892	94.51%	\$ 3,742	\$ 73,634	99.57%
2002	77,513	73,595	94.95%	3,524	77,119	99.49%
2003	79,041	74,363	94.08%	4,182	78,545	99.37%
2004	79,603	75,122	94.37%	4,031	79,153	99.43%
2005	91,075	85,989	94.42%	4,447	90,436	99.30%
2006	93,804	90,406	96.38%	2,813	93,219	99.38%
2007	95,423	91,412	95.80%	3,235	94,647	99.19%
2008	98,233	93,938	95.63%	3,168	97,106	98.85%
2009	101,436	96,102	94.74%	2,670	98,772	97.37%
2010	102,836	96,600	93.94%	-	96,600	93.94%

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

Fiscal Year	Governmental Activities				Business Type Activities	Total Primary Government ⁽¹⁾	% of Personal Income ⁽²⁾	Per Capita ⁽²⁾
	General Obligation Bonds	Notes Payable	Lease Purchase Agreement	Debt Participation Agreement	General Obligation Bonds			
2002	\$ 91,696	\$ -	\$ -	\$ 1,521	\$ 164,384	\$ 257,601	14.59%	\$ 1,456.39
2003	79,595	1,929	-	1,464	162,855	245,843	13.37%	1,384.29
2004	103,106	-	-	1,406	158,184	262,696	13.44%	1,474.84
2005	92,595	-	-	1,346	154,890	248,831	12.15%	1,381.40
2006	82,080	-	-	1,285	151,475	234,840	11.18%	1,291.10
2007	72,370	-	-	1,222	147,910	221,502	10.23%	1,206.79
2008	63,900	-	-	1,156	144,240	209,296	6.27%	1,140.29
2009	56,560	-	-	1,088	140,810	198,458	5.59%	1,049.59
2010	51,235	-	13,470	1,017	137,230	202,952	5.93%	1,073.36

Note:

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

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

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

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

Fiscal Year	Less: Amounts Available in		Total	Percentage of Estimated Taxable Value of Property	Per Capita
	General Obligation Bonds	Debt Service Fund			
2002	\$ 91,696	\$ 24,178	\$ 67,518	2.36%	\$ 381.73
2003	79,595	16,999	62,596	2.15%	352.46
2004	103,106	26,801	76,305	2.61%	428.40
2005	92,595	28,722	63,873	2.14%	354.60
2006	82,080	30,572	51,508	1.54%	283.18
2007	72,370	32,941	39,429	1.16%	214.82
2008	63,900	34,623	29,277	0.84%	159.51
2009	56,560	36,259	20,301	0.56%	107.37
2010	51,235	36,907	14,328	0.34%	75.78

CITY OF KNOXVILLE, TENNESSEE
LEGAL DEBT MARGIN INFORMATION

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

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

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

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

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
2001	\$ 501,830	\$ 439,372	\$ 62,458	\$ 16,951	3.68
2002	464,208	413,129	51,079	24,068	2.12
2003	500,073	429,096	70,977	26,568	2.67
2004	529,340	460,396	68,944	61,308	1.12
2005	532,535	471,762	60,773	112,034	0.54
2006	611,132	538,260	72,872	27,981	2.60
2007	650,153	566,716	83,437	33,455	2.49
2008	689,212	592,251	96,961	38,596	2.51
2009	751,042	640,292	110,750	44,117	2.51
2010	672,927	573,375	99,552	45,681	2.18

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

<u>Fiscal Year</u>	<u>Gross Revenue (net of grant receipts)</u>	<u>Expenses (net of depreciation and interest)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service</u>	<u>Revenue Bond Coverage</u>
2001	\$ 19,807	\$ 11,291	\$ 8,516	\$ 6,632	1.28
2002	18,769	11,485	7,284	4,582	1.59
2003	18,693	11,630	7,063	4,676	1.51
2004	19,614	11,843	7,771	4,649	1.67
2005	22,746	12,643	10,103	4,806	2.10
2006	25,743	13,615	12,128	7,345	1.65
2007	27,768	15,274	12,494	7,770	1.61
2008	30,148	16,100	14,048	8,810	1.59
2009	28,369	16,934	11,435	7,905	1.45
2010	26,889	16,500	10,389	5,540	1.88

CITY OF KNOXVILLE, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2010
(unaudited - amounts expressed in thousands)

<u>Governmental Unit</u>	<u>Net Direct Outstanding Debt ⁽¹⁾</u>	<u>Percentage Applicable to Knoxville ⁽²⁾</u>	<u>Amount Applicable to Knoxville</u>
City of Knoxville	\$ 65,722	100.00%	\$ 65,722
Knox County	363,954	42.06%	153,079
Knox County Schools	250,017	42.06%	105,157
Total	<u>\$ 679,693</u>		<u>\$ 323,958</u>

Note:

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

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

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

Fiscal Year	Population ⁽¹⁾	Personal Income (In \$1,000) ⁽²⁾	Per Capita Personal Income ⁽²⁾	Median Age ⁽¹⁾	Education Level - Population 25 & Over ⁽¹⁾				School Enrollment ⁽³⁾	Knoxville, Metropolitan Area Unemployment Rate ⁽⁴⁾
					High School Graduate	Some College AS Degree	Bachelor's Degree	Master's & Above		
2000	175,645	\$ 16,568,988	\$ 26,834	37.3	28.3%	25.6%	15.0%	9.5%	56,703	3.4%
2001	176,781	17,138,808	27,429	-	-	-	-	-	56,458	3.8%
2002	176,876	17,654,927	27,931	-	-	-	-	-	52,391	4.0%
2003	177,595	18,384,062	28,703	38.2	-	-	-	-	56,935	4.3%
2004	178,118	19,544,768	30,209	-	-	-	-	-	55,720	4.2%
2005	180,130	20,266,000	30,899	-	-	-	-	-	53,130	4.5%
2006	182,337	21,643,000	32,430	35.2	28.8%	31.1%	18.9%	12.6%	56,851	4.1%
2007	183,546	33,373,000	33,963	35.1	33.0%	25.5%	17.0%	11.0%	56,535	3.8%
2008	184,802	⁽⁵⁾	33,373	35.5	33.1%	23.9%	18.2%	11.8%	54,896	5.4%
2009	189,081	⁽⁵⁾	35,502	35.3	30.2%	26.3%	18.3%	11.5%	55,171	8.7%
2010	189,081	⁽⁵⁾	34,245	35.3	30.2%	26.3%	18.3%	11.5%	56,516	8.2%

Data sources

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

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

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

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

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

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

Employer's Name	2010			2001		
	Employees	Rank	Percentage of Total Area Employment ⁽¹⁾	Employees	Rank	Percentage of Total Area Employment ⁽²⁾
University of Tennessee, Knoxville	9,317	1	4.17%			
Knox County Public Schools	8,104	2	3.63%			
Covenant Health	8,000	3	3.58%			
St. Mary's Medical Center	3,606	4	1.62%			
University of Tennessee Medical Center	3,225	5	1.44%			
City of Knoxville	2,820	6	1.26%			
County of Knox	2,500	7	1.12%			
Clayton Homes	2,500	8	1.12%			
ALCOA	2,300	9	1.03%			
Wal-Mart Stores	2,091	10	0.94%			
Sea Ray Boats, Inc.				1,450	1	0.76%
DeRoyal Industries				1,433	2	0.75%
Levi Strauss and Company				900	3	0.47%
Plasti-Line				650	4	0.34%
Knoxville News-Sentinel Company				620	5	0.33%
Matsushita Electronic Components				600	6	0.32%
Breed Technologies				530	7	0.28%
Philips Electronics of North America Corp.				520	8	0.27%
PBR Automotive USA				500	9	0.26%
Bike Athletic				415	10	0.22%

Note:

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

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

(2) Estimated - Reliable data no longer available

CITY OF KNOXVILLE, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST 10 YEARS
(Unaudited)

Department	Full-time Equivalent Employees as of June 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Administration	23.0	23.0	23.0	21.5	19.5	24.5	24.5	25.0	25.5	24.5
Finance and Accountability										
Finance	53.0	54.0	54.0	48.0	55.5	56.5	54.5	52.5	52.5	51.0
Information Systems	32.0	30.0	30.0	28.0	29.0	29.0	30.0	30.0	30.0	30.0
Subtotal	85.0	84.0	84.0	76.0	84.5	85.5	84.5	82.5	82.5	81.0
Operations & Engineering										
Engineering	86.0	88.5	89.5	86.0	88.0	88.0	90.0	89.5	89.5	88.5
Fleet Services	67.0	67.0	67.0	58.0	58.0	57.0	57.0	56.0	56.0	55.0
Inspections	30.0	31.0	31.0	30.0	30.0	31.0	31.0	31.0	31.0	29.0
Subtotal	183.0	186.5	187.5	174.0	176.0	176.0	178.0	176.5	176.5	172.5
Community and Neighborhood Services										
Public Services	316.0	335.0	338.0	315.0	308.0	309.0	307.0	307.0	306.0	306.0
Development Services	23.0	5.0	5.0	5.0	3.0	3.0	4.0	4.0	4.0	4.0
Community Development	20.0	20.0	20.0	21.5	20.5	18.5	19.5	21.5	21.5	21.5
Recreation	56.0	63.5	62.5	58.5	60.5	60.5	59.0	58.0	57.5	55.0
Subtotal	415.0	423.5	425.5	400.0	392.0	391.0	389.5	390.5	389.0	386.5
Law	26.0	26.5	25.5	25.5	13.0	13.0	13.0	13.0	14.0	13.0
Police										
Sworn	448.0	446.0	456.0	421.0	414.0	414.0	414.0	416.0	416.0	416.0
Civilian	131.0	133.0	133.0	121.0	120.5	120.5	120.5	121.0	121.0	120.0
Emergency Management	4.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Subtotal	583.0	583.0	593.0	546.0	537.5	537.5	537.5	540.0	540.0	539.0
Fire										
Sworn	358.0	358.0	358.0	328.0	328.0	328.0	328.0	328.0	328.0	327.0
Civilian	12.0	12.0	12.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0
Subtotal	370.0	370.0	370.0	339.0	339.0	339.0	338.0	338.0	338.0	337.0
Board Administered/Other Departments										
Legislative	3.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
City Court	12.0	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Civil Service	15.0	15.0	15.0	14.0	14.0	14.0	14.5	13.0	13.0	12.0
Public Assembly Facilities	58.0	47.0	37.0	36.0	36.0	36.0	35.5	35.5	35.5	36.0
Subtotal	88.0	83.0	73.0	71.0	71.0	71.0	71.0	69.5	69.5	69.0
GRAND TOTAL	1,773.0	1,779.5	1,781.5	1,653.0	1,632.5	1,637.5	1,636.0	1,635.0	1,635.0	1,622.5

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

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

Sources: Various city departments

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

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

Sources: Various city departments

Note: No capital asset indicators are available for the general government function.

COMPLIANCE SECTION

CITY OF KNOXVILLE, TENNESSEE

**SINGLE AUDIT REPORT AND
FINDINGS AND RECOMMENDATIONS**

For the Fiscal Year Ended June 30, 2010

TABLE OF CONTENTS

Schedule of Expenditures of Federal and State Awards	152-156
Notes to the Schedule of Expenditures of Federal and State Awards	157
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	158-159
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	160-161
Schedule of Findings and Questioned Costs	162-167
Schedule of Corrected Prior Audit Findings	168-170
Corrective Action Plan	172-173

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS
For the period ended June 30, 2010

Grantor Agency	Program Title	CFDA #	Grant #	FEDERAL ASSISTANCE		Receivable	Cash	Expenditures	Receivable	
						(Deferral) 6/30/09	Receipts		(Deferral) 6/30/10	
U.S. Department of Housing and Urban Development										
Direct assistance										
Tennessee Department of Human Services	Community Development Block Grant	14.218	B-07-MC-47-0005		\$	429,691	\$ 682,642	\$ 252,951	\$ 0	
	Community Development Block Grant	14.218	B-08-MC-47-0005			411,994	1,193,557	1,614,171	832,608	
	Neighborhood Stabilization Program	14.218	B-08-MN-47-0002			1,397	980,941	1,522,381	542,837	
		14.218				843,082	2,857,140	3,389,503	1,375,445	
	Home Grant 2005	14.239	M05-MC-47-0201			308,442	463,221	154,779	0	
	Home Grant 2006	14.239	M06-MC-47-0201			8,756	580,440	571,684	0	
	Home Grant 2007	14.239	M07-MC-47-0201			40,654	322,834	282,204	24	
	Home Grant 2008	14.239	M08-MC-47-0201			3,927	118,350	146,367	31,944	
	Home Grant 2009	14.239	M09-MC-47-0201			0	506,097	1,032,078	525,981	
		14.239				361,779	1,990,942	2,187,112	557,949	
	Empowerment Zone	14.244	EZ-99-TN-0012			1,036,243	6,801,958	6,387,389	621,674	
	ARRA Community Development Block Grant	14.253	B-09-MY-47-0005			0	0	12,943	12,943	
	Fair Housing 2005	14.400	FF204K074012			(34,249)	0	34,249	0	
	Fair Housing 2006	14.400	FF204K084012			(47,296)	0	44,749	(2,547)	
	Fair Housing 2007	14.400	FF204K094012			0	34,045	0	(34,045)	
	Fair Housing 2008	14.400	FF204K104012			0	8,500	0	(8,500)	
		14.400				(81,545)	42,545	78,998	(45,092)	
	Passed through from Knox County	Community Development Block Grant	14.218	B-05-UC-47-0001			0	250,000	250,000	0
		Neighborhood Stabilization Program (THDA)	14.228	B-08-MN-47-0002			0	0	9,257	9,257
		Emergency Shelter	14.231	S-07-MC-47-005			2,729	2,729	0	0
	Emergency Shelter	14.231	S-08-MC-47-005			71,808	82,987	11,179	0	
	Emergency Shelter	14.231	S-09-MC-47-005			0	22,662	62,690	40,028	
		14.231				74,537	108,378	73,869	40,028	
	Homeless Prevention & Rapid Re-Housing Program	14.257	S-09-MY-47-0005			0	202,141	267,763	65,622	
	Tennessee Housing Development Agency					2,234,096	12,253,104	12,656,834	2,637,826	
Total U.S. Department of Housing and Urban Development										

Passed through from
Knox County

Tennessee Department of Human Services

Tennessee Housing Development Agency

Total U.S. Department of Housing and Urban Development

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
For the period ended June 30, 2010

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/09	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/10
U.S. Department of Justice							
<u>Direct assistance</u>							
	Family Justice Center	16.590	2004-WE-AX-K007	\$ 18,512	\$ 18,512	\$ 0	0
	Healing the Heartland	16.590	2006-WE-AX-0073	138,479	224,044	133,890	48,325
		16.590		156,991	242,556	133,890	48,325
	Project Safe Neighborhoods - Gun Violence Eradication	16.609	2006-GP-CX-0065	59,320	59,320	0	0
	2006 Bulletproof Vest Partnership Funding	16.609	2006-BOBX-06136064	2,265	2,265	0	0
	2006 Knoxville Anti-Gang Initiative	16.609	2006-GP-BX-0089	78,957	193,985	115,028	0
	2007 Project Safe Neighborhoods	16.609	2007-GP-CX-0044	27,508	67,217	53,069	13,360
	2008 Project Safe Neighborhoods	16.609	2008-GP-CX-0069	12,460	76,999	93,364	28,825
	2009 Project Safe Neighborhoods	16.609	2009-GP-BX-0070	0	0	10,994	10,994
		16.609		180,510	399,786	272,455	53,179
	LEIC - Regional Community Policing Institutes	16.710	2005-HS-WX-K022	124,137	97,779	37,422	63,780
Office of Violence Against Children	Transitional Housing Assistance	16.736	2007-WH-AX-0009	59,803	89,265	80,092	50,630
	2007 Anti-Gang	16.744	2007-PG-BX-0069	18,626	133,469	142,886	28,043
<u>Passed through from</u>							
Department of Finance and Administration:							
Office of Juvenile Justice and Delinquency Prevention	2007 Internet Crimes Against Children	16.543	2007-MC-CX-K008	81,961	153,039	191,403	120,325
Criminal Justice Program	2007 Byrne/Justice Assistance Grant Program	16.579	Z-06-027520-00	16,042	67,734	74,341	22,649
	2007 Byrne/Justice Assistance Grant Program through Knox County	16.579	2007 F2598-TN-DJ	22,211	32,458	39,545	29,298
	2009 Byrne/Justice Assistance Grant Program through Knox County	16.579	2009-H0724-TN-DJ	0	0	7,540	7,540
		16.579		38,253	100,192	121,426	59,487
	ARRA 2009 Internet Crimes Against Children	16.800	2009-SN-B9-K052	0	43,868	121,709	77,841
	ARRA 2009 Byrne/Justice Assistance Grant	16.803	2009-SU-B9-0002	0	31,986	55,179	23,193
	ARRA 2009 Byrne/Justice Assistance Grant	16.804	2009-SB-B9-2035	0	303,601	356,713	53,112
				660,281	1,595,541	1,513,175	577,915
Knox County							
Total U.S. Department of Justice							
U.S. Department of Environmental Protection							
<u>Direct assistance</u>							
Total U.S. Department of Environmental Protection	EPA Grant for Brownfields Assessment for the South Waterfront	66.818	BF-95443509-0	0	0	33,014	33,014
				0	0	33,014	33,014

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
For the period ended June 30, 2010

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral) 6/30/09	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/10
U.S. Department of Energy							
<u>Direct assistance</u>							
	Solar America Initiative	81.111	DE-FC36-08G018095	\$ 33,607	\$ 0	\$ 82,174	\$ 115,781
	ARRA Energy & Sustainability Block Grant	81.128	DE-EE0000954	0	0	56,880	56,880
Total U.S. Department of Energy				<u>33,607</u>	<u>0</u>	<u>139,054</u>	<u>172,661</u>
U.S. Department of Homeland Security							
<u>Direct assistance</u>							
	2007 Metropolitan Medical Response System	97.067	GG-08-24741-00	11,288	170,120	158,832	0
	2008 Metropolitan Medical Response System	97.067	2008-GE-T8-0048	24,221	201,205	183,821	6,837
	2009 Metropolitan Medical Response System	97.067	2009-SS-T9-0086	0	0	807	807
		<u>97.067</u>		<u>35,509</u>	<u>371,325</u>	<u>343,460</u>	<u>7,644</u>
<u>Passed through from</u>							
Tennessee Emergency Management Agency	DOE 2009 Offsite Emergency Planning and Response	83.552	GG-09-27498-00	0	15,000	15,000	0
	Emergency Management Performance Grant	97.042	2009-EP-E9-052	0	136,000	136,000	0
Total U.S. Department of Homeland Security				<u>35,509</u>	<u>522,325</u>	<u>494,460</u>	<u>7,644</u>
U.S. Department of Labor							
<u>Passed through from</u>							
Senior Service America, Inc.	Senior Aides (Previous Fiscal Year)	17.235	AD-16177-07-60-A-24	48,145	49,328	1,183	0
	Senior Aides (Current Fiscal Year)	17.235	AD-16177-07-60-A-24	0	401,330	478,739	77,409
	ARRA Senior Aides	17.235	AD-18413-09-60-A-24	0	122,660	137,944	15,284
Total U.S. Department of Labor				<u>48,145</u>	<u>573,318</u>	<u>617,866</u>	<u>92,693</u>
U.S. Department of Transportation							
<u>Direct assistance</u>							
	Knoxville Station Transit Center	20.500	TN-03-0091	1,484,625	1,484,625	0	0
	Knoxville Station Transit Center	20.500	TN-04-0022	2,786,730	4,846,643	5,881,209	3,821,296
		<u>20.500</u>		<u>4,271,355</u>	<u>6,331,268</u>	<u>5,881,209</u>	<u>3,821,296</u>
	2010 STP Funding for the Transit Center	20.507	TN-95-X038	0	0	419,350	419,350
	2006 Formula Grant	20.507	TN-90-X241	24,497	27,948	3,451	0
	2006 CMAQ Funding	20.507	TN-95-X004	39,056	74,779	51,525	15,802
	2007 Formula Grant	20.507	TN-90-X265	1,957	1,957	0	0
	CMAQ - Air Quality Alert Days Outreach	20.507	TN-95-X005	7,731	15,991	8,260	0
	CMAQ - Purchase Related Equipment for Buses	20.507	TN-90-X255-E	20,384	25,984	5,600	0
	2008 Formula Grant	20.507	TN-90-X275	189,162	230,937	41,775	0
	CMAQ - Purchase Buses	20.507	TN-95-X009	799,356	800,000	644	0
	Surface Transportation Program	20.507	TN-95-X009	1,576,000	1,576,000	0	0

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
For the period ended June 30, 2010

Grantor Agency	Program Title	CFDA #	Grant #	Receivable (Deferral)		Cash Receipts	Expenditures	Receivable (Deferral) 6/30/10			
				6/30/09							
U.S. Department of Transportation (continued)											
Direct assistance (continued)											
Passed through from Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation Tennessee Department of Transportation	2008 5309 - Bus Grant	20.507	TN-04-0026	\$	103,408	\$	122,953	\$	19,545	\$	0
	2009 Formula Grant	20.507	TN-90-X300		3,395,506		4,274,846		942,860		63,520
	2006 TN Statewide 5309 Job Access Capital Earmark	20.507	TN-04-0023		0		40,231		40,231		0
	CMAQ - Purchase Buses	20.507	TN-95-X013		0		0		30,624		30,624
	Round 2 - FY08 5309 Statewide Bus & Bus Facilities	20.507	TN-04-0044-00		0		0		241,637		241,637
	2010 Formula Grant	20.507	TN-90-X316		0		0		3,077,127		3,077,127
	ARRA Funding for the LEED Certified Knoxville Transit Center	20.507	TN-96-X003-00		0		1,205,150		3,143,001		1,937,851
		20.507			6,157,057		8,396,776		8,025,630		5,785,911
	Ten Mile Creek Greenway	20.205	STP-EN-9109(47)		198,584		196,273		0		2,311
	Widening of Pleasant Ridge Rd. to 3 lanes with sidewalks	20.205	STP-M-9109(53)		740,742		0		528,827		1,269,569
	Washington Pike and Millertown Pike Widening	20.205	STP-M-9109(64)		206,154		206,237		83		0
	Jackson Avenue Ramps	20.205	Contract 050113; Pin 106077.00		26,267		35,015		8,748		0
	Streetscape Near Tennessee Theatre/Cinema Public Access Grant	20.205	Contract 060134; Pin 1108672.00		1,132,194		1,132,194		0		0
	Cumberland Avenue Streetscapes & Pedestrian Improvements	20.205	Contract 080013; Pin 110692.00		139,261		162,962		93,124		69,423
	ARRA Papermill Bluff Greenway	20.205	ARRA-STP-M-9109(132)		0		54,192		54,854		662
	Kingston Pike/Northshore Feasibility Study	20.205	STP-M-332(7) State 2001638		0		69,632		69,632		0
	Holbrook Bridge over Fountain Road	20.205	BRZE-9109(122)		0		91,556		99,280		7,724
	Pedestrian Linkages to Volunteer Landing	20.205	TCSF(2) PIN#043650		14,138		0		7,634		21,772
		20.205			2,457,340		1,948,061		862,182		1,371,461
Governor's Highway Safety	Commercial Vehicle Enforcement Grant	20.218	GG-07-20579-01		116,317		164,772		49,088		633
Governor's Highway Safety	08/09 Governor's Highway Safety Grant	20.600	Z-09-214346-00		31,671		54,181		22,510		0
	09/10 Governor's Highway Safety Grant	20.600	Z-10-220019-00		0		48,557		73,025		24,468
		20.600			31,671		102,738		95,535		24,468
Total pass through assistance					13,033,740		16,943,615		14,913,644		11,003,769
Total U.S. Department of Transportation					\$ 16,045,378		\$ 31,887,903		\$ 30,368,047		\$ 14,525,522
Total Federal Assistance											

CITY OF KNOXVILLE, TENNESSEE
SCHEDULE OF FEDERAL AND STATE AWARDS (Continued)
For the period ended June 30, 2010

Grantor Agency	Program Title	CFDA #	Grant #	STATE ASSISTANCE			Receivable (Deferral) 6/30/09	Cash Receipts	Expenditures	Receivable (Deferral) 6/30/10
Tennessee Department of Environment and Conservation	Household Hazardous Waste-Second Year Funding		GG-08-23533-00				\$ 48,633	\$ 48,633	\$ 0	\$ 0
Tennessee Department of Environment and Conservation	Household Hazardous Waste-Third Year Funding		GG-08-23533-00				0	85,000	85,000	0
Tennessee Department of Transportation	2009 State Operating Grant		Z-09-213795-00				0	2,050,754	2,050,754	0
Criminal Justice Program	Internet Crimes Against Children by State Legislation		GG-08-23491-00				113,354	236,401	239,392	116,345
Tennessee Department of Transportation	Kingston Pike/Northshore Feasibility Study		STP-M-332(7) State 2001638				0	17,408	17,408	0
Tennessee Department of Transportation	FTA-TN-03-0091		GG-06-12952-00				336,062	336,062	0	0
Tennessee Department of Transportation	FTA-TN-04-0022		GG-08-27785-00				658,740	767,554	735,152	626,338
Tennessee Department of Transportation	FTA-TN-90-X241		GG-06-12804-00				3,062	3,059	431	434
Tennessee Department of Transportation	FTA-TN-90-X256		47-CMAQ-S3-004				9,764	17,719	12,881	4,926
Tennessee Department of Transportation	FTA-TN-90-X265		GG-08-24190-00				245	245	0	0
Tennessee Department of Transportation	FTA-TN-90-X254		GG-08-25534-01				966	1,999	1,033	0
Tennessee Department of Transportation	FTA-TN-90-X255-ES		GG-09-26134-00				2,548	3,248	700	0
Tennessee Department of Transportation	FTA-TN-90-X275		GG-09-26971-00				23,645	28,866	5,222	1
Tennessee Department of Transportation	FTA-TN-95-X009		47-CMAQ-S3-005				99,920	100,000	81	1
Tennessee Department of Transportation	FTA-TN-95-X009		47-CMAQ-S3-005				197,000	197,000	0	0
Tennessee Department of Transportation	FTA-TN-04-0026		47-5309-S3-015				13,031	15,474	2,443	0
Tennessee Department of Transportation	Tennessee Special Legislative Appropriation		47-LEGS-S3-002				1,185	1,185	0	0
Tennessee Department of Transportation	FTA-TN-90-X300		GG-09-31000-00				424,440	534,358	117,859	7,941
Tennessee Department of Transportation	FTA-TN-04-0023						0	5,029	5,029	0
Tennessee Department of Transportation	FTA-TN-66-004		contract is pending				0	0	30,205	30,205
Tennessee Department of Transportation	FTA-TN-90-X316		contract is pending				0	0	384,641	384,641
Total State Assistance							<u>\$ 1,932,595</u>	<u>\$ 4,449,994</u>	<u>\$ 3,688,231</u>	<u>\$ 1,170,832</u>
Total Federal and State Assistance							<u>\$ 17,977,973</u>	<u>\$ 36,337,897</u>	<u>\$ 34,056,278</u>	<u>\$ 15,696,354</u>

CITY OF KNOXVILLE, TENNESSEE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2010

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of Knoxville, Tennessee, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The City of Knoxville had the following loan funding balances and loan balances outstanding at June 30, 2010. These 2010 loan funding balances are also included in the federal expenditures presented in the schedule.

Cluster / Program Title	CFDA Number	FY 10 Loan Funding	Outstanding Balance
Community Development Block Grants	14.218	\$ 116,820	\$ 10,171,174
Empowerment Zone	14.244	2,282,419	3,182,045
HOME Investment Partnerships Program	14.239	1,759,524	6,497,421
Total loans		<u>\$ 4,158,763</u>	<u>\$ 19,850,640</u>

Note 3 - Expenditures Reconciliation

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

	Expenditures per fund financial statements	Increase (Reductions) to Inventory - other	Total expenditures per Schedule of Federal and State Awards
Community Development Block Grants	\$ 3,736,328	\$ (83,882)	\$ 3,652,446
Empowerment Zone	6,290,980	96,409	6,387,389

PUGH & COMPANY, P.C.

WILL J. PUGH, CPA
RONNIE G. CATE, CPA
C. LARRY ELMORE, CPA
W. JAMES PUGH, JR., CPA
DANIEL C. FRANKLIN, CPA
JAMES H. JONES, CPA
LISA W. HILL, CPA
SUSAN R. FOARD, CPA
ANDREW R. HARPER, CPA
R.E. FOUST, CPA
A. TED HOTZ, CPA
BARRETT V. SIMONIS, CPA
JOHN W. BACON, CPA
CALVIN C. HOWARD, CPA

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES

HOME FEDERAL PLAZA - SUITE 200
315 NORTH CEDAR BLUFF ROAD
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TOLL FREE 800-332-7021
TELECOPIER 865-769-1660

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, the Knoxville Area Transit which is presented as a discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Knoxville, Tennessee (the "City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon January 26, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units of the City as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 08-3.

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

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 26, 2011

PUGH & COMPANY, P.C.

WILL J. PUGH, CPA
RONNIE G. CATE, CPA
C. LARRY ELMORE, CPA
W. JAMES PUGH, JR., CPA
DANIEL C. FRANKLIN, CPA
JAMES H. JONES, CPA
LISA W. HILL, CPA
SUSAN R. FOARD, CPA
ANDREW R. HARPER, CPA
R.E. FOUST, CPA
A. TED HOTZ, CPA
BARRETT V. SIMONIS, CPA
JOHN W. BACON, CPA
CALVIN C. HOWARD, CPA

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES

HOME FEDERAL PLAZA - SUITE 200
315 NORTH CEDAR BLUFF ROAD
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TOLL FREE 800-332-7021
TELECOPIER 865-769-1660

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

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

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

Compliance

We have audited the City of Knoxville, Tennessee's ("the City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority which are reported as component units, and which received \$9,373,540 in federal awards which is not included in the schedule during the year ended June 30, 2010. Our audit, described below, did not include the operations of the Knoxville Utilities Board and the Metropolitan Knoxville Airport Authority because these component units engaged other auditors to perform an audit in accordance with Circular A-133.

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

In our opinion, the City of Knoxville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 08-3.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 08-3. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Pugh & Company, P.C.

Certified Public Accountants

Knoxville, Tennessee

January 26, 2011

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major federal programs:

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

Type of auditors' report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u> </u>	yes	<u> X </u>	no
--	---------------	-----	--------------	----

Major federal programs for the City of Knoxville for the fiscal year ended June 30, 2010 are:

<u>Program Name</u>	<u>CFDA#</u>
Community Development Block Grant	14.218
Home Investment Partnerships Program	14.239
Highway Planning	20.205
Federal Transit – Capital Investment and Formula Grants	20.500/20.507

Dollar threshold used to distinguish between Type A and Type B Programs:	<u>\$ 911,041</u>
---	-------------------

Auditee qualified as low-risk auditee?	<u> </u>	yes	<u> X </u>	no
--	---------------	-----	--------------	----

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2010

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

Unresolved Prior Year Audit Findings:

Finding 07-1: Timely Account Reconciliations and Recording of Capital Assets

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

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

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

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

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

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

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

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

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2010

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

Unresolved Prior Year Audit Findings (continued):

Current Status: This finding has not been completely resolved. The City has made significant strides in improving the reconciliation process for construction in progress, but certain expenditure items included in CIP need to be maintained separately from those projects that will be capitalized in order to have a more defined record of what actually was utilized in getting the capital asset into service. A clear separation of capital assets and expenditures will be crucial in maintaining the capital projects fund with the upcoming implementation of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Management's Response: We appreciate the auditor's recognition of our improvements in properly recording the City's assets and continue to improve our processes with the goal of expediting the process even more without sacrificing accuracy. While it would be good to be able to capitalize projects in an ongoing basis as they conclude, the reality is that with our current staffing, we would prefer to have them engaged in confirming the validity of our assets by actually inventorying them on a biannual basis and making adjustments as necessary. We feel that this process allows for greater accuracy in our financial reporting but we do recognize that it does sacrifice timeliness at the end of the fiscal year in the preparation of the annual financial report.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2010

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

Unresolved Prior Year Audit Findings (continued):

Finding 08-2:	Timely Depositing of Funds
Criteria:	Deposits of funds should be made within three days of receiving the funds.
Condition:	Certain deposits made by two departments were not deposited within three days.
Context:	The two department's deposits for the days tested made up 5.8% of the total deposits for those two days.
Effect:	Not depositing funds within three days violates TCA § 6-56-111.
Cause:	Some departments keep deposits until a certain amount of collections are present before depositing. In addition, certain departments only make deposits once a week.
Recommendation:	As stated in the code, "every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts." We recommend that each department should attempt to correct procedures that are causing them to be in violation of the three-day deposit rule in order to comply with state law.
Current Status:	This finding has not been resolved. During the June 30, 2010 audit, we noted that three departments and Knoxville Area Transit violated the three day deposit rule five times out of the forty items selected for testing. The City has implemented additional procedures in various departments to attempt to limit the possibility of violations occurring, but certain departments continue to violate the rule.
Management's Response:	We have reminded the departments of the need to comply with the three day deposit rule on multiple occasions. We will continue to do so and will be issuing a formal memo to all departments reminding them of the TCA requirements.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2010

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

Current Year Audit Finding:

Finding 10-1:	Accounts Payable Subsidiary Reconciliation
Criteria:	The City should maintain an accurate accounts payable subsidiary ledger that is properly reconciled to the City's detail financial records.
Condition:	The City implemented an upgrade to their Oracle accounting software that corrupted the detail accounts payable subsidiary ledger. The subsidiary ledger does not agree to the general ledger control account and there does not appear to be any appropriate patch for the issue.
Context:	The accounts payable subsidiary ledger maintains all fund-level records for accounts payable.
Effect:	The accounts payable detail subsidiary ledger could not be reconciled to the general ledger without extensive research.
Cause:	The software upgrade caused the condition, but the software company and the City's Information Systems department cannot determine the cause of the corruption of the module. Therefore, they have not developed a solution to the issue. The finance department was not performing a monthly reconciliation from the accounts payable subsidiary ledger to the general ledger so the condition was not discovered until the audit process began.
Recommendation:	The City reconciles the accounts payable summary subsidiary ledger on a monthly basis to the general ledger, but the detail subsidiary ledger which provides each invoice associated with the balance would be a more meaningful tool to reconcile to in order to determine invoice aging and issues with vendors. We recommend that the City should continue to pursue a solution to the software issue or develop a process for reconciling the detail subsidiary ledger on a monthly basis until a solution is determined.
Management's Response:	The auditor's observation is accurate. This deficiency in the system's detailed accounts payable report was corrected in November 2010 and has been tested for accuracy. Periodic testing of this report will be done to make sure it is working for the annual audit as it is not a report that we use during our normal routine. We consider this comment satisfied at this time.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2010

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

Unresolved Prior Year Audit Finding:

Finding 08-3: Reporting

Program: Community Development Block Grant ("CDBG") (CFDA# 14.218)

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

Condition: During our audit, we noted that the Community Development Department maintained an Access based report to track and report the activity of the grant to the reporting system required by HUD without reconciling the information to the official financial statement records maintained by the City. Forgivable loan balances were also not reported to the City Finance department for proper recording in the financial statement records.

Questioned Cost: There are no questioned costs identified.

Context: Total expenditures for CDBG for fiscal year 2008 totaled \$2,458,948.

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

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

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

Current Status: The Community Development Department no longer maintains the Access database, but the loan balances are still an issue. The current system of maintaining the loans does not allow for payments and adjustments for the loans to be recorded by appropriate loan programs thus resulting in confusion as to which programs have been affected by each month's activity. We continue to encourage the City to find a solution to this issue so that the loans can be properly maintained by each of the grant programs for inclusion in the financial records.

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

Current Year Audit Findings:

There were no current year audit findings related to Federal awards tested.

CITY OF KNOXVILLE, TENNESSEE

**Schedule of Corrected Prior Audit Findings
For the Year Ended June 30, 2010**

Finding 09-1: Financial Statement Adjustments

Criteria: The City must properly record its investment in joint venture and property taxes receivable in the City's financial records.

Condition: The City must perform appropriate reconciliations of the financial reports maintained by the joint ventures and various management companies for proper recording of this activity into the City's financial records. The City is also required to record property taxes on the lien date (January 1) even though taxes are not due until October 1.

Context: A prior period adjustment as of July 1, 2008 was required to correct the overstatement of the investment in joint venture of \$2.1 million. There was no impact on beginning of year net assets regarding the property taxes as the property tax receivable (\$101 million) related to the lien date is offset by a deferred revenue liability of the same amount. Property tax receivables were reported as of the lien date at June 30, 2009.

Effect: The investment in the Public Building Authority ("PBA") was overstated and the property tax receivable related to the lien date was not recorded as of June 30, 2008.

Cause: The reconciliation procedures in place from inception allowed for the overstatement of the assets reported for the PBA investment. The property tax receivable related to the lien date was not recorded since it was not billed until after June 30 and not due until October 1.

Recommendation: We recommend that all the components of the PBA investment be appropriately reconciled to the audited financial statements of the PBA and that written procedures be developed so that the reconciliation process can be properly documented and followed in future periods. We also recommend that property tax receivable include assessments as of the lien date.

Management's Response: The auditor's comment was valid and the accounting for the City's investment in the joint venture was totally revamped and procedures put into place to prevent its reoccurrence during the course of the audit. For the current year, we have incorporated the requirement to accrue future tax revenues and will continue to do. We consider this comment closed.

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

CITY OF KNOXVILLE, TENNESSEE

Schedule of Corrected Prior Audit Findings (continued)
For the Year Ended June 30, 2010

Finding 09-2:	Reporting
Program:	Project Safe Neighborhoods (CFDA# 16.609)
Criteria:	Financial statement records should be maintained to ensure that activity is properly reported to the awarding agency in a timely manner.
Condition:	During our audit, we noted that several reports were not submitted timely or with accurate information.
Questioned Cost:	There are no questioned costs identified.
Context:	Total expenditures for all grants associated with CFDA# 16.609 for fiscal year 2009 totaled \$444,649.
Effect:	Total expenditures for the grant fiscal year were not reported in a timely and accurate manner.
Cause:	The grant coordinator is the only person trained to submit these reports. There are no backup plans should the coordinator be unavailable when reports are due.
Recommendation:	We recommend the City establish procedures to ensure that reports for all federal grants are submitted timely and accurately either by cross training an employee within the department responsible for administering the grant and/or an employee in the finance department coordinating these reports and the reconciliation review to the financial records prior to the report submission.
Management's Response:	The Knoxville Police Department has obtained grant funding to hire a Program Specialist to assist the Planning and Grants Manager. The position is 100% grant funded. The Program Specialist will serve as the backup. The Knoxville Police Department has procedures in place to ensure that reports are submitted timely and accurately when the Planning and Grants Manager is absent due to unexpected circumstances.
Current Status:	This finding has been corrected during the year.

CITY OF KNOXVILLE, TENNESSEE

Schedule of Corrected Prior Audit Findings (continued)
For the Year Ended June 30, 2010

Finding 09-3:	Subrecipient Monitoring
Programs:	Family Justice Center (CFDA# 16.590), Project Safe Neighborhoods (CFDA# 16.609) and Capital Improvement and Formula Grants (CFDA# 20.500/20.507)
Criteria:	Grants and compliance requirements passed through to subrecipients and vendors are required to be monitored by the City.
Condition:	Vendors and subrecipients were not properly monitored by the City.
Questioned Cost:	There are no questioned costs identified.
Context:	Total expenditures for all grants associated with these grants for fiscal year 2009 totaled \$19.6 million.
Effect:	Vendors and subrecipients could be in violation of grant compliance requirements. The City did not adhere to the compliance requirement to properly monitor these third parties to the grants.
Cause:	There are no written procedures established by the City to monitor vendors and subrecipients.
Recommendation:	We recommend the City establish procedures to ensure that subrecipient/vendor monitoring is appropriately performed. In addition, each third party for grants that have pass-through ability should be evaluated as to whether they are considered a vendor or a subrecipient under the grant requirements. The City should also provide the CFDA# to each subrecipient to ensure that they recipients understand that these monies are funded through the appropriate federal granting agency and they can appropriately evaluate their responsibility as to Single Audit reporting.
Management's Response:	We acknowledge that our subrecipient monitoring can be improved – both in the actual monitoring as well as documenting of monitoring visits. Appropriate staff has been made aware of the deficiencies and is working on necessary changes. The Knoxville Police Department implemented a subrecipient monitoring policy as of July 1, 2009 which will be handled by the Planning and Grants Manager and assisted by the Program Specialist. KAT has been made aware of the need for enhanced monitoring and has agreed to perform that task. When CFDA#'s (Catalog of Federal Domestic Assistance) numbers are known, they will be incorporated into our agreements when they are crafted. When unknown at the time of the agreement, they will be formally supplied to the subgrantee when available.
Current Status:	This finding has been corrected during the year.

THIS PAGE IS LEFT BLANK INTENTIONALLY



Corrective Action Plan

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

Name of contact person: Jim York, Finance Director

Corrective action: We appreciate the auditor's recognition of our improvements in properly recording the City's assets and continue to improve our processes with the goal of expediting the process even more without sacrificing accuracy. While it would be good to be able to capitalize projects in an ongoing basis as they conclude, the reality is that with our current staffing, we prefer to have them engaged in confirming the validity of our assets by actually inventorying them on a biannual basis and making adjustments as necessary. We feel that this process allows for greater accuracy in our financial reporting but we do recognize that it does sacrifice timeliness at the end of the fiscal year in the preparation of the annual financial report. We will continue to look for greater efficiencies in the final capitalization process. In addition, we are attempting to develop a capital project financial review process which may facilitate the process by eliminating some of the time consuming issues at the end of the fiscal year.

**Anticipated
Completion Date:** June 30, 2011

Finding 2008-2: Timely Depositing of Funds

Name of contact person: Jim York, Finance Director

Corrective action: We have reminded the departments of the need to comply with the three day deposit rule on multiple occasions. We will continue to do so and will be issuing a formal memo to all departments reminding them of the TCA requirements.

**Anticipated
Completion Date:** January 31, 2011

Corrective Action Plan (Continued)

Finding 2008-3:	Reporting (Community Development Block Grant ("CDBG") (CFDA# 14.218)
Name of contact person:	Rebecca Wade, Director of Community Development
Corrective action:	Loans were recorded properly in total but the old loan accounting system did not readily provide the information necessary to accurately segregate the loans by fund. The new loan accounting system was supposed to resolve this deficiency during the fiscal year but its completion was delayed for various reasons and it is not expected to be on line until this February. In the interim, we downloaded the data base from the old system and using Excel, were able to reconcile all loans by fund and type. This was not completed until September and the accounting adjustments were made in November. We consider this comment closed.
Anticipated Completion Date:	November 2010

Finding 2010-1:	Accounts Payable Subsidiary Reconciliation
Name of contact person:	Jim York, Finance Director
Corrective action:	The auditor's observation is accurate. The deficiency in the system's detailed accounts payable report was corrected in November 2010 and has been tested for accuracy. The problem with the report stemmed from an overall system upgrade and was not noticed previously due to the limited amount of usage for the report in question. We received a program update in November 2010 which corrected the report and as part of our normal Accounts Payable reconciliation process, the report will be run and results tested.
Anticipated Completion Date:	November 2010