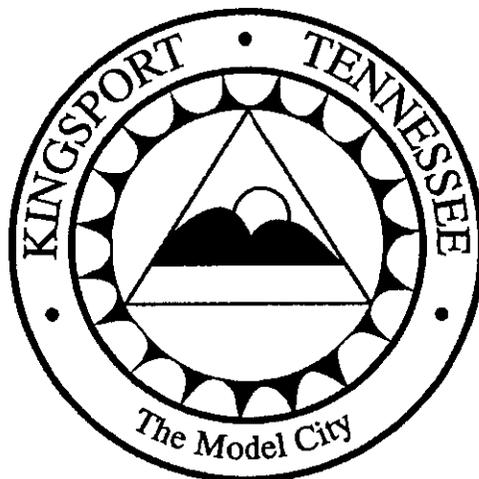


**City of Kingsport, Tennessee**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2008**



**Prepared By**  
**The Finance Department**  
**James H. Demming, City Recorder**

CITY OF KINGSPORT, TENNESSEE  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 For the Fiscal Year Ended June 30, 2008

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## CITY OF KINGSPORT, TENNESSEE

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December 17, 2008

To the Honorable Mayor, Members of the Board of Mayor and Aldermen, and Citizens of the City of Kingsport, Tennessee:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Kingsport for the fiscal year ended June 30, 2008.

This report consists of management's representations concerning the finances of the City of Kingsport. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Kingsport has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Kingsport's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Kingsport's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Blackburn, Childers & Steagall, PLC, a firm of licensed certified public accountants, have issued an unqualified ("clean") opinion on the City of Kingsport's financial statements for the fiscal year ended June 30, 2008. The independent auditors' report is located at the front of the financial section of this report.

The independent audit of the financial statements of the City of Kingsport was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance report section of this CAFR.

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

## **Profile of the Government**

The City of Kingsport was incorporated in 1917 and operates under a council-manager form of government. It is located in the northeast part of the state. The City currently occupies a land area of approximately 47 square miles and serves a population of 44,435. Its established urban growth boundary encompasses 105 square miles which provides potential areas for the City to expand its corporate limits in the future. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Aldermen.

The City of Kingsport has operated under the council-manager form of government since 1917. Policy-making and legislative authority are vested in the Board of Mayor and Aldermen (BMA) consisting of the mayor and six other members. The BMA is responsible, among other things, for passing ordinances, resolutions, adopting the budget, appointing committees, and hiring the City Manager. The City's Manager is responsible for carrying out the policies and ordinances of the BMA, for overseeing the day-to-day operations of the City and for appointing the heads of various departments. The BMA is elected on a non-partisan basis. Board members serve four-year staggered terms, with an election every two years. The Mayor is elected to serve a two-year term. The City Manager serves at the pleasure of the Board.

The City of Kingsport provides a full range of services, including police, fire and rescue, elementary and secondary education, street construction and maintenance, planning and zoning, parks and recreation, cultural events and general administrative services. In addition, water and sewer service, solid waste collection, convention center and golf course are provided under an Enterprise Fund concept with user charges established by the BMA to ensure adequate coverage of operating expenses and payments on outstanding debt. Vehicle maintenance and replacement and self-insurance activities are provided through Internal Service Funds. The City of Kingsport provides water and sewer service and solid waste collection service outside the city limits.

The City is financially accountable for two legally separate organizations; the Industrial Development Board of Kingsport and the Emergency Communications District of Kingsport. Both of these organizations are reported separately within the City's financial statements. Additional information on these legally separate entities can be found in the notes to the financial statements (see note 1.A).

The annual budget serves as the foundation for the City of Kingsport's financial planning and control. All departments of the City of Kingsport are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the BMA for review by May 15<sup>th</sup>. The BMA is required to hold two public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the City of Kingsport's fiscal year. The appropriation budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department and between departments within any fund. Transfers of appropriations between funds, however, require the approval of the BMA. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on pages 30 through 32 as part of the basic financial statements for the City's funds.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Kingsport operates.

**Local Economy.** The City of Kingsport encompasses approximately 47 square miles and has an estimated 2008 population of 44,435 with 173,694 persons residing within a 5 mile radius of the existing City limits. It is located in northeast Tennessee and is part of a Metropolitan Statistical Area (MSA) Kingsport – Bristol, TN – Bristol, VA. This MSA has a population of approximately 302,000. On a regional basis, there are approximately 401,000 persons living within a radius of 25 miles, 863,000 persons living within a radius of 50 miles and 1,305,000 persons living within a radius of 75 miles.

As noted in the 2007 annual report, Kingsport has long served as a major commercial retail hub, and that trend strengthened in 2008 with significant new investments, including Best Buy, Decorators Warehouse, Michael's, Panera Bread, Ulta Cosmetics, Starbucks and Stir Fry Café.

The influx of more than \$370 million in new investment since 2006, heavily weighted towards new retail and commercial office, appears to be paying off in the form of significantly increased sales tax collections in Kingsport despite the rough fiscal weather nationally. Although sales tax collections were relatively flat in FY 2008 as compared with FY2007, collections for the first 5 months of FY2009 are running in excess of 10% above the same period for FY2008.

Meanwhile, an announced expansion of the existing 630,000 square foot Kingsport Town Center mall continues on track to begin in the first quarter of 2009 according to developers, adding tens of thousands of square feet of new retail space.

On the home front, as many states and localities struggle with housing depreciation, Kingsport home values continued to climb. According to the September 2008 Federal Housing Finance Agency Report, for the past 12 months, Kingsport area housing prices are up 3.93 percent, with a five-year appreciation rate of 32.41 percent.

And, at the same time, Kingsport was on track for more than 100 new single family housing starts, with total residential building permits valued at \$25.31 million issued through the first 10 months of the year. Average single-family construction permit value in 2008 is \$183,920.

Throughout its history, the foundation of Kingsport's prosperity has always rested with the strength of its manufacturing center. The largest member of that sector, Eastman Chemical Company, has begun work on Project Reinvest, a \$1.3 billion project to expand production lines, reduce production bottlenecks, improve air quality and modernize base infrastructure.

Among the first projects was a new \$20 million plant to produce a new, proprietary plastic product. Project Reinvest will add \$10.4 million in property tax revenues to the city over the next 13 years in addition to \$8.2 million currently paid annually by the firm.

Ten years ago, Eastman accounted for approximately 32% of the total property taxes received by the City. Even though the amount of property taxes they pay to the City has increased significantly since that time, they currently contribute approximately 28% of the total property taxes. This reduction is attributed to an increased diversification of the City's tax base as other industries and developments continue to expand within the City.

**Long-term Financial Planning.** During the FY2008 and FY2009 budget planning processes, the BMA adopted multi-year capital improvement plans (CIP) for its City operations. Funding for the water and sewer CIP consists of gradual annual rate increases and savings realized from declining annual debt service expenditures. This strategy is utilized to provide an annual funding source for non major capital expenditures and reserve issuance of new debt obligation for large major capital projects.

As a part of the budget process, the BMA re-evaluated the previous CIP for general government and school related activities to address needed improvements to existing City facilities, roads and infrastructure and several new economic development initiatives: a new higher education center,

health professions education building, and initial property requisition for future public facilities. As a result, approximately \$19,000,000 in new general debt was issued to fund these improvements. Even with this significant increase in debt, the total outstanding general obligation debt is within the adopted debt limits as specified in the BMA's debt management policy.

The City of Kingsport has adopted a comprehensive set of financial policies to guide its operations. One of the primary policies that have enabled the City to develop these CIPs, is the adoption of a General Fund Reserve target of \$11,400,000 with a further restriction that the City will not fund any recurring operating expenditures with the use of one-time revenues. Having this reserve balance has given the City the flexibility to address cash flow and emergency needs and to take advantage of significant grant opportunities that have matching requirements. In addition, based on the current debt amortization schedules, it is projected that the City's debt service expenditures will be reduced by approximately \$3,700,000 by the end of FY2010. The annual savings from the debt service reductions have been included in the funding strategies for the CIP.

### **Major Initiatives**

During the summer of 2008, construction was completed on a new 40,000 square feet Regional Center for Health Professions building, the first structure in Kingsport's Downtown Academic Village. The \$4.3 million facility, which opened in the fall 2008, houses nearly 400 students studying nursing and medical technology degrees in partnership with Northeast State Technical Community College and King College.

Meanwhile, work is now underway on a \$13 million Kingsport Center for Higher Education that will host at least five private and public colleges and universities offering baccalaureate and higher degrees.

This effort was undertaken as a major step forward in workforce development, and is an expansion of the six-year-old Regional Center for Applied Technology (RCAT) located adjacent to the Academic Village. RCAT currently hosts 850 plus students studying a variety of associate degree level programming.

Kingsport's academic campus also grew further in 2008, with the privately funded Regional Center for Applied Manufacturing set to come online in 2009, providing tailored educational programming for local employers.

Also in 2008, Kingsport embarked on a new effort to expand tourism by approving a 32,000 square feet MeadowView Conference Center expansion, a project that builds on the synergy of a new 110-room expansion at the adjoining, but privately owned, hotel.

The \$15.3 million Conference Center expansion should result in an annual return greater than \$883,000 while bolstering tourism, the fourth largest industry in Sullivan County. Construction is expected to begin during the spring 2009.

Kingsport's Board and Mayor and Aldermen, working from a substantial roll off in debt service over the next few years, has also chosen to reinvest in other key segments, including road infrastructure, a community and non-profit center and a downtown parking garage necessitated by business and education expansion in the downtown area.

### **Awards and Acknowledgements**

**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 Kingsport for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the eighth consecutive year that the City of Kingsport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must

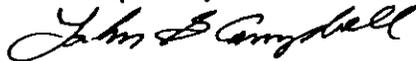
publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

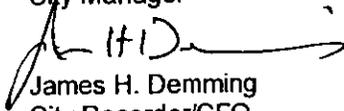
In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2007. The annual budget document dated July 1, 2008 has been submitted to the GFOA for review and it is anticipated that it will also receive this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

**Acknowledgment.** The preparation of the CAFR could not have been accomplished without the efforts and dedication of the staff of the Department of Finance. We would like to express our appreciation to the Finance staff and other personnel from various departments, agencies, and authorities that assisted in its preparation. Also, we would like to thank the Board of Mayor and Aldermen for their guidance and support.

Respectfully submitted,



John G. Campbell  
City Manager



James H. Demming  
City Recorder/CFO

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kingsport  
Tennessee

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

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.



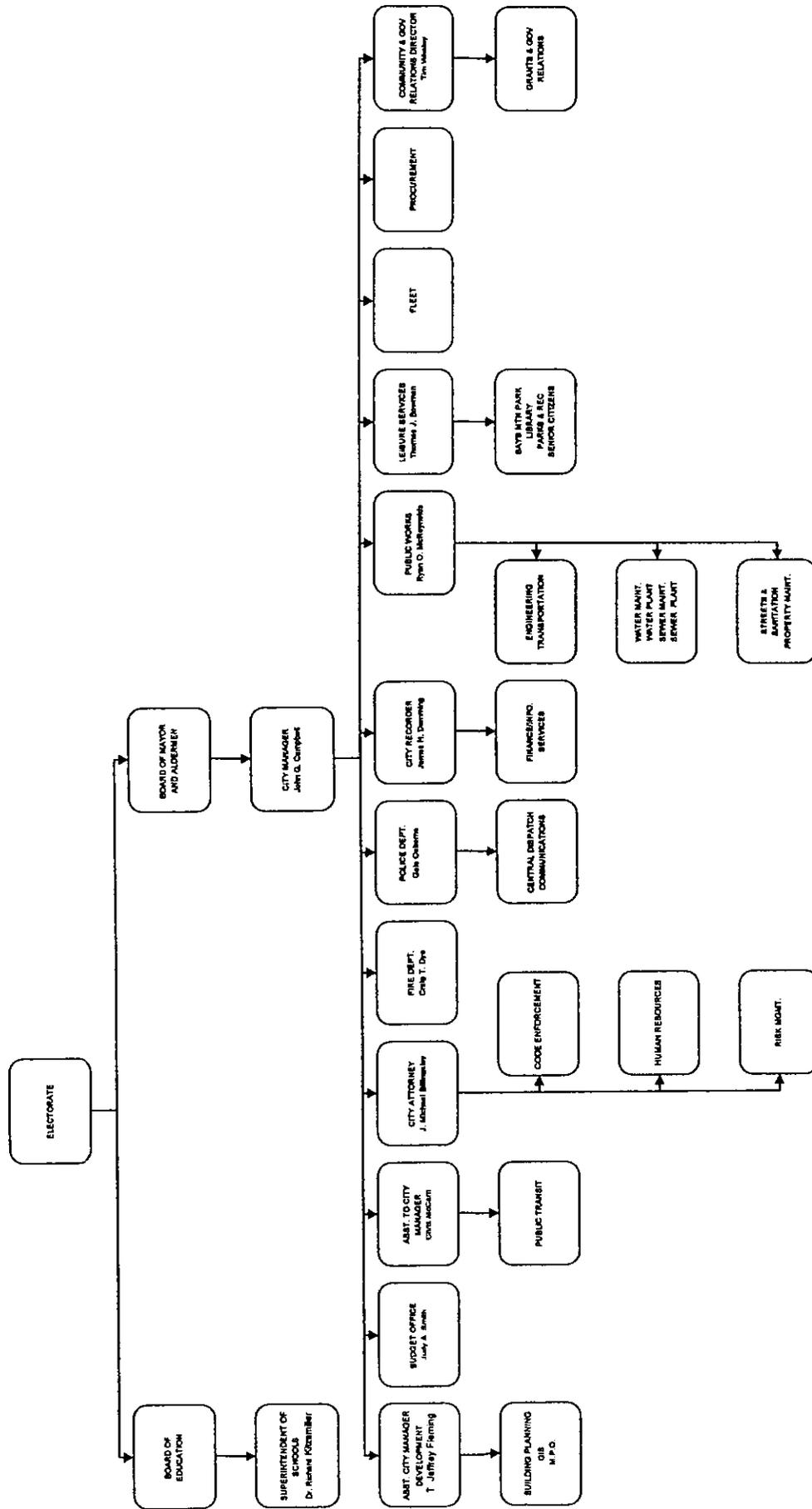
*Chene S. Cox*

President

*Jeffrey R. Enos*

Executive Director

# CITY OF KINGSPORT



## **CITY OF KINGSPORT, TENNESSEE**

### **HISTORY AND ORGANIZATION**

The City of Kingsport was incorporated in 1917 and has been operated under the Council-Manager form of government since that time. The Board of Mayor and Aldermen was expanded from five to seven members through a Charter amendment effective May 15, 1973. On the third Tuesday in May of each odd numbered year three members are elected by the qualified voters of the City for a four-year term and the mayor is elected for a two-year term beginning at the first regular meeting of the Board in July following the election. The Board appoints a City Manager who is responsible for the administration of the City according to the Charter and Ordinances in effect. The City Manager appoints various department heads, officials and employees to operate the City except for the Education Department. The Board of Education, consisting of five members with two or three elected by the qualified voters of the City each odd number year, is responsible for the hiring of a Director of Schools and other personnel, formulating policies and operating the school system within the framework of State statutes and the City Charter and Code.

Pay scales for employees and officials of all departments are approved by the Board of Mayor and Aldermen, and all appropriations of funds are made by the Board.

CITY OF KINGSPORT, TENNESSEE

PRINCIPAL OFFICIALS

AS OF

June 30, 2008

BOARD OF MAYOR AND ALDERMEN

|                       |            |
|-----------------------|------------|
| Dennis R. Phillips    | Mayor      |
| Benjamin K. Mallicote | Vice Mayor |
| Valerie Joh           | Alderman   |
| C. Ken Marsh, Jr.     | Alderman   |
| Larry A. Munsey       | Alderman   |
| Patrick W. Shull      | Alderman   |
| Jantry Shupe          | Alderman   |

CHARTER OFFICERS

|                        |                                       |
|------------------------|---------------------------------------|
| John G. Campbell       | City Manager                          |
| James H. Demming       | City Recorder/Chief Financial Officer |
| J. Michael Billingsley | City Attorney                         |
| Gale Osborne           | Police Chief                          |
| J. Robert Boatright    | City Judge                            |
| Dr. Richard Kitzmiller | Superintendent of Schools             |

DEPARTMENT HEADS

|                    |                                        |
|--------------------|----------------------------------------|
| Thomas J. Bowman   | Leisure Services Director              |
| Craig T. Dye       | Fire Chief                             |
| Ryan O. McReynolds | Public Works Director                  |
| T. Jeffrey Fleming | Assistant City Manager for Development |
| Barbara A. Duncan  | Human Resources Manager                |
| Judy A. Smith      | Budget Officer                         |

CITY OF KINGSPORT, TENNESSEE

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2008



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen  
City of Kingsport  
Kingsport, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee (the City), as of and for the year ended June 30, 2008, 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 financial statements of the Emergency Communications District (the ECD), which represent 16 percent, 22 percent, and 13 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the ECD, is based on the report 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund, general purpose school fund, and the debt service fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 12 through 21, 109, and 110 through 111, respectively, 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, combining and individual nonmajor fund financial statements, supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual non-major fund financial statements, the supplemental information, including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Blackburn, Childers and Steagall, PLLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC

December 17, 2008

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

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As management of the City of Kingsport (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 through 5 of this report.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$441,531 (net assets). Of this amount, \$15,901 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$8,716.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$71,330 an increase of \$2,711 in comparison with the prior year. Approximately 74% of this total amount, \$52,978, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$14,848 or 22% of total general fund expenditures including transfers out.
- The City's total gross debt increased by \$4,893 (4%) during the current fiscal year primarily due to issuance of bonds for construction of a Higher Education Center in Downtown Kingsport.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City'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 is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, 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 or earned but unused vacation leave, etc.).

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

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Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, highway transportation planning, economic and physical development, culture and recreation and education. The business-type activities of the City include water, sewer, solid waste, conference center and golf course. The government-wide financial statements can be found on pages 22 and 23 of this report.

**Fund 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, 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 can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds**

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

The City maintains twenty-four (24) individual governmental funds. Twenty (20) of these governmental funds are classified as nonmajor and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general purpose school fund, the capital project fund, the debt service fund and nonmajor governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 24-34 of this report.

The City adopts an annual appropriation budget for its general and other major special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

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**Proprietary funds**

The City maintains eight (8) different proprietary funds, including enterprise 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 uses enterprise funds to account for its water, sewer, solid waste, convention center and golf course activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for vehicle maintenance and replacement and self-insurance activities. 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 provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water, sewer, solid waste, convention center and golf course activities, which are considered to be major funds of the City. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 35-39 of this report.

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40-108 of this report.

**Other information**

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 112-138 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceed liabilities by \$441,531 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (88%) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

**City of Kingsport's Net Assets**

|                                                    | Governmental Activities |                   | Business-Type Activities |                   | Total             |                   |
|----------------------------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
|                                                    | 2008                    | 2007              | 2008                     | 2007              | 2008              | 2007              |
| Current and Other Assets                           | \$ 143,185              | \$ 137,989        | \$ 24,699                | \$ 21,524         | \$ 167,884        | \$ 159,513        |
| Capital Assets                                     | 290,561                 | 279,322           | 189,984                  | 186,160           | 480,545           | 465,482           |
| <b>Total Assets</b>                                | <b>433,746</b>          | <b>417,311</b>    | <b>214,683</b>           | <b>207,684</b>    | <b>648,429</b>    | <b>624,995</b>    |
| Long-term Liabilities Outstanding                  | 88,299                  | 71,843            | 54,309                   | 59,861            | 142,608           | 131,704           |
| Other Liabilities                                  | 61,255                  | 57,699            | 3,035                    | 2,777             | 64,290            | 60,476            |
| <b>Total Liabilities</b>                           | <b>149,554</b>          | <b>129,542</b>    | <b>57,344</b>            | <b>62,638</b>     | <b>206,898</b>    | <b>192,180</b>    |
| <b>Net Assets:</b>                                 |                         |                   |                          |                   |                   |                   |
| Invested in Capital Assets,<br>net of Related Debt | 251,707                 | 244,856           | 142,404                  | 133,884           | 394,111           | 378,740           |
| Restricted                                         | 30,400                  | 33,768            | 1,119                    | 952               | 31,519            | 34,720            |
| Unrestricted                                       | 2,085                   | 9,145             | 13,816                   | 10,210            | 15,901            | 19,355            |
| <b>Total Net Assets</b>                            | <b>\$ 284,192</b>       | <b>\$ 287,769</b> | <b>\$ 157,339</b>        | <b>\$ 145,046</b> | <b>\$ 441,531</b> | <b>\$ 432,815</b> |

A portion of the City's net assets, \$31,519 or (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$15,901 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets.

During the current fiscal year, the government's net assets increased by \$8,716. Net assets for governmental activities decreased by \$3,577 while net assets for business type activities increased by \$12,293. The primary reason for the decrease in net assets in the governmental activities was a result of recording OPEB liability of \$5,426 in accordance with GASB 45. The primary reason for the increase in net assets in the business-type activities is due to the favorable results of the City's water and sewer utility funds. Water rates increased an average of 2% and sewer rates increased an average of 4% during the current fiscal year as part of a continuing rate stabilization plan that will reduce long-term debt and provide cash for capital improvements and expansion.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2008:

**City of Kingsport's Change in Net Assets**

|                                                                 | Governmental Activities |                   | Business-Type Activities |                   | Total             |                   |
|-----------------------------------------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
|                                                                 | 2008                    | 2007              | 2008                     | 2007              | 2008              | 2007              |
| <b>Revenues:</b>                                                |                         |                   |                          |                   |                   |                   |
| <b>Program Revenues:</b>                                        |                         |                   |                          |                   |                   |                   |
| Charges for Services                                            | \$ 6,449                | \$ 5,155          | \$ 27,978                | \$ 27,062         | \$ 34,427         | \$ 32,217         |
| Operating Grants and Contributions                              | 31,848                  | 29,035            | -                        | -                 | 31,848            | 29,035            |
| Capital Grants and Contributions                                | 6,983                   | 706               | 2,661                    | 1,632             | 9,644             | 2,338             |
| <b>General Revenues:</b>                                        |                         |                   |                          |                   |                   |                   |
| Property Taxes                                                  | 43,181                  | 42,857            | -                        | -                 | 43,181            | 42,857            |
| Sales Taxes                                                     | 27,531                  | 27,570            | -                        | -                 | 27,531            | 27,570            |
| Other Taxes and Intergovernmental                               | 6,118                   | 5,069             | -                        | -                 | 6,118             | 5,069             |
| Unrestricted Investment Earnings                                | 3,392                   | 2,801             | 1,025                    | 1,334             | 4,417             | 4,135             |
| Grants and Contributions Not<br>Restricted to Specific Programs | 642                     | 713               | -                        | -                 | 642               | 713               |
| Other                                                           | 1,307                   | 1,344             | -                        | 2                 | 1,307             | 1,346             |
| <b>Total Revenues</b>                                           | <b>127,451</b>          | <b>115,250</b>    | <b>31,664</b>            | <b>30,030</b>     | <b>159,115</b>    | <b>145,280</b>    |
| <b>Expenses:</b>                                                |                         |                   |                          |                   |                   |                   |
| General Government                                              | 10,448                  | 10,185            | -                        | -                 | 10,448            | 10,185            |
| Public Safety                                                   | 19,845                  | 16,994            | -                        | -                 | 19,845            | 16,994            |
| Public Works                                                    | 13,371                  | 11,388            | -                        | -                 | 13,371            | 11,388            |
| Highway Transportation Planning                                 | 3,121                   | 2,820             | -                        | -                 | 3,121             | 2,820             |
| Economic and Physical Development                               | 4,098                   | 3,418             | -                        | -                 | 4,098             | 3,418             |
| Culture and Recreation                                          | 6,803                   | 5,097             | -                        | -                 | 6,803             | 5,097             |
| Education                                                       | 66,063                  | 60,306            | -                        | -                 | 66,063            | 60,306            |
| Interest on Long-term Debt                                      | 3,244                   | 1,470             | -                        | -                 | 3,244             | 1,470             |
| Water                                                           | -                       | -                 | 8,971                    | 7,910             | 8,971             | 7,910             |
| Sewer                                                           | -                       | -                 | 7,941                    | 7,582             | 7,941             | 7,582             |
| Solid Waste Management                                          | -                       | -                 | 3,799                    | 4,432             | 3,799             | 4,432             |
| MeadowView Conference Resort<br>and Convention Center           | -                       | -                 | 1,247                    | 1,230             | 1,247             | 1,230             |
| Cattails at MeadowView Golf Course                              | -                       | -                 | 1,448                    | 1,432             | 1,448             | 1,432             |
| <b>Total Expenses</b>                                           | <b>126,993</b>          | <b>111,678</b>    | <b>23,406</b>            | <b>22,586</b>     | <b>150,399</b>    | <b>134,264</b>    |
| <b>Increase (Decrease) in Net Assets<br/>before Transfers</b>   | <b>458</b>              | <b>3,572</b>      | <b>8,258</b>             | <b>7,444</b>      | <b>8,716</b>      | <b>11,016</b>     |
| <b>Transfers</b>                                                | <b>(4,035)</b>          | <b>(3,810)</b>    | <b>4,035</b>             | <b>3,810</b>      | <b>-</b>          | <b>-</b>          |
| <b>Change in Net Assets</b>                                     | <b>(3,577)</b>          | <b>(238)</b>      | <b>12,293</b>            | <b>11,254</b>     | <b>8,716</b>      | <b>11,016</b>     |
| <b>Net Assets, beginning of period</b>                          | <b>287,769</b>          | <b>288,007</b>    | <b>145,046</b>           | <b>133,792</b>    | <b>432,815</b>    | <b>421,799</b>    |
| <b>Net Assets, end of period</b>                                | <b>\$ 284,192</b>       | <b>\$ 287,769</b> | <b>\$ 157,339</b>        | <b>\$ 145,046</b> | <b>\$ 441,531</b> | <b>\$ 432,815</b> |

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

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**Governmental activities**

Governmental activities reduced the City's net assets by \$3,577. Total governmental revenues increased by \$12,201. However, these increases were not enough to offset all governmental expenditures specifically depreciation expense and OPEB liabilities.

**Business-type activities**

Business-type activities increased the City's net assets by \$12,293.

- Charges for services for business-type activities increased by \$916 (3%) over the previous fiscal year.
- The City budgeted and achieved an overall increase in net income of the water and sewer funds to provide funds for capital expansion and debt repayments as indicated in the Statement of Cash Flows located on pages 38 and 39 of this report.

**Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kingsport's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Kingsport's governmental funds reported combined ending fund balances of \$71,330, an increase of \$2,711 in comparison with the prior year. Approximately 74% of this total amount, \$52,978, constitutes unreserved fund balance, which is available for spending at the City's discretion. However, of this unreserved amount \$30,074 represents funds designated to be used in various capital projects. The remainder of fund balance is reserved to indicate that it is not available for spending because it has already been committed to: 1) advances to golf course (\$3,070), 2) liquidate contracts and purchase orders of the prior period (\$14,132) and for 3) a variety of other restricted purposes (\$1,150).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$14,848 while total fund balance reached \$18,240. As a matter of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out.

Unreserved fund balance represents 22% of total general fund expenditures and transfers out, while total fund balance represents 27% of that same amount. During 2008, the fund balance of the City's General Fund decreased by \$2,679. Of this \$2,000 represents fund balance appropriations for a new Higher Education Building.

The general-purpose school fund has a total fund balance of \$4,142, of which most is unreserved. The net decrease in fund balance during the current year in the general-purpose school fund was \$399.

CITY OF KINGSPORT, TENNESSEE  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Fiscal Year Ended June 30, 2008  
 (amounts expressed in thousands)

The capital project fund has a total fund balance of \$42,922 of which \$12,848 is encumbered at year-end and \$30,074 is unreserved but designated for approved capital projects. The net increase in this fund balance of \$5,510 was primarily due to new bonds issued during the year.

The debt service fund has a total fund balance of \$1,173. This represents an increase of \$128 as compared to the previous fiscal year. This increase is primarily a result of investment earnings on bond proceeds. Debt service expenditures (principal and interest) totaled \$14,642 for fiscal year 2008. This was approximately \$4,684 more than the debt service expenditures paid in fiscal year 2007. However, \$4,000 of this is attributed to early payoff of a short term capital outlay note after long term bonds were issued.

Nonmajor (other) governmental funds have a fund balance of \$4,855. The net increase in fund balance during the current year in nonmajor governmental funds was \$151.

**Proprietary funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$8,687 and \$8,581 respectively. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget represent a \$5,263 increase in appropriations and include the following:

|      |              |                                                                        |
|------|--------------|------------------------------------------------------------------------|
| \$   | 2,000        | Provide funding for new Higher Education building                      |
|      | 1,000        | Provide funding for Hope VI project (low income neighborhood)          |
|      | 700          | Provide funding for new Regional Center for Health Profession building |
|      | 403          | Provide funding for FY2007 outstanding purchase orders/encumbrances    |
|      | 233          | Provide funding for renovation to City Hall building                   |
|      | 161          | Provide funding for acquisition of fire department equipment           |
|      | 161          | Provide funding for acquisition of property 118 Shelby Street          |
|      | 100          | Provide funding for central fire station roof replacement              |
|      | 100          | Provide funding for new Boys & Girls Club facility                     |
|      | 90           | Provide funding for renovation to general facilities                   |
|      | 90           | Provide funding for employee performance awards                        |
|      | 90           | Provide funding for Art/Sculpture Walk program                         |
|      | 40           | Provide funding for Visitor Enhancement program                        |
|      | 12           | Provide funding for ETSU Arts program                                  |
|      | 10           | Provide funding for Senior Citizen program                             |
|      | <u>73</u>    | Other miscellaneous                                                    |
| <br> |              |                                                                        |
| \$   | <u>5,263</u> |                                                                        |

Of this increase, approximately \$704 was to be funded out of miscellaneous growth related increases in various revenue sources or one-time receipts or grant activity. The remaining \$4,559 was to be budgeted from available fund balance.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

**Capital Asset and Debt Administration**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$480,545 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Construction continued and/or began on various utility renovations and expansion projects including several water projects to enhance water pressure, improvements to the sewer collection system to address inflow/infiltration problems and sewer system plant and lift station renovation projects. Business-type construction in progress at the close of the fiscal year was \$18,991.
- Construction continued and/or began on a variety of general governmental facilities including the Higher Education Center, Regional Center for Health Professions, John Adams Elementary School, energy efficiency project, renovation of the Dobyns-Bennett High School and various street and bridge improvement projects. Construction in progress at the close of the fiscal year pertaining to these type facilities is \$51,209.

**CITY OF KINGSPORT'S CAPITAL ASSETS**  
(Net of Depreciation)

|                                   | Governmental Activities |                   | Business-Type Activities |                   | Total             |                   |
|-----------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
|                                   | 2008                    | 2007              | 2008                     | 2007              | 2008              | 2007              |
| Land                              | \$ 18,789               | \$ 13,304         | \$ 4,961                 | \$ 4,961          | \$ 23,750         | \$ 18,265         |
| Buildings and Systems             | 45,057                  | 49,040            | 160,219                  | 145,207           | 205,276           | 194,247           |
| Improvements other than Buildings | 4,769                   | 4,351             | 4,979                    | 5,251             | 9,748             | 9,602             |
| Machinery and Equipment           | 9,946                   | 9,364             | 834                      | 324               | 10,780            | 9,688             |
| Software                          | 73                      | 103               | -                        | -                 | 73                | 103               |
| Infrastructure                    | 160,718                 | 164,673           | -                        | -                 | 160,718           | 164,673           |
| Construction in Progress          | 51,209                  | 38,487            | 18,991                   | 30,417            | 70,200            | 68,904            |
| <b>Total Capital Assets</b>       | <b>\$ 290,561</b>       | <b>\$ 279,322</b> | <b>\$ 189,984</b>        | <b>\$ 186,160</b> | <b>\$ 480,545</b> | <b>\$ 465,482</b> |

Additional information on the City's capital assets can be found in Note 4.C on pages 58-62 of this report.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

**Long-term debt**

At the end of the current fiscal year, the City had total gross debt outstanding of \$133,959. All of this debt is backed by the full faith and credit of the government.

**CITY OF KINGSPORT'S OUTSTANDING DEBT**  
(Gross Amounts)

|                              | Governmental Activities |                  | Business-Type Activities |                  | Total             |                   |
|------------------------------|-------------------------|------------------|--------------------------|------------------|-------------------|-------------------|
|                              | 2008                    | 2007             | 2008                     | 2007             | 2008              | 2007              |
| Notes Payable                | \$ 6,419                | \$ 6,302         | \$ -                     | \$ -             | \$ 6,419          | \$ 6,302          |
| General Obligation Bonds     | 74,292                  | 63,481           | 47,657                   | 53,860           | 121,949           | 117,341           |
| Loans from Other Governments | -                       | -                | 5,591                    | 5,423            | 5,591             | 5,423             |
| <b>Total Long-term Debt</b>  | <b>\$ 80,711</b>        | <b>\$ 69,783</b> | <b>\$ 53,248</b>         | <b>\$ 59,283</b> | <b>\$ 133,959</b> | <b>\$ 129,066</b> |

During the current fiscal year, the City's total debt increased by \$4,893 (4%). This increase is primarily due to bonds issued to fund construction of a Higher Education Center in Downtown Kingsport. The City maintains an A1 rating from Moody's Investors Service for its General Obligation debt.

The City is subject to debt limitations imposed by its Charter. The total bonded indebtedness (excluding general obligation debt supported by utility operations and assessments) shall not exceed 20% of the assessed taxable value of property within the City. The current debt limitation for the City of Kingsport is significantly in excess of the outstanding general obligation debt. Additional information on the City's long-term debt can be found in Note 4.E on pages 65-96 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the municipal service area is currently 6.2%, which is an increase of 1.8% from a year ago. This compares to the state's average unemployment rate of 6.5 %.
- Inflationary trends in the region are comparable to national indices.
- 884 building permits with an estimated value of \$180,938 were issued during this fiscal year, compared to 886 building permits with an estimated value of \$123,352 for the previous year.
- Growth in local sales tax collections is expected to be approximately 2.7% in FY2009.

Short term interest rates on investments for the City's operating funds decreased to approximately 2.25% in fiscal year 2008 as the federal funding rate was decreased by the Federal Reserve Board.

All of these factors were considered in preparing the City's budget for the 2009 fiscal year.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2008  
(amounts expressed in thousands)

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During the current fiscal year, unreserved fund balance in the general fund decreased to \$14,848. The City has appropriated \$920 of this amount for spending in the fiscal year 2009 budget.

Water and sewer rates were increased for the 2009 budget year. The water rates were increased 3.5% for customers outside City limits while customers inside the City remained at the same rates. Sewer rates increased 8% for outside customers and 2.8% for inside customers respectively. These rate increases were necessary to fund operations and to finance debt service on the new debt scheduled to be issued during the fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in such. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Kingsport, Finance Department Director, 225 West Center Street, Kingsport, TN 37660.

**CITY OF KINGSPORT, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
June 30, 2008

|                                                 | Primary Government         |                               |                       | Component Units                    |                                         |
|-------------------------------------------------|----------------------------|-------------------------------|-----------------------|------------------------------------|-----------------------------------------|
|                                                 | Governmental<br>Activities | Business -<br>Type Activities | Total                 | Industrial<br>Development<br>Board | Emergency<br>Communications<br>District |
| <b>ASSETS:</b>                                  |                            |                               |                       |                                    |                                         |
| Cash                                            | \$ 1,108,561               | \$ 0                          | \$ 1,108,561          | \$ 1,623,429                       | \$ 1,639,746                            |
| Cash with Fiscal Agent                          | 0                          | 36,782                        | 36,782                | 0                                  | 0                                       |
| Equity in Pooled Cash and Investments           | 33,990,690                 | 18,304,077                    | 50,294,767            | 0                                  | 0                                       |
| Long Term Certificates of Deposit               | 385,434                    | 0                             | 385,434               | 0                                  | 0                                       |
| Investments                                     | 395,926                    | 45                            | 395,971               | 0                                  | 0                                       |
| Accounts Receivable                             | 32,218,368                 | 3,734,625                     | 35,953,013            | 10,592                             | 31,193                                  |
| Accrued Interest Receivable                     | 343,733                    | 62                            | 343,795               | 0                                  | 32,757                                  |
| Due from Other Governments                      | 22,814,325                 | 90,191                        | 22,904,516            | 0                                  | 18,070                                  |
| Due from Primary Government                     | 0                          | 0                             | 0                     | 2,961,800                          | 0                                       |
| Due from Component Units                        | 10,592                     | 25,511                        | 36,103                | 0                                  | 0                                       |
| Internal Balances                               | 3,992,035                  | (3,992,035)                   | 0                     | 0                                  | 0                                       |
| Inventories                                     | 520,649                    | 513,373                       | 1,034,022             | 0                                  | 0                                       |
| Prepays                                         | 511,448                    | 1,444                         | 512,892               | 2,400                              | 21,776                                  |
| Land Held for Sale or Development               | 0                          | 0                             | 0                     | 5,037,589                          | 0                                       |
| <b>Restricted Assets:</b>                       |                            |                               |                       |                                    |                                         |
| Cash                                            | 27,498,705                 | 6,460,631                     | 33,959,336            | 155,099                            | 0                                       |
| Long Term Certificates of Deposit               | 4,300,000                  | 56,000                        | 4,356,000             | 0                                  | 0                                       |
| Investments                                     | 14,200,336                 | 973,998                       | 15,174,334            | 154,069                            | 0                                       |
| Receivables                                     | 0                          | 0                             | 0                     | 501,312                            | 0                                       |
| <b>Capital Assets:</b>                          |                            |                               |                       |                                    |                                         |
| Land                                            | 18,788,827                 | 4,961,314                     | 23,750,141            | 0                                  | 0                                       |
| Buildings and Systems                           | 91,008,318                 | 241,026,772                   | 332,035,090           | 0                                  | 0                                       |
| Improvements Other Than Buildings               | 11,774,469                 | 8,560,194                     | 20,334,663            | 75,725                             | 0                                       |
| Machinery and Equipment                         | 34,218,594                 | 3,824,851                     | 38,043,445            | 0                                  | 695,540                                 |
| Software                                        | 283,042                    | 0                             | 283,042               | 0                                  | 0                                       |
| Infrastructure                                  | 258,598,229                | 0                             | 258,598,229           | 0                                  | 0                                       |
| Construction in Progress                        | 51,209,271                 | 18,991,340                    | 70,200,611            | 0                                  | 0                                       |
| Less: Accumulated Depreciation                  | (175,319,895)              | (87,380,859)                  | (262,700,854)         | (62,556)                           | (382,199)                               |
| Other Assets, net                               | 914,307                    | 494,457                       | 1,408,764             | 0                                  | 0                                       |
| <b>Total Assets</b>                             | <b>433,745,964</b>         | <b>214,682,653</b>            | <b>648,428,637</b>    | <b>10,459,439</b>                  | <b>2,056,883</b>                        |
| <b>LIABILITIES:</b>                             |                            |                               |                       |                                    |                                         |
| Accounts Payable and Other Current Liabilities  | 12,915,915                 | 1,338,261                     | 14,254,176            | 269,209                            | 5,586                                   |
| Due to Primary Government                       | 0                          | 0                             | 0                     | 38,103                             | 0                                       |
| Due to Other Governments                        | 238,985                    | 81,457                        | 320,442               | 0                                  | 0                                       |
| Compensated Absences Payable                    | 3,206,479                  | 511,645                       | 3,718,124             | 0                                  | 0                                       |
| Arbitrage Rebate Payable                        | 0                          | 379,003                       | 379,003               | 0                                  | 0                                       |
| Matured Bonds and Interest Payable              | 0                          | 41,262                        | 41,262                | 0                                  | 0                                       |
| Accrued Interest Payable                        | 929,287                    | 542,990                       | 1,472,277             | 137,317                            | 0                                       |
| Unearned Revenue                                | 43,964,170                 | 0                             | 43,964,170            | 17,807                             | 0                                       |
| Liabilities Payable from Restricted Assets      | 0                          | 139,353                       | 139,353               | 155,099                            | 0                                       |
| Noncurrent Liabilities:                         |                            |                               |                       |                                    |                                         |
| Due Within One Year                             | 8,250,018                  | 5,499,595                     | 13,749,611            | 432,189                            | 0                                       |
| Due in More Than One Year                       | 74,623,255                 | 48,318,803                    | 122,939,858           | 2,067,811                          | 0                                       |
| OPEB Liability                                  | 5,426,075                  | 493,268                       | 5,919,343             | 0                                  | 0                                       |
| <b>Total Liabilities</b>                        | <b>149,554,182</b>         | <b>57,343,437</b>             | <b>206,897,619</b>    | <b>3,115,535</b>                   | <b>5,586</b>                            |
| <b>NET ASSETS:</b>                              |                            |                               |                       |                                    |                                         |
| Invested in Capital Assets, Net of Related Debt | 251,706,778                | 142,403,592                   | 394,110,370           | 13,169                             | 313,341                                 |
| Restricted for Debt Service                     | 0                          | 578,749                       | 578,749               | 0                                  | 0                                       |
| Restricted for Capital Improvements             | 30,247,255                 | 540,370                       | 30,787,625            | 0                                  | 0                                       |
| Restricted for Perpetual Care (Nonexpendable)   | 152,691                    | 0                             | 152,691               | 0                                  | 0                                       |
| Unrestricted                                    | 2,085,078                  | 13,816,505                    | 15,901,583            | 7,330,735                          | 1,737,856                               |
| <b>Total Net Assets</b>                         | <b>\$ 284,191,802</b>      | <b>\$ 157,339,216</b>         | <b>\$ 441,531,018</b> | <b>\$ 7,343,904</b>                | <b>\$ 2,051,287</b>                     |

See accompanying notes to the basic financial statements.

CITY OF KINGSFORD, TENNESSEE  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2008

| Functions / Programs                                         | Program Revenues      |                      |                                    | Net (Expense) Revenue and Changes in Net Assets |                         |                            |                              |                                   |
|--------------------------------------------------------------|-----------------------|----------------------|------------------------------------|-------------------------------------------------|-------------------------|----------------------------|------------------------------|-----------------------------------|
|                                                              | Expenses              | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions                | Governmental Activities | Business - Type Activities | Industrial Development Board | Emergency Communications District |
| <b>Primary Government:</b>                                   |                       |                      |                                    |                                                 |                         |                            |                              |                                   |
| Governmental Activities:                                     |                       |                      |                                    |                                                 |                         |                            |                              |                                   |
| General Government                                           | \$ 10,448,110         | \$ 138,937           | \$ 184,888                         | \$ 6,677,067                                    | \$ (3,487,207)          | \$ 0                       | \$ 0                         | \$ 0                              |
| Public Safety                                                | 18,844,589            | 2,478,198            | 295,025                            | 0                                               | (17,071,366)            | 0                          | 0                            | (17,071,366)                      |
| Public Works                                                 | 13,370,957            | 0                    | 0                                  | 0                                               | (13,370,957)            | 0                          | 0                            | (13,370,957)                      |
| Highways and Transportation                                  | 3,121,178             | 97,070               | 2,188,432                          | 305,635                                         | (530,039)               | 0                          | 0                            | (530,039)                         |
| Economic and Physical Development                            | 4,087,855             | 513,595              | 414,787                            | 0                                               | (3,168,463)             | 0                          | 0                            | (3,168,463)                       |
| Culture and Recreation                                       | 6,802,922             | 746,935              | 137,079                            | 0                                               | (5,916,908)             | 0                          | 0                            | (5,916,908)                       |
| Education                                                    | 68,083,106            | 2,472,281            | 28,648,298                         | 0                                               | (34,942,529)            | 0                          | 0                            | (34,942,529)                      |
| Interest on Long Term Debt                                   | 3,244,491             | 0                    | 0                                  | 0                                               | (3,244,491)             | 0                          | 0                            | (3,244,491)                       |
| <b>Total Governmental Activities</b>                         | <b>128,993,208</b>    | <b>6,449,016</b>     | <b>31,848,530</b>                  | <b>8,982,702</b>                                | <b>(81,712,980)</b>     | <b>0</b>                   | <b>0</b>                     | <b>(81,712,980)</b>               |
| <b>Business - Type Activities:</b>                           |                       |                      |                                    |                                                 |                         |                            |                              |                                   |
| Water                                                        | 8,871,314             | 13,073,516           | 0                                  | 1,130,241                                       | 0                       | 5,232,443                  | 0                            | 5,232,443                         |
| Sewer                                                        | 7,841,556             | 12,740,986           | 0                                  | 1,530,484                                       | 0                       | 6,329,834                  | 0                            | 6,329,834                         |
| Solid Waste Management                                       | 3,798,666             | 783,960              | 0                                  | 0                                               | 0                       | (3,014,706)                | 0                            | (3,014,706)                       |
| MeadowView Conference Resort and Convention Center           | 1,248,702             | 283,188              | 0                                  | 0                                               | 0                       | (863,514)                  | 0                            | (863,514)                         |
| Cattails at MeadowView Golf Course                           | 1,447,591             | 1,095,861            | 0                                  | 0                                               | 0                       | (351,730)                  | 0                            | (351,730)                         |
| <b>Total Business - Type Activities</b>                      | <b>23,405,829</b>     | <b>27,877,521</b>    | <b>0</b>                           | <b>2,660,725</b>                                | <b>0</b>                | <b>7,232,427</b>           | <b>0</b>                     | <b>7,232,427</b>                  |
| <b>Total Primary Government</b>                              | <b>\$ 150,399,037</b> | <b>\$ 34,428,537</b> | <b>\$ 31,848,530</b>               | <b>\$ 9,843,437</b>                             | <b>(81,712,980)</b>     | <b>7,232,427</b>           | <b>0</b>                     | <b>(74,480,553)</b>               |
| <b>Component Units:</b>                                      |                       |                      |                                    |                                                 |                         |                            |                              |                                   |
| Industrial Development Board                                 | \$ 5,094,828          | \$ 4,685,136         | \$ 0                               | \$ 0                                            | \$ 0                    | \$ 0                       | \$ (409,490)                 | \$ 0                              |
| Emergency Communications District                            | 537,857               | 622,507              | 0                                  | 0                                               | 0                       | 0                          | 0                            | 84,850                            |
| <b>Total Component Units</b>                                 | <b>\$ 5,632,685</b>   | <b>\$ 5,307,645</b>  | <b>\$ 0</b>                        | <b>\$ 0</b>                                     | <b>\$ 0</b>             | <b>\$ 0</b>                | <b>(409,490)</b>             | <b>84,850</b>                     |
| <b>General Revenues:</b>                                     |                       |                      |                                    |                                                 |                         |                            |                              |                                   |
| Property Taxes                                               |                       |                      |                                    |                                                 | 43,181,138              | 0                          | 0                            | 0                                 |
| Sales Taxes                                                  |                       |                      |                                    |                                                 | 27,531,437              | 0                          | 0                            | 0                                 |
| Alcoholic Beverage Taxes                                     |                       |                      |                                    |                                                 | 1,459,593               | 0                          | 0                            | 0                                 |
| Occupational Licenses and Business Taxes                     |                       |                      |                                    |                                                 | 1,951,834               | 0                          | 0                            | 0                                 |
| Hotel / Motel Taxes                                          |                       |                      |                                    |                                                 | 1,381,161               | 0                          | 0                            | 0                                 |
| Income Taxes                                                 |                       |                      |                                    |                                                 | 1,324,987               | 0                          | 0                            | 0                                 |
| Grants and Contributions Not Restricted to Specific Programs |                       |                      |                                    |                                                 | 641,999                 | 0                          | 0                            | 10,000                            |
| Unrestricted Investment Earnings                             |                       |                      |                                    |                                                 | 3,382,236               | 1,024,862                  | 167,919                      | 87,902                            |
| Gain (Loss) on Disposal of Capital Assets                    |                       |                      |                                    |                                                 | 289,917                 | 50                         | 0                            | (2,437)                           |
| Miscellaneous Transfers                                      |                       |                      |                                    |                                                 | 1,036,779               | 0                          | 0                            | 0                                 |
|                                                              |                       |                      |                                    |                                                 | (4,035,319)             | 4,035,319                  | 0                            | 0                                 |
| <b>Total General Revenues and Transfers</b>                  |                       |                      |                                    |                                                 | <b>78,135,782</b>       | <b>5,080,231</b>           | <b>167,919</b>               | <b>95,465</b>                     |
| <b>Change in Net Assets</b>                                  |                       |                      |                                    |                                                 | <b>(3,577,188)</b>      | <b>12,282,658</b>          | <b>(241,571)</b>             | <b>180,315</b>                    |
| <b>Net Assets - Beginning</b>                                |                       |                      |                                    |                                                 |                         |                            |                              |                                   |
| <b>Prior Period Adjustments:</b>                             |                       |                      |                                    |                                                 |                         |                            |                              |                                   |
| Additional Accumulated Depreciation                          |                       |                      |                                    |                                                 | 287,769,000             | 145,046,558                | 7,585,475                    | 1,892,765                         |
| Over Accrual of Due From Other Governments                   |                       |                      |                                    |                                                 | 0                       | 0                          | 0                            | (4,436)                           |
| <b>Net Assets - Ending</b>                                   |                       |                      |                                    |                                                 | <b>\$ 284,181,602</b>   | <b>\$ 157,339,216</b>      | <b>\$ 7,343,904</b>          | <b>\$ 2,051,297</b>               |

See accompanying notes to the basic financial statements.

**CITY OF KINGSPOUR, TENNESSEE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2008**

|                                       | General Fund         | General Purpose School Fund | Debt Service Fund   | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|----------------------|-----------------------------|---------------------|-----------------------|--------------------------|--------------------------|
| <b>ASSETS:</b>                        |                      |                             |                     |                       |                          |                          |
| Cash                                  | \$ 8,668             | \$ 0                        | \$ 0                | \$ 0                  | \$ 1,099,893             | \$ 1,108,561             |
| Equity in Pooled Cash and Investments | 11,781,556           | 7,598,437                   | 392,348             | 4,783,968             | 1,663,035                | 26,219,344               |
| Long-Term Certificates of Deposit     | 0                    | 0                           | 0                   | 0                     | 365,434                  | 365,434                  |
| Investments                           | 0                    | 0                           | 0                   | 0                     | 395,926                  | 395,926                  |
| Taxes Receivable, net                 | 31,454,179           | 0                           | 0                   | 0                     | 0                        | 31,454,179               |
| Accounts Receivable, net              | 718,256              | 38,975                      | 1,225               | 0                     | 0                        | 758,456                  |
| Accrued Interest Receivable           | 0                    | 0                           | 102,664             | 0                     | 165                      | 102,829                  |
| Due from Other Governments            | 5,252,236            | 15,055,675                  | 0                   | 150,319               | 2,350,439                | 22,808,669               |
| Due from Other Funds                  | 3,455,049            | 879,460                     | 0                   | 0                     | 45,766                   | 4,380,275                |
| Due from Component Unit               | 10,592               | 0                           | 0                   | 0                     | 0                        | 10,592                   |
| Inventories                           | 1,863                | 11,961                      | 0                   | 0                     | 119,902                  | 133,726                  |
| Prepays                               | 17,356               | 0                           | 0                   | 368,861               | 0                        | 386,217                  |
| Cash - Restricted                     | 0                    | 0                           | 98,328              | 26,633,817            | 319,995                  | 27,052,140               |
| Investments - Restricted              | 0                    | 0                           | 701,963             | 13,361,892            | 16,137                   | 14,079,992               |
| <b>Total Assets</b>                   | <b>\$ 52,699,755</b> | <b>\$ 23,584,508</b>        | <b>\$ 1,296,528</b> | <b>\$ 45,298,857</b>  | <b>\$ 6,376,692</b>      | <b>\$ 129,256,340</b>    |
| <b>LIABILITIES AND FUND BALANCES:</b> |                      |                             |                     |                       |                          |                          |
| <b>Liabilities:</b>                   |                      |                             |                     |                       |                          |                          |
| Accounts Payable                      | \$ 338,104           | \$ 176,546                  | \$ 0                | \$ 1,788,336          | \$ 217,987               | \$ 2,520,973             |
| Compensated Absences Payable          | 2,027                | 7,209                       | 0                   | 0                     | 0                        | 9,236                    |
| Other Liabilities                     | 2,297,139            | 5,994,827                   | 123,750             | 0                     | 5,073                    | 8,420,789                |
| Due to Other Governments              | 238,985              | 0                           | 0                   | 0                     | 0                        | 238,985                  |
| Due to Other Funds                    | 0                    | 0                           | 0                   | 0                     | 1,264,962                | 1,264,962                |
| Contracts Payable                     | 0                    | 0                           | 0                   | 589,072               | 0                        | 589,072                  |
| Deferred Revenue                      | 31,583,754           | 13,264,380                  | 0                   | 0                     | 33,790                   | 44,881,924               |
| <b>Total Liabilities</b>              | <b>34,460,009</b>    | <b>19,442,962</b>           | <b>123,750</b>      | <b>2,377,408</b>      | <b>1,521,812</b>         | <b>57,925,941</b>        |

(continued)

**CITY OF KINGSPORT, TENNESSEE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2008

|                                            | <u>General Fund</u>  | <u>General Purpose School Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------------|----------------------|------------------------------------|--------------------------|------------------------------|---------------------------------|---------------------------------|
| <b>Fund Balances:</b>                      |                      |                                    |                          |                              |                                 |                                 |
| Reserved for:                              |                      |                                    |                          |                              |                                 |                                 |
| Encumbrances                               | 281,638              | 351,377                            | 32,013                   | 12,848,061                   | 619,862                         | 14,132,951                      |
| Cattails at Meadowview                     | 3,069,547            | 0                                  | 0                        | 0                            | 0                               | 3,069,547                       |
| Industrial Park                            | 20,927               | 0                                  | 0                        | 0                            | 0                               | 20,927                          |
| Career Ladder                              | 0                    | 198,759                            | 0                        | 0                            | 0                               | 198,759                         |
| Safe Schools                               | 0                    | 15,472                             | 0                        | 0                            | 0                               | 15,472                          |
| Inventories                                | 1,863                | 11,961                             | 0                        | 0                            | 119,902                         | 133,726                         |
| Prepays                                    | 17,356               | 0                                  | 0                        | 0                            | 0                               | 17,356                          |
| Perpetual Care                             | 0                    | 0                                  | 0                        | 0                            | 152,691                         | 152,691                         |
| Projects                                   | 0                    | 15,000                             | 0                        | 0                            | 158,867                         | 173,867                         |
| State BEP                                  | 0                    | 437,050                            | 0                        | 0                            | 0                               | 437,050                         |
| Unreserved, Reported in:                   |                      |                                    |                          |                              |                                 |                                 |
| General Fund                               | 14,848,415           | 0                                  | 0                        | 0                            | 0                               | 14,848,415                      |
| Debt Service Fund                          | 0                    | 0                                  | 1,140,765                | 0                            | 0                               | 1,140,765                       |
| Special Revenue Funds                      | 0                    | 3,111,927                          | 0                        | 0                            | 3,783,265                       | 6,895,192                       |
| Capital Projects Fund                      | 0                    | 0                                  | 0                        | 30,073,388                   | 0                               | 30,073,388                      |
| Permanent Fund                             | 0                    | 0                                  | 0                        | 0                            | 20,293                          | 20,293                          |
| <b>Total Fund Balances</b>                 | <u>18,239,746</u>    | <u>4,141,546</u>                   | <u>1,172,778</u>         | <u>42,921,449</u>            | <u>4,854,880</u>                | <u>71,330,399</u>               |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 52,699,755</u> | <u>\$ 23,584,508</u>               | <u>\$ 1,296,528</u>      | <u>\$ 45,298,857</u>         | <u>\$ 6,376,692</u>             | <u>\$ 129,256,340</u>           |

See accompanying notes to the basic financial statements.

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**CITY OF KINGSFORT, TENNESSEE**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2008**

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

|                                                                                                                                                                                                                                                                                                                                              |                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Total Fund Balance of Governmental Funds                                                                                                                                                                                                                                                                                                     | \$ 71,330,399         |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.                                                                                                                                                                                                                    | 283,360,771           |
| Property tax assessments are reported as revenue in the government - wide statements in the period in which an enforceable legal claim arises against property owners. In governmental funds, these assessments are not available to finance current period expenditures and are reported as deferred revenue until paid by property owners. | 917,754               |
| Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.                                                                                                                                                                                                                   | 884,307               |
| Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, and employee health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.                                             | 19,911,763            |
| Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.                                                                                                                                                                                                 | <u>(92,213,192)</u>   |
| Net Assets of Governmental Activities                                                                                                                                                                                                                                                                                                        | <u>\$ 284,191,802</u> |

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Fiscal Year Ended June 30, 2008

|                                 | General Fund      | General Purpose School Fund | Debt Service Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------|-------------------|-----------------------------|-------------------|-----------------------|--------------------------|--------------------------|
| <b>REVENUES:</b>                |                   |                             |                   |                       |                          |                          |
| Taxes                           | \$ 34,196,929     | \$ 20,061,412               | \$ 0              | \$ 0                  | \$ 3,214,653             | \$ 57,472,994            |
| Licenses and Permits            | 778,788           | 0                           | 0                 | 0                     | 0                        | 778,788                  |
| Intergovernmental               | 20,799,950        | 22,518,209                  | 0                 | 349,260               | 8,550,441                | 52,217,860               |
| Charges for Services            | 1,270,450         | 1,057,623                   | 0                 | 0                     | 1,612,036                | 3,940,109                |
| Fines and Forfeitures           | 2,034,486         | 0                           | 0                 | 0                     | 198,860                  | 2,233,346                |
| Investment Earnings             | 939,112           | 0                           | 1,727,978         | 10,793                | 77,113                   | 2,754,996                |
| Contributions and Donations     | 7,350             | 0                           | 0                 | 152,983               | 225,175                  | 385,508                  |
| Miscellaneous                   | 346,667           | 365,513                     | 0                 | 2,719                 | 0                        | 714,899                  |
| <b>Total Revenues</b>           | <b>60,373,732</b> | <b>44,002,757</b>           | <b>1,727,978</b>  | <b>515,755</b>        | <b>13,878,278</b>        | <b>120,498,500</b>       |
| <b>EXPENDITURES:</b>            |                   |                             |                   |                       |                          |                          |
| Current:                        |                   |                             |                   |                       |                          |                          |
| General Government              | 7,005,005         | 0                           | 0                 | 0                     | 1,223,815                | 8,228,820                |
| Public Safety                   | 16,860,706        | 0                           | 0                 | 0                     | 122,893                  | 16,983,599               |
| Public Works                    | 5,639,582         | 0                           | 0                 | 0                     | 0                        | 5,639,582                |
| Economic & Physical Development | 3,282,588         | 0                           | 0                 | 0                     | 398,674                  | 3,681,462                |
| Transportation                  | 0                 | 0                           | 0                 | 0                     | 3,121,176                | 3,121,176                |
| Culture and Recreation          | 4,462,490         | 0                           | 0                 | 0                     | 132,185                  | 4,594,675                |
| Education                       | 0                 | 50,717,578                  | 0                 | 0                     | 7,252,394                | 57,969,972               |
| Miscellaneous                   | 1,019,288         | 0                           | 0                 | 0                     | 0                        | 1,019,288                |
| Debt Service:                   |                   |                             |                   |                       |                          |                          |
| Principal                       | 0                 | 0                           | 12,191,783        | 0                     | 0                        | 12,191,783               |
| Interest                        | 0                 | 0                           | 2,449,755         | 0                     | 0                        | 2,449,755                |
| Bond Issuance Costs             | 0                 | 0                           | 85,747            | 303,809               | 0                        | 389,556                  |
| Other Costs                     | 0                 | 0                           | 7,590             | 0                     | 0                        | 7,590                    |
| Capital Outlay                  | 898,876           | 227,162                     | 0                 | 19,417,440            | 719,572                  | 21,263,050               |
| <b>Total Expenditures</b>       | <b>39,168,535</b> | <b>50,944,740</b>           | <b>14,734,875</b> | <b>19,721,249</b>     | <b>12,970,909</b>        | <b>137,540,308</b>       |

(continued)

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2008**

|                                                           | <u>General Fund</u>  | <u>General Purpose School Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------------------------------------------|----------------------|------------------------------------|--------------------------|------------------------------|---------------------------------|---------------------------------|
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>21,205,197</u>    | <u>(6,941,983)</u>                 | <u>(13,006,897)</u>      | <u>(19,205,494)</u>          | <u>907,369</u>                  | <u>(17,041,808)</u>             |
| <b>OTHER FINANCING SOURCES (USES):</b>                    |                      |                                    |                          |                              |                                 |                                 |
| Transfers In                                              | 2,524,363            | 15,279,054                         | 8,945,713                | 5,746,767                    | 3,905,099                       | 36,400,996                      |
| Transfers Out                                             | (27,208,550)         | (8,735,910)                        | (44,283)                 | (30,715)                     | (4,661,270)                     | (40,680,728)                    |
| Issuance of Debt                                          | 0                    | 0                                  | 4,207,932                | 18,912,068                   | 0                               | 23,120,000                      |
| Premiums on Debt Issue                                    | 0                    | 0                                  | 25,273                   | 87,125                       | 0                               | 112,398                         |
| Sale of Building                                          | 800,000              | 0                                  | 0                        | 0                            | 0                               | 800,000                         |
| Total Other Financing Sources (Uses)                      | <u>(23,884,187)</u>  | <u>6,543,144</u>                   | <u>13,134,635</u>        | <u>24,715,245</u>            | <u>(756,171)</u>                | <u>19,752,666</u>               |
| Net Change in Fund Balances                               | (2,678,990)          | (398,839)                          | 127,738                  | 5,509,751                    | 151,198                         | 2,710,858                       |
| Fund Balances, July 1, 2007                               | <u>20,918,736</u>    | <u>4,540,385</u>                   | <u>1,045,040</u>         | <u>37,411,698</u>            | <u>4,703,682</u>                | <u>68,619,541</u>               |
| Fund Balances, June 30, 2008                              | <u>\$ 18,239,746</u> | <u>\$ 4,141,546</u>                | <u>\$ 1,172,778</u>      | <u>\$ 42,921,449</u>         | <u>\$ 4,854,880</u>             | <u>\$ 71,330,399</u>            |

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2008**

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

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Net Change in Fund Balance of Governmental Funds                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | \$ 2,710,858          |
| 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 capital outlay in the current period exceeded depreciation of general fixed assets.                                                                                                                                                                                                                                                                        | 10,772,605            |
| The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is a decrease to net assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                       | (259,468)             |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | (141,150)             |
| Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, and employee health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.                                                                                                                                                                                                                                                                                                                               | 752,719               |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:                                                                                                                                                                                                                                                                                                                                                                                                                     |                       |
| Compensated Absences                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | (477,643)             |
| OPEB Liability                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | (5,426,075)           |
| Accrued Interest                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | (805,537)             |
| The issuance of long term debt (e.g. bonds) provide current financial resources to governmental funds, while the repayment of the principal of long term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items. | <u>(10,703,507)</u>   |
| Change in Net Assets of Governmental Activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <u>\$ (3,577,198)</u> |

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                 | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                |                            |                     |                          |                                                                   |
| <b>Taxes:</b>                   |                            |                     |                          |                                                                   |
| General Property                | \$ 29,702,300              | \$ 29,702,300       | \$ 29,771,313            | \$ 69,013                                                         |
| Gross Receipts                  | 3,525,700                  | 4,107,400           | 4,425,616                | 318,216                                                           |
| Licenses and Permits            | 603,000                    | 603,000             | 778,788                  | 175,788                                                           |
| <b>Intergovernmental:</b>       |                            |                     |                          |                                                                   |
| Federal                         | 18,600                     | 18,600              | 0                        | (18,600)                                                          |
| State                           | 4,952,500                  | 5,006,350           | 5,524,371                | 518,021                                                           |
| County                          | 15,491,400                 | 15,491,400          | 14,995,835               | (495,565)                                                         |
| Local                           | 272,500                    | 272,500             | 279,744                  | 7,244                                                             |
| Charges for Services            | 1,606,400                  | 1,574,510           | 1,270,450                | (304,060)                                                         |
| Fines and Forfeitures           | 2,049,000                  | 2,049,000           | 2,034,486                | (14,514)                                                          |
| Investment Earnings             | 1,300,000                  | 1,300,000           | 939,112                  | (360,888)                                                         |
| Contributions and Donations     | 50,000                     | 50,000              | 7,350                    | (42,650)                                                          |
| Miscellaneous                   | 135,600                    | 227,100             | 346,667                  | 119,567                                                           |
| <b>Total Revenues</b>           | <u>59,707,000</u>          | <u>60,402,160</u>   | <u>60,373,732</u>        | <u>(28,428)</u>                                                   |
| <b>EXPENDITURES:</b>            |                            |                     |                          |                                                                   |
| <b>General Government:</b>      |                            |                     |                          |                                                                   |
| Board of Mayor and Aldermen     | 147,300                    | 88,601              | 87,153                   | 1,448                                                             |
| Judicial                        | 30,800                     | 26,565              | 26,129                   | 436                                                               |
| City Attorney                   | 412,000                    | 438,928             | 430,455                  | 8,473                                                             |
| City Manager                    | 508,500                    | 492,961             | 479,919                  | 13,042                                                            |
| Deputy City Manager             | 101,000                    | 40,688              | 2,997                    | 37,691                                                            |
| Budget Office                   | 135,600                    | 143,734             | 135,552                  | 8,182                                                             |
| Special Programs                | 1,542,300                  | 1,682,518           | 1,673,009                | 9,509                                                             |
| Public Information Office       | 173,400                    | 187,254             | 179,154                  | 8,100                                                             |
| Personnel                       | 903,400                    | 893,446             | 820,462                  | 72,984                                                            |
| Purchasing                      | 207,600                    | 218,276             | 210,047                  | 8,229                                                             |
| Finance Administration          | 1,583,600                  | 1,613,190           | 1,576,499                | 36,691                                                            |
| Information Services            | 997,000                    | 1,056,397           | 1,045,964                | 10,433                                                            |
| Geographic Information          | 299,800                    | 376,516             | 286,448                  | 90,068                                                            |
| Grant Office                    | 53,100                     | 58,537              | 51,217                   | 7,320                                                             |
| <b>Total General Government</b> | <u>7,095,400</u>           | <u>7,317,611</u>    | <u>7,005,005</u>         | <u>312,606</u>                                                    |

(continued)

**CITY OF KINGSPORT, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>Public Safety:</b>                          |                            |                     |                          |                                                                   |
| Police Administration                          | 1,670,400                  | 1,821,194           | 1,807,788                | 13,406                                                            |
| Jail Operations                                | 319,500                    | 321,090             | 313,572                  | 7,518                                                             |
| Training                                       | 311,400                    | 268,232             | 245,996                  | 22,236                                                            |
| Traffic School                                 | 29,800                     | 15,324              | 9,757                    | 5,567                                                             |
| Investigations                                 | 1,321,800                  | 1,555,298           | 1,508,850                | 46,448                                                            |
| Patrol Division                                | 5,128,900                  | 5,036,490           | 4,976,149                | 60,341                                                            |
| Animal Control                                 | 117,000                    | 127,192             | 116,910                  | 10,282                                                            |
| Central Dispatch                               | 957,500                    | 972,003             | 952,619                  | 19,384                                                            |
| Communications                                 | 255,600                    | 236,921             | 219,061                  | 17,860                                                            |
| Fire Control and Prevention                    | <u>6,761,600</u>           | <u>6,804,669</u>    | <u>6,710,004</u>         | <u>94,665</u>                                                     |
| <b>Total Public Safety</b>                     | <u>16,873,500</u>          | <u>17,158,413</u>   | <u>16,860,706</u>        | <u>297,707</u>                                                    |
| <b>Public Works:</b>                           |                            |                     |                          |                                                                   |
| Administration                                 | 373,600                    | 386,549             | 377,395                  | 9,154                                                             |
| Street Cleaning                                | 393,100                    | 455,844             | 448,077                  | 7,767                                                             |
| Street Maintenance                             | 1,750,600                  | 1,653,084           | 1,614,511                | 38,573                                                            |
| Building Maintenance                           | 1,380,200                  | 1,488,497           | 1,460,372                | 28,125                                                            |
| Grounds Maintenance                            | 963,900                    | 974,720             | 964,447                  | 10,273                                                            |
| Park Maintenance                               | 392,200                    | 385,092             | 337,914                  | 47,178                                                            |
| Landscaping                                    | <u>493,800</u>             | <u>487,100</u>      | <u>436,866</u>           | <u>50,234</u>                                                     |
| <b>Total Public Works</b>                      | <u>5,747,400</u>           | <u>5,830,886</u>    | <u>5,639,582</u>         | <u>191,304</u>                                                    |
| <b>Economic and Physical Development:</b>      |                            |                     |                          |                                                                   |
| Administration                                 | 282,800                    | 314,522             | 304,674                  | 9,848                                                             |
| Planning                                       | 410,200                    | 404,228             | 395,870                  | 8,358                                                             |
| Transportation                                 | 1,021,700                  | 1,036,469           | 994,839                  | 41,630                                                            |
| Charter Bus Service                            | 0                          | 35,489              | 15,564                   | 19,925                                                            |
| Engineering                                    | 1,074,700                  | 1,070,056           | 1,058,221                | 11,835                                                            |
| Code Enforcement                               | <u>571,300</u>             | <u>521,957</u>      | <u>513,420</u>           | <u>8,537</u>                                                      |
| <b>Total Economic and Physical Development</b> | <u>3,360,700</u>           | <u>3,382,721</u>    | <u>3,282,588</u>         | <u>100,133</u>                                                    |

(continued)

**CITY OF KINGSPORT, TENNESSEE  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                             | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>Culture and Recreation:</b>              |                            |                     |                          |                                                                   |
| Administration                              | 356,800                    | 350,526             | 328,773                  | 21,753                                                            |
| Parks and Recreation Centers                | 351,500                    | 458,398             | 446,081                  | 12,317                                                            |
| Swimming Pools                              | 117,600                    | 132,040             | 119,655                  | 12,385                                                            |
| Athletics                                   | 590,500                    | 563,336             | 543,584                  | 19,752                                                            |
| Cultural Arts                               | 245,200                    | 261,025             | 244,521                  | 16,504                                                            |
| Allandale                                   | 193,900                    | 222,782             | 201,745                  | 21,037                                                            |
| K - Play                                    | 200,300                    | 207,781             | 195,897                  | 11,884                                                            |
| Senior Citizens Center                      | 401,500                    | 399,140             | 383,817                  | 15,323                                                            |
| Bays Mountain Park                          | 975,400                    | 978,776             | 963,603                  | 15,173                                                            |
| Library                                     | 1,060,300                  | 1,059,793           | 1,034,814                | 24,979                                                            |
| <b>Total Culture and Recreation</b>         | <u>4,493,000</u>           | <u>4,633,597</u>    | <u>4,462,490</u>         | <u>171,107</u>                                                    |
| <b>Miscellaneous</b>                        | <u>1,032,850</u>           | <u>1,067,563</u>    | <u>1,019,288</u>         | <u>48,275</u>                                                     |
| <b>Capital Outlay</b>                       | <u>438,900</u>             | <u>1,114,861</u>    | <u>898,876</u>           | <u>215,985</u>                                                    |
| <b>Total Expenditures</b>                   | <u>39,041,750</u>          | <u>40,505,652</u>   | <u>39,168,535</u>        | <u>1,337,117</u>                                                  |
| <b>Excess of Revenues Over Expenditures</b> | <u>20,665,250</u>          | <u>19,896,508</u>   | <u>21,205,197</u>        | <u>1,308,689</u>                                                  |
| <b>Other Financing Sources (Uses):</b>      |                            |                     |                          |                                                                   |
| Transfers In                                | 2,593,700                  | 2,602,600           | 2,524,363                | (78,237)                                                          |
| Transfers Out                               | (23,478,950)               | (27,277,870)        | (27,208,550)             | 69,320                                                            |
| Sale of Building                            | 0                          | 0                   | 800,000                  | 800,000                                                           |
| <b>Net Other Financing Sources (Uses)</b>   | <u>(20,885,250)</u>        | <u>(24,675,270)</u> | <u>(23,884,187)</u>      | <u>791,083</u>                                                    |
| <b>Net Change in Fund Balances</b>          | (220,000)                  | (4,778,762)         | (2,678,990)              | 2,099,772                                                         |
| <b>Fund Balances, July 1, 2007</b>          | <u>220,000</u>             | <u>4,778,762</u>    | <u>20,918,736</u>        | <u>16,139,974</u>                                                 |
| <b>Fund Balances, June 30, 2008</b>         | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 18,239,746</u>     | <u>\$ 18,239,746</u>                                              |

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE  
GENERAL PURPOSE SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                      | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                     |                            |                     |                          |                                                                   |
| County Taxes:                                        |                            |                     |                          |                                                                   |
| Property Taxes                                       | \$ 14,040,000              | \$ 13,440,000       | \$ 13,550,975            | \$ 110,975                                                        |
| Gross Receipts Taxes                                 | 6,660,000                  | 6,430,000           | 6,459,153                | 29,153                                                            |
| Other Taxes                                          | 62,000                     | 62,000              | 51,284                   | (10,716)                                                          |
| Intergovernmental:                                   |                            |                     |                          |                                                                   |
| Federal                                              | 178,400                    | 185,127             | 190,490                  | 5,363                                                             |
| State                                                | 20,120,000                 | 21,807,575          | 21,778,710               | (28,865)                                                          |
| County                                               | 0                          | 549,009             | 549,009                  | 0                                                                 |
| Charges for Services                                 | 1,154,100                  | 1,154,100           | 1,057,623                | (96,477)                                                          |
| Miscellaneous                                        | 140,000                    | 328,465             | 365,513                  | 37,048                                                            |
| <b>Total Revenues</b>                                | <u>42,354,500</u>          | <u>43,956,276</u>   | <u>44,002,757</u>        | <u>46,481</u>                                                     |
| <b>EXPENDITURES:</b>                                 |                            |                     |                          |                                                                   |
| Instruction:                                         |                            |                     |                          |                                                                   |
| Regular                                              | 26,711,841                 | 27,945,363          | 27,312,161               | 633,202                                                           |
| Special Education                                    | 3,839,000                  | 3,831,339           | 3,827,624                | 3,715                                                             |
| Vocational                                           | 1,312,200                  | 1,317,075           | 1,292,511                | 24,564                                                            |
| Adult Education                                      | 163,800                    | 178,868             | 171,797                  | 7,071                                                             |
| <b>Total Instruction</b>                             | <u>32,026,841</u>          | <u>33,272,645</u>   | <u>32,604,093</u>        | <u>668,552</u>                                                    |
| Student Support Services:                            |                            |                     |                          |                                                                   |
| Attendance                                           | 89,900                     | 112,131             | 109,536                  | 2,595                                                             |
| Health Services                                      | 421,200                    | 484,981             | 474,591                  | 10,390                                                            |
| Other                                                | 1,766,600                  | 1,783,684           | 1,752,520                | 31,164                                                            |
| <b>Total Student Support Services</b>                | <u>2,277,700</u>           | <u>2,380,796</u>    | <u>2,336,647</u>         | <u>44,149</u>                                                     |
| Instructional Staff Support Services:                |                            |                     |                          |                                                                   |
| Regular                                              | 2,672,100                  | 2,754,472           | 2,652,073                | 102,399                                                           |
| Special Education                                    | 341,400                    | 336,900             | 335,909                  | 991                                                               |
| Vocational                                           | 143,100                    | 144,400             | 142,748                  | 1,652                                                             |
| Adult Education                                      | 146,500                    | 147,600             | 140,887                  | 6,713                                                             |
| <b>Total Instructional Staff Support Services</b>    | <u>3,303,100</u>           | <u>3,383,372</u>    | <u>3,271,617</u>         | <u>111,755</u>                                                    |
| General Administrative Support Services:             |                            |                     |                          |                                                                   |
| Board of Education                                   | 920,250                    | 931,100             | 928,588                  | 2,512                                                             |
| Office of Superintendent                             | 894,900                    | 935,825             | 933,400                  | 2,425                                                             |
| <b>Total General Administrative Support Services</b> | <u>1,815,150</u>           | <u>1,866,925</u>    | <u>1,861,988</u>         | <u>4,937</u>                                                      |

(continued)

**CITY OF KINGSPORT, TENNESSEE  
GENERAL PURPOSE SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                   | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| School Administrative Support Services            | 2,424,200                  | 2,357,058           | 2,342,587                | 14,471                                                            |
| Business Administrative Support Services          | 304,400                    | 301,639             | 297,519                  | 4,120                                                             |
| Operations and Maintenance Support Services:      |                            |                     |                          |                                                                   |
| Operations                                        | 3,615,050                  | 3,622,636           | 3,611,984                | 10,652                                                            |
| Plant Maintenance                                 | 1,801,600                  | 2,477,100           | 2,394,424                | 82,676                                                            |
| Total Operations and Maintenance Support Services | 5,416,650                  | 6,099,736           | 6,006,408                | 93,328                                                            |
| Student Transportation Support Services           | 1,340,500                  | 1,367,589           | 1,310,006                | 57,583                                                            |
| Noninstructional Services:                        |                            |                     |                          |                                                                   |
| After School Programs                             | 173,750                    | 176,748             | 170,768                  | 5,980                                                             |
| Community Service                                 | 545,850                    | 547,544             | 515,945                  | 31,599                                                            |
| Total Noninstructional Services                   | 719,600                    | 724,292             | 686,713                  | 37,579                                                            |
| Capital Outlay                                    | 1,208,059                  | 472,556             | 227,162                  | 245,394                                                           |
| Total Expenditures                                | 50,836,200                 | 52,226,608          | 50,944,740               | 1,281,868                                                         |
| Deficiency of Revenues Under Expenditures         | (8,481,700)                | (8,270,332)         | (6,941,983)              | 1,328,349                                                         |
| OTHER FINANCING SOURCES (USES):                   |                            |                     |                          |                                                                   |
| Transfers In                                      | 15,493,400                 | 15,493,400          | 15,279,054               | (214,346)                                                         |
| Transfers Out                                     | (7,122,200)                | (8,911,703)         | (8,735,910)              | 175,793                                                           |
| Total Other Financing Sources (Uses)              | 8,371,200                  | 6,581,697           | 6,543,144                | (38,553)                                                          |
| Net Change in Fund Balances                       | (110,500)                  | (1,688,635)         | (398,839)                | 1,289,796                                                         |
| Fund Balances, July 1, 2007                       | 110,500                    | 1,688,635           | 4,540,385                | 2,851,750                                                         |
| Fund Balances, June 30, 2008                      | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 4,141,546</u>      | <u>\$ 4,141,546</u>                                               |

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2008

|                                       | Business-Type Activities - Enterprise Funds |                    |                             |                                                         |                                         |                        |                                                  |
|---------------------------------------|---------------------------------------------|--------------------|-----------------------------|---------------------------------------------------------|-----------------------------------------|------------------------|--------------------------------------------------|
|                                       | Water Fund                                  | Sewer Fund         | Solid Waste Management Fund | MeadowView Conference Resort and Convention Center Fund | Cattails at MeadowView Golf Course Fund | Total Enterprise Funds | Governmental Activities - Internal Service Funds |
| <b>ASSETS:</b>                        |                                             |                    |                             |                                                         |                                         |                        |                                                  |
| <b>Current Assets:</b>                |                                             |                    |                             |                                                         |                                         |                        |                                                  |
| Cash with Fiscal Agent                | \$ 36,762                                   | \$ 0               | \$ 0                        | \$ 0                                                    | \$ 0                                    | \$ 36,762              | \$ 0                                             |
| Equity in Pooled Cash and Investments | 7,750,662                                   | 7,904,658          | 641,802                     | 6,935                                                   | 0                                       | 16,304,077             | 7,771,346                                        |
| Investments                           | 0                                           | 45                 | 0                           | 0                                                       | 0                                       | 45                     | 0                                                |
| Accounts Receivable                   | 1,871,912                                   | 1,712,093          | 42,728                      | 56,067                                                  | 49,825                                  | 3,734,625              | 5,753                                            |
| Accrued Interest Receivable           | 82                                          | 0                  | 0                           | 0                                                       | 0                                       | 62                     | 240,904                                          |
| Due from Other Governments            | 0                                           | 90,191             | 0                           | 0                                                       | 0                                       | 90,191                 | 5,856                                            |
| Due from Other Funds                  | 0                                           | 0                  | 0                           | 0                                                       | 0                                       | 0                      | 876,722                                          |
| Due from Component Units              | 10,715                                      | 14,796             | 0                           | 0                                                       | 0                                       | 25,511                 | 0                                                |
| Inventories                           | 414,230                                     | 0                  | 0                           | 0                                                       | 99,143                                  | 513,373                | 386,923                                          |
| Prepays                               | 1,444                                       | 0                  | 0                           | 0                                                       | 0                                       | 1,444                  | 125,231                                          |
| <b>Total Current Assets</b>           | <b>10,085,807</b>                           | <b>9,721,783</b>   | <b>684,530</b>              | <b>65,002</b>                                           | <b>148,988</b>                          | <b>20,708,090</b>      | <b>9,412,535</b>                                 |
| <b>Noncurrent Assets:</b>             |                                             |                    |                             |                                                         |                                         |                        |                                                  |
| <b>Restricted Assets:</b>             |                                             |                    |                             |                                                         |                                         |                        |                                                  |
| Cash                                  | 34,394                                      | 104,959            | 0                           | 85,000                                                  | 0                                       | 224,353                | 446,565                                          |
| Cash from Unspent Bonds               | 2,123,015                                   | 4,108,448          | 6,815                       | 0                                                       | 0                                       | 6,236,278              | 0                                                |
| Long Term Certificates of Deposit     | 56,000                                      | 0                  | 0                           | 0                                                       | 0                                       | 56,000                 | 4,300,000                                        |
| Investments                           | 142,079                                     | 377,253            | 3,355                       | 411,159                                                 | 40,152                                  | 973,998                | 120,344                                          |
| <b>Total Restricted Assets</b>        | <b>2,355,488</b>                            | <b>4,588,660</b>   | <b>10,170</b>               | <b>496,159</b>                                          | <b>40,152</b>                           | <b>7,490,629</b>       | <b>4,866,909</b>                                 |
| <b>Capital Assets:</b>                |                                             |                    |                             |                                                         |                                         |                        |                                                  |
| Land                                  | 639,744                                     | 518,352            | 1,308,121                   | 1,515,497                                               | 981,600                                 | 4,961,314              | 14,695                                           |
| Buildings and Systems                 | 77,868,704                                  | 140,279,319        | 155,508                     | 21,545,085                                              | 1,158,156                               | 241,026,772            | 0                                                |
| Improvements Other Than Buildings     | 0                                           | 0                  | 2,255,794                   | 332,973                                                 | 5,971,427                               | 8,560,194              | 0                                                |
| Machinery and Equipment               | 1,179,707                                   | 888,799            | 455,543                     | 879,944                                                 | 422,858                                 | 3,824,851              | 21,317,718                                       |
| Construction in Progress              | 6,730,271                                   | 12,201,889         | 0                           | 59,200                                                  | 0                                       | 18,981,340             | 0                                                |
| Less: Accumulated Depreciation        | (30,878,186)                                | (45,678,362)       | (1,258,993)                 | (8,650,822)                                             | (2,914,576)                             | (87,350,959)           | (14,132,328)                                     |
| <b>Total Capital Assets</b>           | <b>55,550,240</b>                           | <b>108,205,957</b> | <b>2,915,973</b>            | <b>17,681,877</b>                                       | <b>5,619,465</b>                        | <b>189,983,512</b>     | <b>7,200,085</b>                                 |
| <b>Other Assets:</b>                  |                                             |                    |                             |                                                         |                                         |                        |                                                  |
| Deposits                              | 0                                           | 0                  | 0                           | 0                                                       | 0                                       | 0                      | 30,000                                           |
| Unamortized Bond Costs                | 142,739                                     | 330,035            | 4,336                       | 0                                                       | 17,347                                  | 494,457                | 0                                                |
| Total Other Assets                    | 142,739                                     | 330,035            | 4,336                       | 0                                                       | 17,347                                  | 494,457                | 30,000                                           |
| <b>Total Noncurrent Assets</b>        | <b>58,058,467</b>                           | <b>113,124,652</b> | <b>2,930,479</b>            | <b>18,178,036</b>                                       | <b>5,676,964</b>                        | <b>197,988,998</b>     | <b>12,096,994</b>                                |
| <b>Total Assets</b>                   | <b>88,144,274</b>                           | <b>122,846,435</b> | <b>3,615,009</b>            | <b>18,243,038</b>                                       | <b>5,825,952</b>                        | <b>218,674,688</b>     | <b>21,509,529</b>                                |

(continued)

CITY OF KINGSPORT, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2008

|                                                                                                  | Business -Type Activities - Enterprise Funds |               |                                   |                                                                     |                                                  |                              | Governmental<br>Activities -<br>Internal Service<br>Funds |
|--------------------------------------------------------------------------------------------------|----------------------------------------------|---------------|-----------------------------------|---------------------------------------------------------------------|--------------------------------------------------|------------------------------|-----------------------------------------------------------|
|                                                                                                  | Water Fund                                   | Sewer Fund    | Solid Waste<br>Management<br>Fund | MeadowView<br>Conference<br>Resort and<br>Convention<br>Center Fund | Cattails at<br>MeadowView<br>Golf Course<br>Fund | Total<br>Enterprise<br>Funds |                                                           |
| <b>LIABILITIES:</b>                                                                              |                                              |               |                                   |                                                                     |                                                  |                              |                                                           |
| Current Liabilities:                                                                             |                                              |               |                                   |                                                                     |                                                  |                              |                                                           |
| Accounts Payable                                                                                 | 262,510                                      | 386,443       | 48,622                            | 100,850                                                             | 7,018                                            | 815,443                      | 267,162                                                   |
| Due to Other Governments                                                                         | 81,457                                       | 0             | 0                                 | 0                                                                   | 0                                                | 81,457                       | 0                                                         |
| Due to Other Funds                                                                               | 0                                            | 0             | 876,722                           | 0                                                                   | 3,115,313                                        | 3,992,035                    | 0                                                         |
| Compensated Absences Payable                                                                     | 260,524                                      | 145,329       | 105,792                           | 0                                                                   | 0                                                | 511,845                      | 88,935                                                    |
| Retainages Payable                                                                               | 34,394                                       | 104,959       | 0                                 | 0                                                                   | 0                                                | 139,353                      | 0                                                         |
| Arbitrage Rebate Payable                                                                         | 76,316                                       | 295,884       | 6,803                             | 0                                                                   | 0                                                | 379,003                      | 0                                                         |
| Matured Bonds Payable                                                                            | 35,262                                       | 0             | 0                                 | 0                                                                   | 0                                                | 35,262                       | 0                                                         |
| Matured Interest Payable                                                                         | 6,000                                        | 0             | 0                                 | 0                                                                   | 0                                                | 6,000                        | 0                                                         |
| Accrued Interest Payable                                                                         | 149,989                                      | 387,169       | 5,832                             | 0                                                                   | 0                                                | 542,990                      | 0                                                         |
| General Obligation Bonds - Current                                                               | 1,351,302                                    | 3,178,698     | 21,875                            | 0                                                                   | 510,500                                          | 5,062,375                    | 0                                                         |
| State Revolving Loan Current                                                                     | 122,016                                      | 315,204       | 0                                 | 0                                                                   | 0                                                | 437,220                      | 0                                                         |
| Other Payables                                                                                   | 416,162                                      | 106,636       | 0                                 | 0                                                                   | 0                                                | 522,818                      | 1,241,989                                                 |
| Total Current Liabilities                                                                        | 2,795,952                                    | 4,930,322     | 1,085,846                         | 100,850                                                             | 3,632,831                                        | 12,525,801                   | 1,597,766                                                 |
| Noncurrent Liabilities:                                                                          |                                              |               |                                   |                                                                     |                                                  |                              |                                                           |
| General Obligation Bonds Payable (Net of<br>Deferred Refunding Costs, Discounts and<br>Premiums) | 12,137,737                                   | 28,653,404    | 342,117                           | 0                                                                   | 1,829,500                                        | 43,162,758                   | 0                                                         |
| State Revolving Loan Payable                                                                     | 1,211,332                                    | 3,942,513     | 0                                 | 0                                                                   | 0                                                | 5,163,845                    | 0                                                         |
| OPEB Liability                                                                                   | 253,272                                      | 138,891       | 101,105                           | 0                                                                   | 0                                                | 493,268                      | 0                                                         |
| Total Noncurrent Liabilities                                                                     | 13,602,341                                   | 32,934,808    | 443,222                           | 0                                                                   | 1,829,500                                        | 48,809,871                   | 0                                                         |
| Total Liabilities                                                                                | 16,398,293                                   | 37,865,130    | 1,508,868                         | 100,850                                                             | 5,462,331                                        | 61,335,472                   | 1,597,766                                                 |
| <b>NET ASSETS:</b>                                                                               |                                              |               |                                   |                                                                     |                                                  |                              |                                                           |
| Invested in Capital Assets, Net of Related Debt                                                  | 42,660,668                                   | 76,022,596    | 2,558,796                         | 17,681,877                                                          | 3,279,465                                        | 142,403,592                  | 7,200,085                                                 |
| Restricted for Debt Service                                                                      | 198,141                                      | 377,253       | 3,355                             | 0                                                                   | 0                                                | 578,749                      | 0                                                         |
| Restricted for Capital Improvements                                                              | 0                                            | 0             | 0                                 | 495,159                                                             | 44,211                                           | 540,370                      | 0                                                         |
| Reserved for Encumbrances                                                                        | 0                                            | 0             | 0                                 | 0                                                                   | 0                                                | 0                            | 824,027                                                   |
| Unrestricted                                                                                     | 8,696,972                                    | 8,581,466     | (459,010)                         | (35,848)                                                            | (2,960,075)                                      | 13,816,505                   | 11,887,651                                                |
| Total Net Assets                                                                                 | \$ 51,745,981                                | \$ 84,981,305 | \$ 2,106,141                      | \$ 18,142,188                                                       | \$ 363,601                                       | \$157,339,216                | \$ 19,911,763                                             |

See accompanying notes to the basic financial statements.

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**CITY OF KINGSPORT, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Fiscal Year Ended June 30, 2008**

|                                                                 | <b>Business - Type Activities - Enterprise Funds</b> |                      |                                    |                                                                |                                                |                               | <b>Governmental Activities - Internal Service Funds</b> |
|-----------------------------------------------------------------|------------------------------------------------------|----------------------|------------------------------------|----------------------------------------------------------------|------------------------------------------------|-------------------------------|---------------------------------------------------------|
|                                                                 | <b>Water Fund</b>                                    | <b>Sewer Fund</b>    | <b>Solid Waste Management Fund</b> | <b>MeadowView Conference Resort and Convention Center Fund</b> | <b>Cattails at MeadowView Golf Course Fund</b> | <b>Total Enterprise Funds</b> |                                                         |
| <b>OPERATING REVENUES:</b>                                      |                                                      |                      |                                    |                                                                |                                                |                               |                                                         |
| Charges and Fees                                                | \$ 12,631,960                                        | \$ 12,551,309        | \$ 783,960                         | \$ 283,188                                                     | \$ 1,095,661                                   | \$ 27,346,278                 | \$ 12,803,140                                           |
| Penalties and Fines                                             | 414,291                                              | 185,268              | 0                                  | 0                                                              | 0                                              | 599,559                       | 0                                                       |
| Miscellaneous                                                   | 27,265                                               | 4,419                | 0                                  | 0                                                              | 0                                              | 31,684                        | 9,080                                                   |
| <b>Total Operating Revenue</b>                                  | <b>13,073,516</b>                                    | <b>12,740,996</b>    | <b>783,960</b>                     | <b>283,188</b>                                                 | <b>1,095,661</b>                               | <b>27,977,521</b>             | <b>12,812,200</b>                                       |
| <b>OPERATING EXPENSES:</b>                                      |                                                      |                      |                                    |                                                                |                                                |                               |                                                         |
| Operating Costs                                                 | 6,815,169                                            | 3,963,017            | 3,692,347                          | 631,837                                                        | 1,080,637                                      | 15,983,007                    | 11,555,488                                              |
| Depreciation                                                    | 1,830,681                                            | 2,807,051            | 91,569                             | 567,726                                                        | 269,344                                        | 5,566,391                     | 1,402,053                                               |
| <b>Total Operating Expenses</b>                                 | <b>8,645,850</b>                                     | <b>6,770,068</b>     | <b>3,783,936</b>                   | <b>1,219,563</b>                                               | <b>1,349,981</b>                               | <b>21,569,398</b>             | <b>12,957,541</b>                                       |
| <b>Operating Income (Loss)</b>                                  | <b>4,627,666</b>                                     | <b>5,970,928</b>     | <b>(2,999,976)</b>                 | <b>(936,375)</b>                                               | <b>(254,120)</b>                               | <b>6,408,123</b>              | <b>(145,341)</b>                                        |
| <b>NONOPERATING REVENUES (EXPENSES):</b>                        |                                                      |                      |                                    |                                                                |                                                |                               |                                                         |
| Investment Earnings                                             | 391,985                                              | 578,535              | 33,239                             | 19,329                                                         | 1,784                                          | 1,024,862                     | 637,241                                                 |
| Interest Expense                                                | (503,132)                                            | (1,103,298)          | (14,342)                           | (24,223)                                                       | (92,971)                                       | (1,737,967)                   | 0                                                       |
| Gain on Disposal of Capital Assets                              | 50                                                   | 0                    | 0                                  | 0                                                              | 0                                              | 50                            | 10,750                                                  |
| Amortization Expense                                            | (19,873)                                             | (44,527)             | (345)                              | (2,916)                                                        | (4,639)                                        | (71,300)                      | 0                                                       |
| Arbitrage Expense                                               | (3,459)                                              | (23,682)             | (43)                               | 0                                                              | 0                                              | (27,164)                      | 0                                                       |
| Other Revenue                                                   | 0                                                    | 0                    | 0                                  | 0                                                              | 0                                              | 0                             | 5,658                                                   |
| <b>Total Nonoperating Revenues (Expenses)</b>                   | <b>(133,419)</b>                                     | <b>(592,953)</b>     | <b>18,509</b>                      | <b>(7,810)</b>                                                 | <b>(95,848)</b>                                | <b>(811,519)</b>              | <b>653,647</b>                                          |
| <b>Income (Loss) Before Capital Contributions and Transfers</b> | <b>4,494,247</b>                                     | <b>5,377,975</b>     | <b>(2,981,467)</b>                 | <b>(944,185)</b>                                               | <b>(349,966)</b>                               | <b>5,596,604</b>              | <b>508,306</b>                                          |
| Capital Contributions                                           | 1,130,241                                            | 1,530,494            | 0                                  | 0                                                              | 0                                              | 2,660,735                     | 0                                                       |
| Transfers In                                                    | 87,163                                               | 0                    | 3,084,800                          | 2,492,199                                                      | 624,591                                        | 6,268,753                     | 244,413                                                 |
| Transfers Out                                                   | (1,223,670)                                          | (1,029,584)          | 0                                  | 0                                                              | 0                                              | (2,253,434)                   | 0                                                       |
| <b>Change in Net Assets</b>                                     | <b>4,487,761</b>                                     | <b>5,878,905</b>     | <b>103,333</b>                     | <b>1,548,014</b>                                               | <b>274,625</b>                                 | <b>12,292,658</b>             | <b>752,719</b>                                          |
| <b>Net Assets, July 1, 2007</b>                                 | <b>47,258,200</b>                                    | <b>79,102,400</b>    | <b>2,002,808</b>                   | <b>16,584,174</b>                                              | <b>88,976</b>                                  | <b>145,046,558</b>            | <b>19,159,044</b>                                       |
| <b>Net Assets, June 30, 2008</b>                                | <b>\$ 51,745,961</b>                                 | <b>\$ 84,981,305</b> | <b>\$ 2,106,141</b>                | <b>\$ 18,142,188</b>                                           | <b>\$ 363,601</b>                              | <b>\$ 157,339,216</b>         | <b>\$ 19,911,763</b>                                    |

See accompanying notes to the basic financial statements.

CITY OF KINGSFORT, TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Fiscal Year Ended June 30, 2008

|                                                                    | Business Type Activities - Enterprise Funds |                      |                                   |                                                                     |                                                  |                           |                     | Governmental<br>Activities -<br>Internal Service<br>Funds |
|--------------------------------------------------------------------|---------------------------------------------|----------------------|-----------------------------------|---------------------------------------------------------------------|--------------------------------------------------|---------------------------|---------------------|-----------------------------------------------------------|
|                                                                    | Water Fund                                  | Sewer Fund           | Solid Waste<br>Management<br>Fund | MeadowView<br>Conference<br>Resort and<br>Convention<br>Center Fund | Cattails at<br>MeadowView<br>Golf Course<br>Fund | Total Enterprise<br>Funds |                     |                                                           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                       |                                             |                      |                                   |                                                                     |                                                  |                           |                     |                                                           |
| Receipts from Customers and Users                                  | \$ 12,974,087                               | \$ 12,503,213        | \$ 758,814                        | \$ 342,143                                                          | \$ 1,123,754                                     | \$ 27,700,021             | \$ 0                |                                                           |
| Receipts from Interfund Services Provided                          | 108,521                                     | 200,428              | 0                                 | 0                                                                   | 0                                                | 308,950                   | 12,814,188          |                                                           |
| Payments to Suppliers                                              | (3,378,293)                                 | (1,483,402)          | (2,224,881)                       | (823,850)                                                           | (1,087,087)                                      | (7,808,483)               | (10,220,348)        |                                                           |
| Payments to Employees                                              | (3,782,233)                                 | (2,072,783)          | (1,527,198)                       | 0                                                                   | 0                                                | (7,392,194)               | (1,332,581)         |                                                           |
| <b>Net Cash Provided (Used) by Operating Activities</b>            | <b>6,911,122</b>                            | <b>9,147,477</b>     | <b>(2,985,265)</b>                | <b>(281,707)</b>                                                    | <b>28,687</b>                                    | <b>12,808,314</b>         | <b>1,281,278</b>    |                                                           |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>            |                                             |                      |                                   |                                                                     |                                                  |                           |                     |                                                           |
| Transfers from Other Funds                                         | 87,163                                      | 0                    | 3,084,800                         | 2,492,199                                                           | 824,591                                          | 6,288,753                 | 0                   |                                                           |
| Transfers to Other Funds                                           | (1,223,870)                                 | (1,028,584)          | 0                                 | 0                                                                   | 0                                                | (2,253,434)               | 0                   |                                                           |
| Advances From Other Funds                                          | 0                                           | 0                    | (149,778)                         | (88,382)                                                            | (22,909)                                         | (281,049)                 | 149,778             |                                                           |
| <b>Net Cash Provided (Used) by Noncapital Financing Activities</b> | <b>(1,136,707)</b>                          | <b>(1,028,584)</b>   | <b>2,935,022</b>                  | <b>2,403,837</b>                                                    | <b>801,682</b>                                   | <b>3,774,270</b>          | <b>149,778</b>      |                                                           |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>   |                                             |                      |                                   |                                                                     |                                                  |                           |                     |                                                           |
| Proceeds from Capital Debt                                         | 1,183,708                                   | 531,374              | 0                                 | 0                                                                   | 0                                                | 1,715,082                 | 0                   |                                                           |
| Capital Transfers from Other Funds                                 | 0                                           | 0                    | 0                                 | 0                                                                   | 0                                                | 0                         | 244,413             |                                                           |
| Acquisition and Construction of Capital Assets                     | (1,875,111)                                 | (4,422,563)          | 26,890                            | (98,070)                                                            | (49,044)                                         | (6,487,898)               | (2,131,988)         |                                                           |
| Principal Paid on Capital Debt                                     | (1,413,986)                                 | (3,857,850)          | (21,250)                          | (2,045,000)                                                         | (485,000)                                        | (7,823,096)               | 0                   |                                                           |
| Interest Paid on Capital Debt                                      | (522,785)                                   | (1,182,159)          | (14,792)                          | (51,125)                                                            | (82,971)                                         | (1,863,832)               | 0                   |                                                           |
| Proceeds from Sales of Capital Assets                              | 50                                          | 0                    | 0                                 | 0                                                                   | 0                                                | 50                        | 14,550              |                                                           |
| <b>Net Cash Used by Capital and Related Financing Activities</b>   | <b>(2,728,134)</b>                          | <b>(8,931,198)</b>   | <b>(9,152)</b>                    | <b>(2,164,195)</b>                                                  | <b>(827,015)</b>                                 | <b>(14,459,694)</b>       | <b>(1,873,023)</b>  |                                                           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                       |                                             |                      |                                   |                                                                     |                                                  |                           |                     |                                                           |
| Proceeds from Sales and Maturities of Investments                  | 0                                           | 0                    | 9,348                             | 29,871                                                              | 0                                                | 39,019                    | 1,500,000           |                                                           |
| Purchase of Investments                                            | (84,285)                                    | (125,047)            | 0                                 | 0                                                                   | (3,118)                                          | (222,450)                 | (1,508,940)         |                                                           |
| Interest Received                                                  | 381,885                                     | 578,531              | 33,238                            | 19,328                                                              | 1,784                                            | 1,024,857                 | 484,423             |                                                           |
| <b>Net Cash Provided (Used) by Investing Activities</b>            | <b>297,710</b>                              | <b>453,484</b>       | <b>42,586</b>                     | <b>49,000</b>                                                       | <b>(1,354)</b>                                   | <b>841,428</b>            | <b>455,483</b>      |                                                           |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>        | <b>3,343,891</b>                            | <b>(369,801)</b>     | <b>(26,809)</b>                   | <b>6,935</b>                                                        | <b>0</b>                                         | <b>2,984,316</b>          | <b>(6,483)</b>      |                                                           |
| <b>Cash and Cash Equivalents, July 1, 2007</b>                     | <b>6,600,862</b>                            | <b>12,475,866</b>    | <b>675,426</b>                    | <b>85,000</b>                                                       | <b>0</b>                                         | <b>19,837,154</b>         | <b>8,224,384</b>    |                                                           |
| <b>Cash and Cash Equivalents, June 30, 2008</b>                    | <b>\$ 9,944,653</b>                         | <b>\$ 12,116,065</b> | <b>\$ 648,617</b>                 | <b>\$ 91,935</b>                                                    | <b>\$ 0</b>                                      | <b>\$ 22,801,470</b>      | <b>\$ 8,217,911</b> |                                                           |

(continued)

CITY OF KINGSPORT, TENNESSEE  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Fiscal Year Ended June 30, 2008

Business Type Activities - Enterprise Funds

|  | Water Fund   | Sewer Fund    | Solid Waste Management Fund | MeadowView Conference Resort and Convention Center Fund | Cattails at MeadowView Golf Course Fund | Total Enterprise Funds | Governmental Activities - Internal Service Funds |
|--|--------------|---------------|-----------------------------|---------------------------------------------------------|-----------------------------------------|------------------------|--------------------------------------------------|
|  | \$ 4,827,688 | \$ 5,970,928  | \$ (2,998,976)              | \$ (936,375)                                            | \$ (254,120)                            | \$ 6,408,123           | \$ (145,341)                                     |
|  | 1,830,681    | 2,807,051     | 91,689                      | 587,728                                                 | 289,344                                 | 5,588,391              | 1,402,053                                        |
|  | 6,354        | (37,354)      | (27,146)                    | 58,955                                                  | 27,893                                  | 28,702                 | 1,988                                            |
|  | (43,006)     | 0             | 0                           | 0                                                       | (933)                                   | (43,941)               | (20,440)                                         |
|  | 8,560        | 0             | 0                           | 0                                                       | 0                                       | 8,560                  | (7,287)                                          |
|  | 68,716       | 156,913       | (166,307)                   | 7,987                                                   | (15,497)                                | 52,812                 | (52,535)                                         |
|  | 22,038       | 10,812        | 6,470                       | 0                                                       | 0                                       | 38,320                 | 13,467                                           |
|  | 253,272      | 138,891       | 101,105                     | 0                                                       | 0                                       | 493,268                | 0                                                |
|  | 101,449      | 52,789        | 0                           | 0                                                       | 0                                       | 154,238                | 69,376                                           |
|  | 34,394       | 47,447        | 0                           | 0                                                       | 0                                       | 81,841                 | 0                                                |
|  | \$ 6,911,122 | \$ 9,147,477  | \$ (2,995,265)              | \$ (281,707)                                            | \$ 29,897                               | \$ 12,808,314          | \$ 1,281,279                                     |
|  | \$ 36,762    | \$ 0          | \$ 0                        | \$ 0                                                    | \$ 0                                    | \$ 36,762              | \$ 0                                             |
|  | 7,750,682    | 7,904,658     | 641,802                     | 6,935                                                   | 0                                       | 16,304,077             | 7,771,346                                        |
|  | 2,123,015    | 4,106,448     | 6,815                       | 0                                                       | 0                                       | 6,236,278              | 0                                                |
|  | 34,394       | 104,959       | 0                           | 85,000                                                  | 0                                       | 224,353                | 448,585                                          |
|  | \$ 9,944,653 | \$ 12,116,065 | \$ 648,617                  | \$ 91,935                                               | \$ 0                                    | \$ 22,801,470          | \$ 8,217,911                                     |

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)  
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

|                                     |  |
|-------------------------------------|--|
| Depreciation                        |  |
| (Increase) Decrease in Assets:      |  |
| Accounts Receivable                 |  |
| Inventory                           |  |
| Prepays                             |  |
| Increase (Decrease) in Liabilities: |  |
| Accounts Payable                    |  |
| Compensated Absences                |  |
| OPEB Liability                      |  |
| Other Payables                      |  |
| Retainages Payable                  |  |

Net Cash Provided (Used) by Operating Activities

RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:

|                                          |  |
|------------------------------------------|--|
| Cash with Fiscal Agent                   |  |
| Equity in Pooled Cash and Investments    |  |
| Restricted Cash from Unspent Bonds       |  |
| Restricted Cash                          |  |
| Cash and Cash Equivalents, June 30, 2008 |  |

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Kingsport, Tennessee (the City) was incorporated in 1917 and operates under a Council-Manager form of government. The City is an industrial community in the foothills of the Appalachian Mountains. Along with two other comparably-sized cities within a 20-mile radius, the City is part of a 12 county area in northeast Tennessee and southwest Virginia known as the Tri-Cities Tennessee/Virginia region.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance. The Governmental Accounting and Financial Reporting Standards, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

**A. Reporting entity**

**Primary Government**

The City is a Tennessee municipal corporation governed by an elected mayor, Board of Mayor and Aldermen (BMA), appointed vice mayor, and six aldermen. The accompanying financial statements present the City (primary government) and its component units, entities for which the City is considered to be financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on the organization or (2) there is a potential for the entity to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the primary government is required to consider other entities 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.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Discretely presented component units are reported in separate columns in the government-wide financial statements (see note below for description) to emphasize that those entities are legally separate from the City.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**A. Reporting entity (continued)**

**Discretely Presented Component Units**

Proprietary Fund Type

*The Industrial Development Board of the City of Kingsport, Tennessee (IDBK)* – The IDBK was incorporated on February 11, 1986, under the provisions of the State of Tennessee constitution and general statutes. The purpose of the IDBK is to finance, acquire, own, lease, and/or dispose of properties to maintain and increase employment opportunities in the City. The IDBK consists of nine members, all of whom are appointed by the City's BMA. Separately issued financial statements of the IDBK are not available.

*Emergency Communications District of the City of Kingsport, Tennessee (ECD)* – The ECD was created by referendum on January 11, 1994, the results of which were certified on January 20, 1994. The purpose of the ECD is to oversee the operations of the 911 emergency telephone service. Their Board consists of nine members, all of whom are appointed by the City's BMA. Separately issued financial statements may be requested from the ECD administrative offices.

Emergency Communications District of the City of Kingsport  
200 Shelby Street  
Kingsport, Tennessee 37660

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are various charges between the City's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**B. Government-wide and fund financial statements (continued)**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for local revenues, 120 days for state-shared revenues, and 365 days for grant revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In general, taxes, licenses, federal and state grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Business taxes are not considered measurable and therefore are not susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *general purpose school fund* accounts for transactions of the City School System. The major sources of funding are state-shared revenues and local property and sales taxes.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**C. Measurement focus, basis of accounting, and financial statement presentation (continued)**

The *capital projects fund* accounts for financial resources used for the acquisition or construction of major capital facilities related to the general operation of the City (excluding capital improvements financed by enterprise funds).

The *debt service fund* accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation debt other than that payable from enterprise funds.

The City reports the following nonmajor governmental funds:

The *school nutrition services fund* accounts for the activities of the City School System cafeterias.

The *special school project fund* accounts for the activities of various grant funded school projects.

The *public law 93-380 fund* accounts for the activities of providing specific academic programs in compliance with federal grant entitlements.

The *Palmer Center fund* accounts for a contribution from the heirs of the late Mary L. Robinson estate, for the support of educational and other services provided to physically challenged children by the Palmer Center.

The *special revenue general projects fund* accounts for federal and state grants matched with local revenues to fund general government programs or non-capital improvement projects.

The *community development fund* accounts for the activities funded by community block grant entitlements from the United States Department of Housing and Urban Development.

The *federal transit administration fund* accounts for the activities funded by federal and state grants for support of local government transportation programs.

The *state street aid fund* accounts for the activities funded by state gasoline taxes.

The *drug fund* accounts for the activities of drug investigations and enforcement.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**C. Measurement focus, basis of accounting, and financial statement presentation (continued)**

The *criminal forfeiture fund* accounts for the activities related to seized property and money with the exception of those related to drug activities. In addition, this fund accounts for funds received from the United States Department of Justice under the Equitable Sharing of Federally Forfeited Property program.

The *regional sales tax revenue fund* accounts for the proceeds from a \$.0025 local sales tax previously approved by local referendum. These funds are used for the retirement of debt issued to fund construction of the MeadowView Conference Resort and Convention Center and to support the operations of the complex.

The *public library commission fund* accounts for contributions from patrons, civic organizations, private corporations and other supporters of the Kingsport Public Library.

The *Bays Mountain Park fund* accounts for contributions from individuals, civic organizations and private corporations for the support and continued development of the Bays Mountain Park.

The *Steadman cemetery fund* accounts for a contribution from the heirs of Bonnie M. Steadman to provide for the maintenance of the Steadman family cemetery.

The *senior citizens advisory board fund* accounts for revenues earned from various programs and events conducted by participating senior citizens and contributions from individuals, civic organizations and private corporations.

The *metropolitan planning office fund* accounts for federal grant funds received from the federal highway administration, federal transit administration, and state grant funds granted to the State for support of local MPO programs.

The *Eastman annexation tax fund* accounts for funds generated from the annexation of the Long Island section of Eastman Chemical Company located in Kingsport, TN. The revenues derived from the annexation are to be allocated toward net value adding capital improvements to infrastructure, education, recreation, and general city use.

The *justice assistance grant fund* accounts for direct federal grant funds received from the Edward Byrne Memorial Justice Assistance Grant Program. These funds are restricted for certain law enforcement programs.

The *visitors enhancement fund* accounts for 25% of the hotel and motel taxes collected in Kingsport from hotel and motel room rentals. This revenue is intended to fund special visitor enhancement projects.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**C. Measurement focus, basis of accounting, and financial statement presentation (continued)**

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's production, storage and transportation of potable water.

The *sewer fund* accounts for the activities of the City's collection, transportation, treatment and disposal of wastewater.

The *solid waste management fund* accounts for the activities of the City's collection of residential garbage refuse collection, recycling, and demolition landfill activities.

The *MeadowView Conference Resort and Convention Center fund* accounts for the activities of the City's outsourced operation (through Marriott) of the convention center.

The *Cattails at MeadowView Golf Course fund* accounts for the activities of the City's outsourced operation (through Marriott Golf) of the 18-hole championship golf course.

Additionally, the City reports the following fund types:

*Internal service funds* account for risk management, self-insured health insurance and fleet maintenance services provided to other departments or agencies of the government on a cost reimbursement basis.

The *permanent fund* accounts for nonexpendable assets left to the City by the late Harvey Brooks, consisting of his home (Allandale Mansion) and other tangible and intangible assets.

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 all of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for 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, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2008**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**C. Measurement focus, basis of accounting, and financial statement presentation (continued)**

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (police, fire, public works, etc.).

**D. Assets, liabilities and net assets or equity**

**1. Deposits and investments**

The City's 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.

State statutes impose various restrictions on the City's, IDBK's, and ECD's deposits and investments, including repurchase agreements. These restrictions are summarized as follows:

**DEPOSITS** - All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

**INVESTMENTS** - State statutes authorize the City to invest in treasury bonds, notes or bills of the United States of America; nonconvertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States of America or any of its agencies; Certificates of Deposit and other evidences of deposit at State and Federal chartered banks and Savings and Loan Associations; obligations of the United States of America or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; the State of Tennessee Local Government Investment Pool (LGIP); obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. In general, cash overdrafts are reflected in the financial statements as due to other funds. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

Investments for the City, as well as for its component units, are reported at fair value based on quoted market prices.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**D. Assets, liabilities and net assets or equity (continued)**

*2. Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable and trade receivables allowance accounts are based on prior years' collection experience.

All property values are assessed on January 1 of each year. Property taxes receivable are recorded at this lien date. All real and personal property taxes are due and payable on the levy date of November 1 of each year, at which time the receivable is recognized as revenue. All unpaid property taxes become delinquent on December 1 (30 days from date of levy). A penalty of 2% is imposed on unpaid property taxes as of December 1. A penalty of 2% is imposed for the next month and an additional penalty of 1% is imposed for each month thereafter until paid, or the property is sold as authorized by law.

*3. Inventories and prepaid items*

All inventories are valued at cost, utilizing the weighted average method of valuation. Inventories of governmental and proprietary funds are recorded as expenditures or expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

*4. Restricted assets*

Certain cash and investment balances of the City are classified as restricted assets at the government-wide and fund level because they are maintained in separate accounts and their use is limited by certain agreements and contracts with third parties. Restricted cash includes sinking fund accounts established to meet the requirements of certain bonds issues, escrow for construction contractors established to fund retainages of outstanding construction projects upon their completion, subdivision developer deposits that are refunded upon acceptable completion of project, and working capital for outsourced operations of City facilities. Restricted investments include borrowed funds obligated for construction projects that have not been completed at the end of the fiscal year.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**D. Assets, liabilities and net assets or equity (continued)**

**5. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years for property, plant and equipment and assets with an initial, individual cost of more than \$100,000 for infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized 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. The total interest expense incurred by the water and sewer funds during the current fiscal year was \$613,017 and \$1,528,054, respectively. Of these amounts, \$109,885 and \$424,755, respectively, were included as part of the cost of capital assets under construction in each of these funds in connection with water and sewer line replacement and extension construction projects.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u>                           | <u>Years</u> |
|-----------------------------------------|--------------|
| Roads and bridges                       | 50           |
| Utility lines                           | 45           |
| Buildings and building improvements     | 30           |
| Landfill improvements                   | 25           |
| Golf course improvements                | 15           |
| Machinery, equipment and heavy vehicles | 10           |
| Automobiles                             | 5            |

**6. Compensated absences**

It is the City's policy to permit employees to accumulate earned but unused vacation days and sick leave benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. However, it is the City's policy to apply the accumulated sick leave toward years for retirement. All vacation pay is accrued when incurred in the government-wide, internal service and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**D. Assets, liabilities and net assets or equity (continued)**

*6. Compensated absences (continued)*

It is also the City's policy to permit employees from certain departments of the City to accumulate earned but unused compensation time (comp time) for excess hours worked in lieu of overtime payments. The unpaid balance of reimbursable unused comp time is accrued when incurred in the government-wide financial statements. A liability for these amounts has been recorded in the governmental funds.

*7. Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*8. Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance 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 are subject to change.

*9. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$283,360,771 difference are as follows:

|                                                                                                                                            |                           |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| Governmental funds capital assets                                                                                                          | \$ 444,548,337            |
| Less: accumulated depreciation                                                                                                             | <u>(161,187,566)</u>      |
| <br>Net adjustment to increase <i>fund balances - total governmental funds</i><br>to arrive at <i>net assets - governmental activities</i> | <br><u>\$ 283,360,771</u> |

Another element of that reconciliation explains that "other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this \$884,307 difference are as follows:

|                                                                                                                                            |                       |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Deferred bond issuance costs                                                                                                               | \$ 1,129,782          |
| Less: accumulated amortization                                                                                                             | <u>(245,475)</u>      |
| <br>Net adjustment to increase <i>fund balances - total governmental funds</i><br>to arrive at <i>net assets - governmental activities</i> | <br><u>\$ 884,307</u> |

Another element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$(92,213,192) difference are as follows:

|                                                                                                                                          |                            |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Bonds payable                                                                                                                            | \$ (73,954,097)            |
| Notes payable                                                                                                                            | (4,819,174)                |
| Interlocal cooperative agreement                                                                                                         | (2,500,000)                |
| Capital outlay notes payable                                                                                                             | (1,600,000)                |
| Compensated absences                                                                                                                     | (3,108,307)                |
| OPEB liability                                                                                                                           | (5,426,075)                |
| Accrued interest payable                                                                                                                 | <u>(805,539)</u>           |
| <br>Net adjustment to reduce <i>fund balances - total governmental funds</i><br>to arrive at <i>net assets - governmental activities</i> | <br><u>\$ (92,213,192)</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(CONTINUED):**

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "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 capital outlays exceeded depreciation of the general fixed assets in the current period." The details of this \$10,772,605 difference are as follows:

|                                                                                                                                                                    |                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| Capital outlays                                                                                                                                                    | \$ 21,263,051            |
| Depreciation expense                                                                                                                                               | <u>(10,490,446)</u>      |
| <br>Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <br>\$ <u>10,772,605</u> |

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net assets." The details of this \$(259,468) difference are as follows:

|                                                                                                                                                                  |                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Capital asset donations reported in statement of activities                                                                                                      | \$ 6,172,105            |
| Capital project expenditures not meeting capitalization requirements                                                                                             | (5,831,708)             |
| Asset disposals                                                                                                                                                  | <u>(599,865)</u>        |
| <br>Net adjustment to reduce <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <br>\$ <u>(259,468)</u> |

Another element of that reconciliation states that "revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this \$(141,150) difference are as follows:

|                                                                                                                                                                    |                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Deferred property taxes as of June 30, 2008                                                                                                                        | \$ 917,754              |
| Prior years' property taxes collected during current year                                                                                                          | <u>(1,058,904)</u>      |
| <br>Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <br>\$ <u>(141,150)</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(CONTINUED):**

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)**

Another element of that reconciliation states that "the net revenue of certain activities of internal service funds is reported with governmental activities." The details of this \$752,719 difference are as follows:

|                                                                                                                                                                    |                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| Investment earnings                                                                                                                                                | \$ 637,241                   |
| State grant                                                                                                                                                        | 5,656                        |
| Gain on disposal of capital assets                                                                                                                                 | 10,750                       |
| Operating loss                                                                                                                                                     | (145,341)                    |
| Transfers In                                                                                                                                                       | <u>244,413</u>               |
| <br>Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <br><b>\$ <u>752,719</u></b> |

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this \$(10,703,507) difference are as follows:

|                                                                                                                                                                    |                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Principal repayments                                                                                                                                               | \$ 12,191,783                     |
| Issuance of capital outlay note                                                                                                                                    | (4,000,000)                       |
| Issuance of general obligation bonds and notes                                                                                                                     | (19,120,000)                      |
| Premium on issuance of general obligation bonds                                                                                                                    | (112,398)                         |
| Amortization of premiums, discounts and refunding costs                                                                                                            | 10,801                            |
| Bond issue costs                                                                                                                                                   | 385,781                           |
| Amortization of deferred bond issue costs                                                                                                                          | <u>(59,474)</u>                   |
| <br>Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> | <br><b>\$ <u>(10,703,507)</u></b> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2008**

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**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds except the capital projects fund and certain special revenue funds associated with grant awards, which are adopted on a project-by-project basis and normally span a multi-year period.

The City Manager is required by charter to present to the BMA a preliminary budget for the upcoming fiscal year by May 15<sup>th</sup>. The preliminary budget is compiled from revenue and expense projections as well as requests submitted by each department. The BMA must pass the preliminary budget on two readings before it is adopted and becomes the approved spending plan for the City.

The City Manager has the authority to transfer the unused portion of any item or appropriation within the same department, between departments in any given fund, and across departments and/or funds for fleet, risk management and health insurance. The City Manager also has the authority to transfer funds from the vehicle repair and maintenance account of one department to the vehicle repair and maintenance account of another department. Any revisions that alter the total expenditures of any fund must be approved by the BMA. Expenditures may not exceed appropriations at the fund level. Supplemental appropriations may be authorized by the BMA through the adoption of appropriate ordinances during the fiscal year.

Formal budgetary accounting is employed as a management control for all funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the general fund, general purpose school, certain special revenue funds (criminal forfeiture, drug, state street aid, regional sales tax revenue, visitors enhancement, Eastman annexation tax, Steadman cemetery, public library commission, Bays Mountain Park senior citizens advisory board, school nutrition services, and Palmer Center), debt service fund, proprietary funds and the permanent fund. Budgets for the remaining special revenue funds and capital projects funds are made on a project basis, spanning more than one fiscal year. Budgetary control is exercised at the departmental level or by project.

Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. Encumbrance reservations are presented in the general, general purpose school, debt service, capital projects, community development, special revenue general projects, drug, fleet maintenance, federal transit administration, metropolitan planning office, special school projects, public law 93-380, state street aid and senior citizens advisory board funds.

**B. Excess of expenditures over appropriations**

For the fiscal year ended June 30, 2008, there were no instances of expenditures exceeding appropriations in any funds.

**C. Deficit fund equity**

For the fiscal year ended June 30 2008, there were no instances of deficit fund equity in any funds.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

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**4. DETAILED NOTES ON ALL FUNDS:**

**A. Deposits and investments**

Cash deposits on the statement of net assets include demand deposits, certificates of deposit, savings accounts, cash on deposit with the State of Tennessee and cash deposited in escrow accounts.

***Custodial Credit Rate Risk***

**Deposits**

The policy for custodial credit rate risk on deposits is to follow state guidelines.

At year end, the City's carrying amount of deposits was \$85,353,996 and the bank balance was \$88,717,055. Of the bank balance, \$600,000 was covered by federal depository insurance with the remaining balance of \$88,117,055 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

The carrying amount of deposits for the IDBK, a discretely presented component unit, was \$1,778,528 and the bank balance was \$2,051,593. Of the bank balance, \$200,000 was covered by federal depository insurance. Of the remaining balance, \$1,637,467 was collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the IDBK's name, \$100,000 was covered by the Securities Investor Protection Corporation and \$115,126 was protected with insurance coverage held by the entity's agent in the IDBK's name.

The carrying amount of deposits for the ECD, also a discretely presented component unit, was \$1,639,746 and the bank balance was \$1,651,974. Of the bank balance, \$500,000 was covered by federal depository insurance, with the remaining balance of \$1,151,974 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the ECD's name.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**A. Deposits and investments (continued):**

***Custodial Credit Rate Risk (continued):***

**Investments**

The City's investment policy is to ensure the preservation of capital in the overall investment portfolio. The City will emphasize the safety of capital first, maintain sufficient liquidity to meet obligations second, and gain the highest possible yield third.

The City's investments generally include long term certificates of deposit with the State of Tennessee Local Government Investment Pool (LGIP).

Specifically, the LGIP was established under Tennessee Code Annotated Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invest in time deposits, such as certificates of deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. By law, the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares. The TN LGIP has not been rated by a nationally recognized statistical rating organization.

At year end, the City's carrying amount for investments are as follows:

| <u>Investment Type</u>                     | <u>Fair Value</u>    | <u>Weighted Average Maturity (in Years)</u> |
|--------------------------------------------|----------------------|---------------------------------------------|
| Certificate of Deposit                     | \$ 4,721,434         | 0.24                                        |
| Tennessee Local Government Investment Pool | <u>15,570,305</u>    | 0.21                                        |
| Total                                      | <u>\$ 20,291,739</u> |                                             |

The City does not have a policy for determining which investments will be recorded at amortized cost. No investments are recorded at amortized cost at June 30, 2008.

***Concentration of Credit Risk***

The City's investment policy does not allow for an investment in any issuer that is in excess of five percent of the City's total investments.

**CITY OF KINGSPOUR, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**B. Receivables**

Receivables as of June 30, 2008 for the City's individual major funds and nonmajor, and internal service funds in the aggregate and for the component units in total, including the applicable allowances for uncollectible accounts, are as follows:

|                                     | General      | General Purpose School | Debt Service | Capital Projects | Water       | Sewer       | Solid Waste Management | MeadowView Resort and Convention Center | Cattails at MeadowView Golf Course | Internal Service | NonMajor and Other Funds | Total Primary Government | Component Units |
|-------------------------------------|--------------|------------------------|--------------|------------------|-------------|-------------|------------------------|-----------------------------------------|------------------------------------|------------------|--------------------------|--------------------------|-----------------|
|                                     |              |                        |              |                  |             |             |                        |                                         |                                    |                  |                          |                          |                 |
| Receivables:                        |              |                        |              |                  |             |             |                        |                                         |                                    |                  |                          |                          |                 |
| Taxes                               | \$32,258,196 | \$ -                   | \$ -         | \$ -             | \$ -        | \$ -        | \$ -                   | \$ -                                    | \$ -                               | \$ -             | \$ -                     | \$32,258,196             | \$ -            |
| Accounts Intergovernmental          | 727,508      | 61,623                 | 1,225        | -                | 1,948,856   | 1,980,151   | 49,978                 | 58,067                                  | 49,825                             | 5,753            | -                        | 4,882,984                | 41,785          |
|                                     | 5,252,238    | 15,056,676             | -            | 150,319          | -           | 90,191      | -                      | -                                       | -                                  | 5,856            | 2,350,439                | 22,904,518               | 18,070          |
| Gross receivables                   | 36,235,938   | 15,117,298             | 1,225        | 150,319          | 1,948,856   | 2,070,342   | 49,978                 | 58,067                                  | 49,825                             | 11,408           | 2,350,439                | 60,043,696               | 59,855          |
| Less: Allowances for uncollectibles | (811,287)    | (22,648)               | -            | -                | (78,844)    | (289,058)   | (7,260)                | -                                       | -                                  | -                | -                        | (1,186,187)              | -               |
| Net total receivables               | \$37,424,871 | \$15,094,650           | \$1,225      | \$150,319        | \$1,871,912 | \$1,802,284 | \$42,728               | \$58,067                                | \$49,825                           | \$11,408         | \$2,350,439              | \$58,857,529             | \$59,855        |

Revenues of the general, general purpose school, water, sewer and solid waste management funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

|                                                 |                   |
|-------------------------------------------------|-------------------|
| Uncollectibles related to property taxes        | \$ 205,287        |
| Uncollectibles related to water sales           | (49,625)          |
| Uncollectibles related to sewer charges         | (6,393)           |
| Uncollectibles related to solid waste charges   | 539               |
| Total uncollectibles of the current fiscal year | <u>\$ 149,808</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**B. Receivables (continued)**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

|                                                                 | <u>Unavailable</u> | <u>Unearned</u>     |
|-----------------------------------------------------------------|--------------------|---------------------|
| Property taxes receivable (general fund)                        | \$ -               | \$30,266,000        |
| Delinquent property taxes receivable (general fund)             | 917,754            | -                   |
| Other taxes receivable (general fund)                           | -                  | 400,000             |
| Property taxes receivable (general purpose school fund)         | -                  | 13,260,000          |
| Grant drawdowns receivable (general purpose school fund)        | -                  | 4,380               |
| Grant drawdowns receivable (special school project fund)        | -                  | 5,647               |
| Receipts for meals not yet served (school nutrition services)   | -                  | 28,143              |
| <b>Total deferred / unearned revenue for governmental funds</b> | <b>\$ 917,754</b>  | <b>\$43,964,170</b> |

Property taxes which are delinquent at year end are earned but not available. The tax year 2008 property taxes are unearned and unavailable, but are recorded as receivable on the levy date, as described in Note 1. Unearned revenue is considered a liability in the government wide statement of net assets. However deferred revenue at the fund financial statement level includes both unearned and unavailable revenues.

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2008, was as follows:

**Primary government**

|                                                     | Beginning<br>Balance  | Additions            | Deletions             | Adjustments | Ending Balance        |
|-----------------------------------------------------|-----------------------|----------------------|-----------------------|-------------|-----------------------|
| Governmental activities:                            |                       |                      |                       |             |                       |
| Capital assets, not being depreciated:              |                       |                      |                       |             |                       |
| Land                                                | \$ 13,303,601         | \$ 5,485,226         | \$ -                  | \$ -        | \$ 18,788,827         |
| Construction in Progress                            | 38,486,595            | 19,634,124           | (6,911,448)           | -           | 51,209,271            |
| <b>Total capital assets, not being depreciated</b>  | <b>51,790,196</b>     | <b>25,119,350</b>    | <b>(6,911,448)</b>    | <b>-</b>    | <b>69,998,098</b>     |
| Capital assets, being depreciated:                  |                       |                      |                       |             |                       |
| Buildings                                           | 90,885,181            | 673,137              | (550,000)             | -           | 91,008,318            |
| Improvements other than buildings                   | 10,578,656            | 1,195,813            | -                     | -           | 11,774,469            |
| Equipment                                           | 32,334,891            | 2,756,905            | (873,202)             | -           | 34,218,594            |
| Software                                            | 283,042               | -                    | -                     | -           | 283,042               |
| Infrastructure                                      | 257,689,751           | 908,478              | -                     | -           | 258,598,229           |
| <b>Total capital assets, being depreciated</b>      | <b>391,771,521</b>    | <b>5,534,333</b>     | <b>(1,423,202)</b>    | <b>-</b>    | <b>395,882,652</b>    |
| Less accumulated depreciation for:                  |                       |                      |                       |             |                       |
| Buildings                                           | (41,845,144)          | (4,115,206)          | 9,167                 | -           | (45,951,183)          |
| Improvements other than buildings                   | (6,227,747)           | (777,849)            | -                     | -           | (7,005,596)           |
| Equipment                                           | (22,971,052)          | (2,105,599)          | 803,569               | -           | (24,273,082)          |
| Software                                            | (180,108)             | (28,972)             | -                     | -           | (209,080)             |
| Infrastructure                                      | (93,016,081)          | (4,864,873)          | -                     | -           | (97,880,954)          |
| <b>Total accumulated depreciation</b>               | <b>(164,240,132)</b>  | <b>(11,892,499)</b>  | <b>812,736</b>        | <b>-</b>    | <b>(175,319,895)</b>  |
| <b>Total capital assets, being depreciated, net</b> | <b>227,531,389</b>    | <b>(6,358,166)</b>   | <b>(610,466)</b>      | <b>-</b>    | <b>220,562,757</b>    |
| <b>Governmental activities capital assets, net</b>  | <b>\$ 279,321,585</b> | <b>\$ 18,761,184</b> | <b>\$ (7,521,914)</b> | <b>\$ -</b> | <b>\$ 290,560,855</b> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Capital assets (continued)**

|                                                               | Beginning<br>Balance | Additions         | Deletions           | Adjustments | Amount             |
|---------------------------------------------------------------|----------------------|-------------------|---------------------|-------------|--------------------|
| Business-type activities:                                     |                      |                   |                     |             |                    |
| Capital assets, not being depreciated:                        |                      |                   |                     |             |                    |
| <u>Water</u>                                                  |                      |                   |                     |             |                    |
| Land                                                          | \$ 639,744           | \$ -              | \$ -                | \$ -        | \$ 639,744         |
| Construction in Progress                                      | 8,260,981            | 1,252,447         | (2,783,157)         | -           | 6,730,271          |
| <u>Sewer</u>                                                  |                      |                   |                     |             |                    |
| Land                                                          | 516,352              | -                 | -                   | -           | 516,352            |
| Construction in Progress                                      | 21,634,672           | 3,881,966         | (13,314,769)        | -           | 12,201,869         |
| <u>Solid waste management</u>                                 |                      |                   |                     |             |                    |
| Land                                                          | 1,308,121            | -                 | -                   | -           | 1,308,121          |
| Construction in Progress                                      | 521,259              | -                 | (521,259)           | -           | -                  |
| <u>Meadowview Conference Resort<br/>and Convention Center</u> |                      |                   |                     |             |                    |
| Land                                                          | 1,515,497            | -                 | -                   | -           | 1,515,497          |
| Construction in Progress                                      | -                    | 59,200            | -                   | -           | 59,200             |
| <u>Cattails at Meadowview Golf Course</u>                     |                      |                   |                     |             |                    |
| Land                                                          | 981,600              | -                 | -                   | -           | 981,600            |
| <b>Total capital assets, not being depreciated</b>            | <b>35,378,226</b>    | <b>5,193,613</b>  | <b>(16,619,185)</b> | <b>-</b>    | <b>23,952,654</b>  |
| Capital assets, being depreciated:                            |                      |                   |                     |             |                    |
| <u>Water</u>                                                  |                      |                   |                     |             |                    |
| Buildings and system                                          | 73,354,111           | 4,534,593         | -                   | -           | 77,888,704         |
| Equipment and machinery                                       | 1,119,921            | 102,970           | (43,184)            | -           | 1,179,707          |
| <u>Sewer</u>                                                  |                      |                   |                     |             |                    |
| Buildings and system                                          | 124,646,495          | 15,632,824        | -                   | -           | 140,279,319        |
| Equipment and machinery                                       | 915,988              | 14,270            | (43,459)            | -           | 886,799            |
| <u>Solid waste management</u>                                 |                      |                   |                     |             |                    |
| Buildings and system                                          | 155,508              | -                 | -                   | -           | 155,508            |
| Improvements other than Buildings                             | 2,186,362            | 69,432            | -                   | -           | 2,255,794          |
| Equipment and machinery                                       | 31,082               | 424,461           | -                   | -           | 455,543            |
| <u>MeadowView Conference Resort<br/>and Convention Center</u> |                      |                   |                     |             |                    |
| Buildings                                                     | 21,545,085           | -                 | -                   | -           | 21,545,085         |
| Improvements other than Buildings                             | 324,103              | 8,870             | -                   | -           | 332,973            |
| Equipment                                                     | 879,944              | -                 | -                   | -           | 879,944            |
| <u>Cattails at MeadowView Golf Course</u>                     |                      |                   |                     |             |                    |
| Buildings                                                     | 1,158,156            | -                 | -                   | -           | 1,158,156          |
| Improvements other than Buildings                             | 5,971,427            | -                 | -                   | -           | 5,971,427          |
| Equipment                                                     | 373,813              | 49,045            | -                   | -           | 422,858            |
| <b>Total capital assets, being depreciated</b>                | <b>232,661,995</b>   | <b>20,836,465</b> | <b>(86,643)</b>     | <b>-</b>    | <b>253,411,817</b> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Capital assets (continued)**

|                                                               | Beginning<br>Balance  | Additions            | Deletions              | Adjustments | Amount                |
|---------------------------------------------------------------|-----------------------|----------------------|------------------------|-------------|-----------------------|
| Less accumulated depreciation for:                            |                       |                      |                        |             |                       |
| <u>Water</u>                                                  |                       |                      |                        |             |                       |
| Buildings and system                                          | (28,186,791)          | (1,796,903)          | -                      | -           | (29,983,694)          |
| Equipment and machinery                                       | (902,398)             | (33,778)             | 41,684                 | -           | (894,492)             |
| <u>Sewer</u>                                                  |                       |                      |                        |             |                       |
| Buildings and system                                          | (42,055,989)          | (2,785,677)          | -                      | -           | (44,841,666)          |
| Equipment and machinery                                       | (857,801)             | (21,374)             | 42,459                 | -           | (836,716)             |
| <u>Solid waste management</u>                                 |                       |                      |                        |             |                       |
| Buildings and system                                          | (66,666)              | (4,833)              | -                      | -           | (71,499)              |
| Improvements other than Buildings                             | (1,077,068)           | (78,010)             | -                      | -           | (1,155,078)           |
| Equipment and machinery                                       | (23,670)              | (8,746)              | -                      | -           | (32,416)              |
| <u>MeadowView Conference Resort<br/>and Convention Center</u> |                       |                      |                        |             |                       |
| Buildings                                                     | (5,079,975)           | (539,761)            | -                      | -           | (5,619,736)           |
| Improvements other than Buildings                             | (124,608)             | (42,511)             | -                      | -           | (167,119)             |
| Equipment                                                     | (858,513)             | (5,454)              | -                      | -           | (863,967)             |
| <u>Cattails at MeadowView Golf Course</u>                     |                       |                      |                        |             |                       |
| Buildings                                                     | (262,346)             | (29,299)             | -                      | -           | (291,645)             |
| Improvements other than Buildings                             | (2,029,059)           | (230,251)            | -                      | -           | (2,259,310)           |
| Equipment                                                     | (353,827)             | (9,794)              | -                      | -           | (363,621)             |
| Total accumulated depreciation                                | <u>(81,878,711)</u>   | <u>(5,586,391)</u>   | <u>84,143</u>          | <u>-</u>    | <u>(87,380,959)</u>   |
| Total capital assets, being depreciated, net                  | <u>150,783,284</u>    | <u>15,250,074</u>    | <u>(2,500)</u>         | <u>-</u>    | <u>166,030,858</u>    |
| Business-type activities capital assets, net                  | <u>\$ 186,161,510</u> | <u>\$ 20,443,687</u> | <u>\$ (16,621,685)</u> | <u>\$ -</u> | <u>\$ 189,983,512</u> |

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

|                                                      |                      |
|------------------------------------------------------|----------------------|
| Governmental activities:                             |                      |
| General government                                   | \$ 368,034           |
| Economic and physical development                    | 199,540              |
| Public safety                                        | 874,311              |
| Public works                                         | 5,603,417            |
| Culture and recreation                               | 985,548              |
| Education                                            | <u>3,861,649</u>     |
| Total depreciation expense – governmental activities | <u>\$ 11,892,499</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Capital assets (continued)**

Business-type activities:

|                                                    |                |
|----------------------------------------------------|----------------|
| Water                                              | \$ 1,830,681   |
| Sewer                                              | 2,807,051      |
| Solid waste management                             | 91,589         |
| MeadowView Conference Resort and Convention Center | 587,726        |
| Cattails at MeadowView Golf Course                 | <u>269,344</u> |

Total depreciation expense – business-type activities \$ 5,586,391

**Construction commitments**

The City has active construction projects as of June 30, 2008. The governmental projects of the City are reflected in the capital projects and special revenue general project funds and the City has provided funding for the future commitments in the amounts of \$39,137,567 and \$319,995 respectively, through bonded debt and local funding. In the proprietary funds, funding for construction projects has been provided and is in segregated deposit and investment accounts totaling \$6,236,278. Except for projects which are shared with counties or the State of Tennessee, the City could terminate any project at their discretion.

**Discretely presented component units**

Activity for the IDBK for the year ended June 30, 2008, was as follows:

|                                              | Beginning<br>Balance | Additions         | Deletions   | Adjustments | Amount           |
|----------------------------------------------|----------------------|-------------------|-------------|-------------|------------------|
| Capital assets, being depreciated:           |                      |                   |             |             |                  |
| Signs                                        | \$ 55,422            | \$ -              | \$ -        | \$ -        | \$ 55,422        |
| Improvements other than buildings            | 20,303               | -                 | -           | -           | 20,303           |
| Total capital assets, being depreciated      | <u>75,725</u>        | <u>-</u>          | <u>-</u>    | <u>-</u>    | <u>75,725</u>    |
| Less accumulated depreciation for:           |                      |                   |             |             |                  |
| Signs                                        | (39,169)             | (3,084)           | -           | -           | (42,253)         |
| Improvements other than buildings            | (20,303)             | -                 | -           | -           | (20,303)         |
| Total accumulated depreciation               | <u>(59,472)</u>      | <u>(3,084)</u>    | <u>-</u>    | <u>-</u>    | <u>(62,556)</u>  |
| Total capital assets, being depreciated, net | <u>16,253</u>        | <u>(3,084)</u>    | <u>-</u>    | <u>-</u>    | <u>13,169</u>    |
| IDBK capital assets, net                     | <u>\$ 16,253</u>     | <u>\$ (3,084)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,169</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Capital assets (continued)**

Activity for the ECD for the year ended June 30, 2008, was as follows:

|                                              | Beginning<br>Balance | Additions          | Deletions         | Adjustments       | Amount            |
|----------------------------------------------|----------------------|--------------------|-------------------|-------------------|-------------------|
| Capital assets, being depreciated:           |                      |                    |                   |                   |                   |
| Equipment                                    | \$ 649,562           | \$ 54,392          | \$ (8,414)        | \$ -              | \$ 695,540        |
| Total capital assets, being depreciated      | 649,562              | 54,392             | (8,414)           | -                 | 695,540           |
| Less accumulated depreciation for:           |                      |                    |                   |                   |                   |
| Equipment                                    | (297,388)            | (86,737)           | 5,926             | (4,000)           | (382,199)         |
| Total accumulated depreciation               | (297,388)            | (86,737)           | 5,926             | (4,000)           | (382,199)         |
| Total capital assets, being depreciated, net | 352,174              | (32,345)           | (2,488)           | (4,000)           | 313,341           |
| ECD capital assets, net                      | <u>\$ 352,174</u>    | <u>\$ (32,345)</u> | <u>\$ (2,488)</u> | <u>\$ (4,000)</u> | <u>\$ 313,341</u> |

**D. Interfund receivables, payables, and transfers**

***Interfund receivables and payables***

The composition of interfund balances as of June 30, 2008, is as follows:

Due to/from other funds:

| <u>Receivable Fund</u>               | <u>Payable Fund</u>                        | <u>Amount</u>       |
|--------------------------------------|--------------------------------------------|---------------------|
| General (major)                      | Cattails at MeadowView Golf Course (major) | \$ 3,069,547        |
|                                      | Community development (nonmajor)           | 37,527              |
|                                      | Federal transit administration (nonmajor)  | 234,525             |
|                                      | Metropolitan planning office (nonmajor)    | 65,578              |
|                                      | State street aid (nonmajor)                | 46,001              |
|                                      | Senior Citizens Advisory Board (nonmajor)  | 1,871               |
| General purpose school (major)       | Public law 93-380 (nonmajor)               | 610,837             |
|                                      | Special school projects (nonmajor)         | 268,623             |
| Regional sales tax (major)           | Cattails at MeadowView Golf Course (major) | 45,766              |
| Fleet maintenance (internal service) | Solid waste management (major)             | <u>876,722</u>      |
|                                      | Total                                      | <u>\$ 5,256,997</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**D. Interfund receivables, payables, and transfers (continued)**

*Interfund receivables and payables (continued)*

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Due to/from primary government and component units:

| <u>Receivable Entity</u>          | <u>Payable Entity</u> | <u>Amount</u>    |
|-----------------------------------|-----------------------|------------------|
| Primary government – General Fund | Component unit - IDBK | \$ 10,592        |
| Primary government – Sewer Fund   | Component unit - IDBK | 14,796           |
| Primary government – Water Fund   | Component unit - IDBK | <u>10,715</u>    |
| Total                             |                       | <u>\$ 36,103</u> |

*Interfund transfers*

Transfers are used to move revenue from the fund with collection authorization or resolution to the debt service fund as debt service principal and interest payments become due and also to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Interfund receivables, payables, and transfers (continued)**

**Interfund transfers (continued)**

| Transfers out:         | Transfers in: |                        |              |                  |                       |                    |           |                        |                                                    |                                    | Total      |                        |
|------------------------|---------------|------------------------|--------------|------------------|-----------------------|--------------------|-----------|------------------------|----------------------------------------------------|------------------------------------|------------|------------------------|
|                        | General       | General Purpose School | Debt Service | Capital Projects | Nonmajor Governmental | Total Governmental | Water     | Solid Waste Management | MeadowView Conference Resort and Convention Center | Catfalls at MeadowView Golf Course |            | Total Internal Service |
| General                | \$ -          | \$ 14,747,187          | \$ 1,775,027 | \$ 4,014,622     | \$ 3,388,844          | \$ 23,925,980      | \$ -      | \$ 3,084,800           | \$ -                                               | \$ -                               | \$ 198,080 | \$ 27,208,550          |
| General Purpose School | 185,376       | -                      | 8,694,154    | 1,887,910        | 152,147               | 8,899,587          | -         | -                      | -                                                  | -                                  | 46,323     | 8,735,910              |
| Debt Service           | -             | -                      | -            | 44,283           | -                     | 44,283             | -         | -                      | -                                                  | -                                  | -          | 44,283                 |
| Capital Projects       | 30,715        | -                      | -            | -                | -                     | 30,715             | -         | -                      | -                                                  | -                                  | -          | 30,715                 |
| Nonmajor Governmental  | 150,504       | 531,887                | 606,532      | (48)             | 355,605               | 1,544,480          | -         | 2,492,199              | 624,591                                            | 3,118,790                          | -          | 4,661,270              |
| Total Governmental     | 366,595       | 15,279,054             | 8,945,713    | 5,748,767        | 3,696,586             | 34,234,725         | -         | 3,084,800              | 2,492,199                                          | 6,201,590                          | 244,413    | 40,660,728             |
| Water                  | 1,222,932     | -                      | -            | -                | 938                   | 1,223,670          | -         | -                      | -                                                  | -                                  | -          | 1,223,870              |
| Sewer                  | 934,836       | -                      | -            | -                | 7,885                 | 942,401            | 87,163    | -                      | -                                                  | 87,163                             | -          | 1,029,564              |
| Total Proprietary      | 2,157,768     | -                      | -            | -                | 8,503                 | 2,166,271          | 87,163    | -                      | -                                                  | 87,163                             | -          | 2,253,434              |
| Total                  | \$ 2,524,363  | \$ 15,279,054          | \$ 8,945,713 | \$ 5,748,767     | \$ 3,905,099          | \$ 36,400,996      | \$ 87,163 | \$ 3,084,800           | \$ 2,492,199                                       | \$ 6,288,753                       | \$ 244,413 | \$ 42,934,162          |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt**

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2008, the following bonds outstanding are considered to be defeased:

| <u>Date of Refunding</u> |                              | <u>Amount</u>       | <u>Issues Refunded</u> |
|--------------------------|------------------------------|---------------------|------------------------|
| 03/15/04                 | General Obligation           | \$3,830,000         | 1999, 2001             |
| 03/15/04                 | Water & Sewer System Revenue | <u>4,970,000</u>    | 1999, 2001             |
|                          |                              | <u>\$ 8,800,000</u> |                        |

**Governmental Activities:**

**Notes Payable**

The City issued a Note Payable with the State of Tennessee as a Loan for Qualified Zone Academy Projects in November 1999 for \$413,697 with a maturity date of November 11, 2011. Annual principal payments are \$34,474 and the interest is variable. As of June 30, 2008, \$137,905 is outstanding. The City also issued a loan for Qualified Zone Academy Projects in November 2004 for \$3,524,680 with a maturity date of November 2020. Annual principal payments are \$220,293 and the interest rate is variable. As of June 30, 2008, \$2,863,802 is outstanding. The City also issued a loan for the Qualified Zone Academy Bonds in December 2005 for \$1,549,000 with a maturity date of December 2020. Annual principal payments are \$103,267 and the interest rate is variable. As of June 30, 2008, \$1,342,466 is outstanding.

The City issued a General Obligation Capital Outlay Note, Series 2007 on May 2, 2007 for \$1,600,000 for energy management improvement projects. The note has an annual interest rate of 4.12% with a maturity date of May 2019.

The City issued a Local Government Energy Efficiency Note on May 25, 2007 for \$475,000 for energy efficiency improvement projects. The note is interest free with a maturity date of July 15, 2014.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Notes Payable (continued)**

Payments to maturity on the notes payable are as follows:

|      | 1999<br>QZAB      | 2004<br>QZAB        | 2005<br>QZAB        | Capital<br>Outlay<br>Note | Energy<br>Efficiency<br>Loan |
|------|-------------------|---------------------|---------------------|---------------------------|------------------------------|
| 2009 | \$ 34,474         | \$ 220,293          | \$ 103,266          | \$ 121,000                | \$ 67,857                    |
| 2010 | 34,474            | 220,292             | 103,267             | 123,000                   | 67,857                       |
| 2011 | 34,474            | 220,293             | 103,266             | 128,000                   | 67,857                       |
| 2012 | 34,483            | 220,292             | 103,267             | 133,000                   | 67,857                       |
| 2013 | -                 | 220,293             | 103,266             | 139,000                   | 67,857                       |
| 2014 | -                 | 220,292             | 103,267             | 144,000                   | 67,857                       |
| 2015 | -                 | 220,293             | 103,266             | 150,000                   | 67,858                       |
| 2016 | -                 | 220,292             | 103,267             | 156,000                   | -                            |
| 2017 | -                 | 220,293             | 103,266             | 162,000                   | -                            |
| 2018 | -                 | 220,292             | 103,267             | 169,000                   | -                            |
| 2019 | -                 | 220,293             | 103,267             | 175,000                   | -                            |
| 2020 | -                 | 220,292             | 103,267             | -                         | -                            |
| 2021 | -                 | 220,292             | 103,267             | -                         | -                            |
|      | <u>\$ 137,905</u> | <u>\$ 2,863,802</u> | <u>\$ 1,342,466</u> | <u>\$ 1,600,000</u>       | <u>\$ 475,000</u>            |

**Interlocal Cooperative Agreement**

The City entered into an interlocal cooperative agreement in October 2006 to contribute \$2,500,000 to IDBK for the purchase of property for commercial development in the City. This contribution is to be made in five installments of \$500,000 per year beginning July 2008.

**Bonds Payable**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The general obligation bonds issued for business-type activities have been reflected in the appropriate enterprise fund.

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding and to be repaid by governmental activities are as follows:

| Debt Service Fund                                                                                             | Interest Payable Dates | Issue Date | Amount Authorized and Issued | Interest Rates | Outstanding June 30, 2008   |
|---------------------------------------------------------------------------------------------------------------|------------------------|------------|------------------------------|----------------|-----------------------------|
| 1999 General Obligation Refunding and Improvement                                                             | 03/01, 09/01           | 04/01/99   | \$ 5,975,000                 | 4.000%-4.250%  | \$ 445,000                  |
| 2001 General Obligation                                                                                       | 03/01, 09/01           | 11/06/01   | 2,620,000                    | 1.750%-4.000%  | 365,000                     |
| 2002A General Obligation Refunding                                                                            | 01/01, 07/01           | 08/28/02   | 12,500,000                   | 4.000%-4.500%  | 5,500,000                   |
| 2003 General Obligation                                                                                       | 04/01, 10/01           | 12/01/03   | 7,900,000                    | 2.000%-4.200%  | 5,960,000                   |
| 2004 General Obligation Refunding                                                                             | 03/01, 09/01           | 03/15/04   | 5,825,000                    | 2.200%-5.000%  | 5,825,000                   |
| 2004 General Obligation School                                                                                | 05/01, 11/01           | 12/06/04   | 2,850,000                    | 3.000%-4.000%  | 2,335,000                   |
| 2005 General Obligation                                                                                       | 02/01, 08/01           | 12/06/05   | 2,826,250                    | 3.750%-5.000%  | 2,537,500                   |
| 2006 General Obligation                                                                                       | 02/01, 08/01           | 12/20/06   | 13,320,000                   | 3.625%-4.100%  | 13,320,000                  |
| 2007 General Obligation                                                                                       | 08/01, 02/01           | 06/08/07   | 19,360,000                   | 4.000%-5.000%  | 19,360,000                  |
| 2008A General Obligation                                                                                      | 03/01, 09/01           | 06/12/08   | 7,480,000                    | 3.500%-4.375%  | 7,480,000                   |
| 2008B General Obligation                                                                                      | 03/01, 09/01           | 06/12/08   | 11,165,000                   | 3.500%-4.375%  | 11,165,000                  |
| <b>Total General Obligation Bonds</b><br>(before deferred debt refunding costs and net premiums of \$338,402) |                        |            |                              |                | <b><u>\$ 74,292,500</u></b> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation Refunding and Improvement Bonds issued April 1, 1999, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest         | Total             |
|-------------------------------|-------------------|------------------|-------------------|
| 2009                          | \$ 445,000        | \$ 18,913        | \$ 463,913        |
|                               | <u>\$ 445,000</u> | <u>\$ 18,913</u> | <u>\$ 463,913</u> |

General Obligation Bonds issued November 6, 2001, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest         | Total             |
|-------------------------------|-------------------|------------------|-------------------|
| 2009                          | \$ 180,000        | \$ 14,600        | \$ 194,600        |
| 2010                          | 185,000           | 7,400            | 192,400           |
|                               | <u>\$ 365,000</u> | <u>\$ 22,000</u> | <u>\$ 387,000</u> |

General Obligation Bonds issued August 28, 2002, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 5,500,000        | \$ 247,500        | \$ 5,747,500        |
|                               | <u>\$ 5,500,000</u> | <u>\$ 247,500</u> | <u>\$ 5,747,500</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation Bonds, Series 2003, issued December 1, 2003, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest            | Total               |
|-------------------------------|---------------------|---------------------|---------------------|
| 2009                          | \$ 500,000          | \$ 218,114          | \$ 718,114          |
| 2010                          | 525,000             | 203,114             | 728,114             |
| 2011                          | 550,000             | 187,364             | 737,364             |
| 2012                          | 560,000             | 169,489             | 729,489             |
| 2013                          | 580,000             | 149,889             | 729,889             |
| 2014                          | 600,000             | 129,589             | 729,589             |
| 2015                          | 625,000             | 107,089             | 732,089             |
| 2016                          | 650,000             | 82,870              | 732,870             |
| 2017                          | 670,000             | 56,870              | 726,870             |
| 2018                          | 700,000             | 29,400              | 729,400             |
|                               | <u>\$ 5,960,000</u> | <u>\$ 1,333,788</u> | <u>\$ 7,293,788</u> |

General Obligation Refunding Bonds, Series 2004, issued March 15, 2004, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest            | Total               |
|-------------------------------|---------------------|---------------------|---------------------|
| 2009                          | \$ 245,000          | \$ 254,365          | \$ 499,365          |
| 2010                          | 730,000             | 248,975             | 978,975             |
| 2011                          | 950,000             | 219,775             | 1,169,775           |
| 2012                          | 985,000             | 181,775             | 1,166,775           |
| 2013                          | 1,040,000           | 142,375             | 1,182,375           |
| 2014                          | 1,085,000           | 90,375              | 1,175,375           |
| 2015                          | 565,000             | 36,125              | 601,125             |
| 2016                          | 225,000             | 7,875               | 232,875             |
|                               | <u>\$ 5,825,000</u> | <u>\$ 1,181,640</u> | <u>\$ 7,006,640</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation School Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 180,000          | \$ 85,365         | \$ 265,365          |
| 2010                          | 185,000             | 79,515            | 264,515             |
| 2011                          | 200,000             | 73,503            | 273,503             |
| 2012                          | 200,000             | 67,002            | 267,002             |
| 2013                          | 200,000             | 60,003            | 260,003             |
| 2014                          | 200,000             | 53,002            | 253,002             |
| 2015                          | 220,000             | 45,803            | 265,803             |
| 2016                          | 225,000             | 37,662            | 262,662             |
| 2017                          | 225,000             | 29,000            | 254,000             |
| 2018                          | 250,000             | 20,000            | 270,000             |
| 2019                          | 250,000             | 10,000            | 260,000             |
|                               | <u>\$ 2,335,000</u> | <u>\$ 560,855</u> | <u>\$ 2,895,855</u> |

General Obligation Bonds, Series 2005, issued December 6, 2005, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 153,125          | \$ 97,973         | \$ 251,098          |
| 2010                          | 157,500             | 92,230            | 249,730             |
| 2011                          | 166,250             | 86,324            | 252,574             |
| 2012                          | 175,000             | 80,090            | 255,090             |
| 2013                          | 175,000             | 73,527            | 248,527             |
| 2014                          | 183,750             | 66,965            | 250,715             |
| 2015                          | 192,500             | 57,777            | 250,277             |
| 2016                          | 201,250             | 48,152            | 249,402             |
| 2017                          | 218,750             | 38,090            | 256,840             |
| 2018                          | 218,750             | 31,527            | 250,277             |
| 2019                          | 227,500             | 24,965            | 252,465             |
| 2020                          | 231,875             | 18,140            | 250,015             |
| 2021                          | 236,250             | 9,155             | 245,405             |
|                               | <u>\$ 2,537,500</u> | <u>\$ 724,915</u> | <u>\$ 3,262,415</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation Bonds, Series 2006, issued December 20, 2006, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal            | Interest            | Total                |
|-------------------------------|----------------------|---------------------|----------------------|
| 2009                          | \$ -                 | \$ 525,221          | \$ 525,221           |
| 2010                          | 525,000              | 525,221             | 1,050,221            |
| 2011                          | 545,000              | 504,222             | 1,049,222            |
| 2012                          | 565,000              | 482,421             | 1,047,421            |
| 2013                          | 585,000              | 459,821             | 1,044,821            |
| 2014                          | 610,000              | 437,884             | 1,047,884            |
| 2015                          | 630,000              | 415,009             | 1,045,009            |
| 2016                          | 655,000              | 391,384             | 1,046,384            |
| 2017                          | 680,000              | 367,640             | 1,047,640            |
| 2018                          | 710,000              | 342,990             | 1,052,990            |
| 2019                          | 735,000              | 314,590             | 1,049,590            |
| 2020                          | 765,000              | 285,190             | 1,050,190            |
| 2021                          | 795,000              | 254,590             | 1,049,590            |
| 2022                          | 830,000              | 222,790             | 1,052,790            |
| 2023                          | 865,000              | 189,590             | 1,054,590            |
| 2024                          | 900,000              | 154,990             | 1,054,990            |
| 2025                          | 935,000              | 118,990             | 1,053,990            |
| 2026                          | 975,000              | 81,590              | 1,056,590            |
| 2027                          | 1,015,000            | 41,615              | 1,056,615            |
|                               | <u>\$ 13,320,000</u> | <u>\$ 6,115,748</u> | <u>\$ 19,435,748</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation Bonds, Series 2007, issued June 8, 2007 debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal            | Interest            | Total                |
|-------------------------------|----------------------|---------------------|----------------------|
| 2009                          | \$ -                 | \$ 818,050          | \$ 818,050           |
| 2010                          | 745,000              | 818,050             | 1,563,050            |
| 2011                          | 775,000              | 784,525             | 1,559,525            |
| 2012                          | 810,000              | 751,588             | 1,561,588            |
| 2013                          | 840,000              | 719,187             | 1,559,187            |
| 2014                          | 875,000              | 685,588             | 1,560,588            |
| 2015                          | 910,000              | 650,587             | 1,560,587            |
| 2016                          | 945,000              | 614,188             | 1,559,188            |
| 2017                          | 1,000,000            | 566,937             | 1,566,937            |
| 2018                          | 1,040,000            | 516,938             | 1,556,938            |
| 2019                          | 1,075,000            | 475,337             | 1,550,337            |
| 2020                          | 1,115,000            | 432,338             | 1,547,338            |
| 2021                          | 1,160,000            | 387,737             | 1,547,737            |
| 2022                          | 1,210,000            | 339,888             | 1,549,888            |
| 2023                          | 1,260,000            | 289,975             | 1,549,975            |
| 2024                          | 1,315,000            | 238,000             | 1,553,000            |
| 2025                          | 1,370,000            | 182,112             | 1,552,112            |
| 2026                          | 1,425,000            | 123,888             | 1,548,888            |
| 2027                          | 1,490,000            | 63,325              | 1,553,325            |
|                               | <u>\$ 19,360,000</u> | <u>\$ 9,458,238</u> | <u>\$ 28,818,238</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation Bonds, Series 2008A, issued June 12, 2008 debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest            | Total                |
|-------------------------------|---------------------|---------------------|----------------------|
| 2009                          | \$ -                | \$ 216,364          | \$ 216,364           |
| 2010                          | 275,000             | 300,738             | 575,738              |
| 2011                          | 285,000             | 291,113             | 576,113              |
| 2012                          | 295,000             | 281,138             | 576,138              |
| 2013                          | 305,000             | 270,813             | 575,813              |
| 2014                          | 315,000             | 258,613             | 573,613              |
| 2015                          | 330,000             | 246,013             | 576,013              |
| 2016                          | 340,000             | 232,813             | 572,813              |
| 2017                          | 355,000             | 219,213             | 574,213              |
| 2018                          | 370,000             | 206,788             | 576,788              |
| 2019                          | 380,000             | 191,988             | 571,988              |
| 2020                          | 400,000             | 176,788             | 576,788              |
| 2021                          | 415,000             | 160,788             | 575,788              |
| 2022                          | 430,000             | 144,188             | 574,188              |
| 2023                          | 450,000             | 126,988             | 576,988              |
| 2024                          | 465,000             | 108,425             | 573,425              |
| 2025                          | 485,000             | 88,663              | 573,663              |
| 2026                          | 505,000             | 68,050              | 573,050              |
| 2027                          | 530,000             | 46,588              | 576,588              |
| 2028                          | 550,000             | 24,063              | 574,063              |
|                               | <u>\$ 7,480,000</u> | <u>\$ 3,660,135</u> | <u>\$ 11,140,135</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation Bonds, Series 2008B, issued June 12, 2008 debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal            | Interest            | Total                |
|-------------------------------|----------------------|---------------------|----------------------|
| 2009                          | \$ -                 | \$ 322,959          | \$ 322,959           |
| 2010                          | 410,000              | 448,900             | 858,900              |
| 2011                          | 425,000              | 434,550             | 859,550              |
| 2012                          | 440,000              | 419,675             | 859,675              |
| 2013                          | 455,000              | 404,275             | 859,275              |
| 2014                          | 470,000              | 386,075             | 856,075              |
| 2015                          | 490,000              | 367,275             | 857,275              |
| 2016                          | 510,000              | 347,675             | 857,675              |
| 2017                          | 530,000              | 327,275             | 857,275              |
| 2018                          | 550,000              | 308,725             | 858,725              |
| 2019                          | 570,000              | 286,725             | 856,725              |
| 2020                          | 595,000              | 263,925             | 858,925              |
| 2021                          | 620,000              | 240,125             | 860,125              |
| 2022                          | 645,000              | 215,325             | 860,325              |
| 2023                          | 670,000              | 189,525             | 859,525              |
| 2024                          | 695,000              | 161,888             | 856,888              |
| 2025                          | 725,000              | 132,350             | 857,350              |
| 2026                          | 755,000              | 101,537             | 856,537              |
| 2027                          | 790,000              | 69,450              | 859,450              |
| 2028                          | 820,000              | 35,875              | 855,875              |
|                               | <u>\$ 11,165,000</u> | <u>\$ 5,464,109</u> | <u>\$ 16,629,109</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Total annual debt service requirements for General Obligation Bonds are as follows:

| Fiscal Year<br>Ending June 30 | Principal            | Interest             | Total                 |
|-------------------------------|----------------------|----------------------|-----------------------|
| 2009                          | \$ 7,203,125         | \$ 2,819,424         | \$ 10,022,549         |
| 2010                          | 3,737,500            | 2,724,143            | 6,461,643             |
| 2011                          | 3,896,250            | 2,581,376            | 6,477,626             |
| 2012                          | 4,030,000            | 2,433,178            | 6,463,178             |
| 2013                          | 4,180,000            | 2,279,890            | 6,459,890             |
| Next Five Years               | 19,570,000           | 8,857,781            | 28,427,781            |
| Next Five Years               | 15,930,625           | 5,250,650            | 21,181,275            |
| Next Five Years               | 15,745,000           | 1,841,399            | 17,586,399            |
|                               | <u>\$ 74,292,500</u> | <u>\$ 28,787,841</u> | <u>\$ 103,080,341</u> |

**Business-type Activities:**

Bonds and notes issued for the acquisition of facilities for the enterprise funds and to be paid from enterprise funds are recorded in the applicable enterprise fund. Bonds of utility districts acquired by the city are reported in the appropriate fund. Maturities on July 1 are considered as maturing on the preceding June 30th.

**Notes Payable**

General obligation notes currently outstanding and the funds from which they will be paid are as follows:

|                                   | Date<br>Issued | Amount<br>Issued | Interest<br>Rate | Outstanding<br>June 30, 2008 |
|-----------------------------------|----------------|------------------|------------------|------------------------------|
| <b><u>Water Fund:</u></b>         |                |                  |                  |                              |
| State Revolving Loan - DWF#98-009 | 03/25/98       | \$ 1,937,015     | 3.675%           | <u>\$ 1,333,348</u>          |
| <b><u>Sewer Fund:</u></b>         |                |                  |                  |                              |
| State Revolving Loan - SRF#98-119 | 02/28/99       | 2,364,929        | 3.550%           | \$ 1,670,397                 |
| State Revolving Loan - SRF#99-123 | 06/28/99       | 2,731,550        | 3.550%           | 1,997,056                    |
| State Revolving Loan - SRF#07-197 | 11/29/07       | 19,366,647       | 3.140%           | 590,264                      |
| State Revolving Loan - SRF#07-200 | 07/15/07       | 2,850,000        | 3.200%           | -                            |
| Total                             |                |                  |                  | <u>\$ 4,257,717</u>          |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Notes Payable (continued)**

The City has entered into agreements for revolving credit lines with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to provide 15 year financing for the following projects:

A \$1,937,015 line to provide for water system improvements consisting of the replacement of water lines along Sevier Avenue.

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 122,016          | \$ 46,956         | \$ 168,972          |
| 2010                          | 126,574             | 42,396            | 168,970             |
| 2011                          | 131,306             | 37,668            | 168,974             |
| 2012                          | 136,214             | 32,760            | 168,974             |
| 2013                          | 141,305             | 27,672            | 168,977             |
| 2014                          | 146,586             | 22,392            | 168,978             |
| 2015                          | 152,065             | 16,908            | 168,973             |
| 2016                          | 157,748             | 11,220            | 168,968             |
| 2017                          | 163,644             | 5,328             | 168,972             |
| 2018                          | 55,890              | 428               | 56,318              |
|                               | <u>\$ 1,333,348</u> | <u>\$ 243,728</u> | <u>\$ 1,577,076</u> |

A \$2,364,929 line to provide for the repair and replacement of sewer lines throughout the Mad Branch sewer shed and along Sevier Avenue.

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 147,480          | \$ 56,916         | \$ 204,396          |
| 2010                          | 152,801             | 51,588            | 204,389             |
| 2011                          | 158,315             | 46,080            | 204,395             |
| 2012                          | 164,027             | 40,368            | 204,395             |
| 2013                          | 169,946             | 34,452            | 204,398             |
| 2014                          | 176,078             | 28,320            | 204,398             |
| 2015                          | 182,432             | 21,960            | 204,392             |
| 2016                          | 189,015             | 15,384            | 204,399             |
| 2017                          | 195,834             | 8,556             | 204,390             |
| 2018                          | 134,469             | 1,800             | 136,269             |
|                               | <u>\$ 1,670,397</u> | <u>\$ 305,424</u> | <u>\$ 1,975,821</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Notes Payable (continued)**

A \$2,731,550 line to provide for improvements.

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 167,724          | \$ 68,184         | \$ 235,908          |
| 2010                          | 173,766             | 62,136            | 235,902             |
| 2011                          | 180,041             | 55,860            | 235,901             |
| 2012                          | 186,538             | 49,368            | 235,906             |
| 2013                          | 193,268             | 42,636            | 235,904             |
| 2014                          | 200,243             | 35,664            | 235,907             |
| 2015                          | 207,467             | 28,440            | 235,907             |
| 2016                          | 214,954             | 20,952            | 235,906             |
| 2017                          | 222,710             | 13,188            | 235,898             |
| 2018                          | 230,746             | 5,160             | 235,906             |
| 2019                          | <u>19,599</u>       | <u>696</u>        | <u>20,295</u>       |
|                               | <u>\$ 1,997,056</u> | <u>\$ 382,284</u> | <u>\$ 2,379,340</u> |

In addition to the above loans, the City has two state revolving credit lines which are still being drawn against for projects that are not yet complete. Currently, the City is making interest payments only on these loans. Principal payments will begin upon substantial completion of the projects.

A \$19,366,647 credit line is available for upgrades to the waste water treatment facility. Upon completion of the project this loan will be paid over 20 years. \$590,264 had been drawn as of June 30, 2008.

A \$2,850,000 credit line is available for sewer system replacement projects in the West Kingsport area. At June 30, 2008, the City had not drawn any of these funds. Upon completion of the project, the loan will be paid over 15 years.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Notes Payable (continued)**

Total debt service requirements to maturity for enterprise fund long-term debt notes payable are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 437,220          | \$ 172,056        | \$ 609,276          |
| 2010                          | 453,141             | 156,120           | 609,261             |
| 2011                          | 469,662             | 139,608           | 609,270             |
| 2012                          | 486,779             | 122,496           | 609,275             |
| 2013                          | 504,519             | 104,760           | 609,279             |
| Next Five Years               | 2,629,881           | 235,700           | 2,865,581           |
| Thereafter                    | 609,863             | 696               | 610,559             |
|                               | <u>\$ 5,591,065</u> | <u>\$ 931,436</u> | <u>\$ 6,522,501</u> |

The interest calculation for the State Revolving Loan is based on the outstanding balance at year end for the item listed above. It is unknown at this time when the City will begin principal payments; therefore, the entire \$590,264 is included in the "thereafter" information.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable**

General obligation bonds to be repaid from enterprise funds currently outstanding and the funds from which they will be paid are as follows:

|                                                                       | <u>Interest<br/>Payable<br/>Dates</u> | <u>Issue<br/>Date</u> | <u>Amount<br/>Authorized<br/>and<br/>Issued</u> | <u>Interest<br/>Rates</u> | <u>Outstanding<br/>June 30, 2008</u> |
|-----------------------------------------------------------------------|---------------------------------------|-----------------------|-------------------------------------------------|---------------------------|--------------------------------------|
| <u>Solid Waste Management Fund</u>                                    |                                       |                       |                                                 |                           |                                      |
| 2005 General Obligation                                               | 02/01, 08/01                          | 12/06/05              | \$ 403,750                                      | 3.000%-5.000%             | <u>\$ 362,500</u>                    |
| Total Solid Waste Management Fund (before bond premiums of (\$1,492)) |                                       |                       |                                                 |                           | <u>\$ 362,500</u>                    |
| <br>                                                                  |                                       |                       |                                                 |                           |                                      |
| <u>Cattails at MeadowView Golf Course Fund</u>                        |                                       |                       |                                                 |                           |                                      |
| 1995 Golf Course-TMBF                                                 | Monthly                               | 05/22/95              | \$ 4,750,000                                    | Variable                  | \$ 1,336,000                         |
| 1998 Golf Course-TMBF                                                 | Monthly                               | 1998                  | 1,450,000                                       | Variable                  | <u>1,004,000</u>                     |
| Total Cattails at MeadowView Golf Course Fund                         |                                       |                       |                                                 |                           | <u>\$ 2,340,000</u>                  |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

| Water Fund                                                                                                         | Interest Payable Dates | Issue Date | Amount Authorized and Issued | Interest Rates | Outstanding June 30, 2008   |
|--------------------------------------------------------------------------------------------------------------------|------------------------|------------|------------------------------|----------------|-----------------------------|
| 1978 Waterworks                                                                                                    | 01/01, 07/01           | 04/06/78   | \$ 450,000                   | 5.000%         | \$ 180,000                  |
| 1999 General Obligation Refunding Improvement-Water                                                                | 03/01, 09/01           | 04/01/99   | 2,820,000                    | 4.000%-6.500%  | 210,000                     |
| 2001 Water System Improvement                                                                                      | 03/01, 09/01           | 11/06/01   | 2,140,000                    | 2.300%-4.650%  | 295,000                     |
| 2002 Water and Sewer Revenue and Tax                                                                               | 06/01, 12/01           | 12/12/02   | 2,725,000                    | 3.000%-4.350%  | 1,900,000                   |
| 2003 Water and Sewer Revenue and Tax                                                                               | 04/01, 10/01           | 12/01/03   | 1,315,000                    | 2.000%-4.200%  | 990,000                     |
| 2004 Water and Sewer Revenue and Tax Refunding                                                                     | 03/01, 09/01           | 03/01/04   | 4,126,955                    | 2.050%-5.000%  | 3,995,000                   |
| 2004 General Obligation Refunding                                                                                  | 03/01, 09/01           | 03/15/04   | 2,200,000                    | 3.500%-5.000%  | 2,200,000                   |
| 2004 Water and Sewer Revenue and Tax                                                                               | 05/01, 11/01           | 12/06/04   | 1,625,000                    | 2.750%-4.125%  | 1,330,000                   |
| 2005 Water and Sewer Revenue and Tax                                                                               | 06/01, 12/01           | 12/06/05   | 870,000                      | 3.000%-5.000%  | 780,000                     |
| 2006 Water and Sewer Revenue and Tax                                                                               | 02/01, 08/01           | 12/20/06   | 316,463                      | 3.750%-5.000%  | 307,044                     |
| 2008 Water and Sewer Revenue and Tax                                                                               | 03/01, 09/01           | 06/12/08   | 1,200,000                    | 3.500%-4.250%  | <u>1,200,000</u>            |
| Total Water Fund (before deferred debt refunding costs of \$389,309 and net premiums and discounts of (\$491,304)) |                        |            |                              |                | <u><u>\$ 13,387,044</u></u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

| Sewer Fund                                                                                                           | Interest<br>Payable<br>Dates | Issue<br>Date | Amount<br>Authorized<br>and<br>Issued | Interest<br>Rates | Outstanding<br>June 30, 2008 |
|----------------------------------------------------------------------------------------------------------------------|------------------------------|---------------|---------------------------------------|-------------------|------------------------------|
| 1999 Sewer Refunding                                                                                                 | 03/01, 09/01                 | 04/01/99      | \$ 3,155,000                          | 4.000%-6.500%     | \$ 235,000                   |
| 2001 Sewer System Improvement                                                                                        | 03/01, 09/01                 | 11/06/01      | 2,790,000                             | 2.300%-4.650%     | 390,000                      |
| 2002 Water and Sewer Revenue and Tax                                                                                 | 06/01, 12/01                 | 12/12/02      | 5,275,000                             | 3.000%-4.350%     | 3,670,000                    |
| 2003 Water and Sewer Revenue and Tax                                                                                 | 04/01, 10/01                 | 12/01/03      | 4,585,000                             | 2.000%-4.200%     | 3,475,000                    |
| 2004 Water and Sewer Revenue and Tax Refunding                                                                       | 03/01, 09/01                 | 03/01/04      | 12,473,045                            | 2.000%-5.000%     | 10,665,000                   |
| 2004 General Obligation Refunding                                                                                    | 03/01, 09/01                 | 03/15/04      | 3,010,000                             | 2.200%-5.000%     | 3,010,000                    |
| 2004 Water and Sewer Revenue and Tax                                                                                 | 11/01, 05/01                 | 12/06/04      | 6,275,000                             | 2.750%-4.125%     | 5,120,000                    |
| 2005 Water and Sewer Revenue and Tax                                                                                 | 06/01, 12/01                 | 12/06/05      | 4,100,000                             | 2.750%-4.125%     | 3,680,000                    |
| 2006 Water and Sewer Revenue and Tax                                                                                 | 02/01, 08/01                 | 12/20/06      | 1,363,537                             | 3.750%-5.000%     | <u>1,322,956</u>             |
| Total Sewer Fund (before deferred debt refunding costs of \$641,738 and net premiums and discounts of (\$1,105,884)) |                              |               |                                       |                   | <u>\$ 31,567,956</u>         |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Solid Waste Management Fund issue 2005 Series General Obligation Bonds December 6, 2005, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest          | Total             |
|-------------------------------|-------------------|-------------------|-------------------|
| 2009                          | \$ 21,875         | \$ 13,996         | \$ 35,871         |
| 2010                          | 22,500            | 13,176            | 35,676            |
| 2011                          | 23,750            | 12,332            | 36,082            |
| 2012                          | 25,000            | 11,441            | 36,441            |
| 2013                          | 25,000            | 10,504            | 35,504            |
| 2014                          | 26,250            | 9,566             | 35,816            |
| 2015                          | 27,500            | 8,254             | 35,754            |
| 2016                          | 28,750            | 6,879             | 35,629            |
| 2017                          | 31,250            | 5,441             | 36,691            |
| 2018                          | 31,250            | 4,504             | 35,754            |
| 2019                          | 32,500            | 3,566             | 36,066            |
| 2020                          | 33,125            | 2,591             | 35,716            |
| 2021                          | 33,750            | 1,308             | 35,058            |
|                               | <u>\$ 362,500</u> | <u>\$ 103,558</u> | <u>\$ 466,058</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Payments on the Cattails at MeadowView Golf Course TMBF bonds issued in 1995 totaling \$4,750,000 and in 1998 totaling \$1,450,000 are made to the State monthly. These bonds mature in 2011 and 2017, respectively.

The interest rate on the TMBF Golf Course Bonds is variable monthly based upon the current rate determined by the remarketing agent plus 1.25% not to exceed the maximum amount allowed by law. Due to this, the principal debt service requirement to maturity for both of these funds is as follows:

| Fiscal Year<br>Ending June 30 | TMBF Series         |                     | Total               |
|-------------------------------|---------------------|---------------------|---------------------|
|                               | 1998                | 1995                |                     |
| 2009                          | \$ 89,000           | \$ 421,500          | \$ 510,500          |
| 2010                          | 94,000              | 445,000             | 539,000             |
| 2011                          | 99,000              | 469,500             | 568,500             |
| 2012                          | 105,000             | -                   | 105,000             |
| 2013                          | 110,000             | -                   | 110,000             |
| 2014                          | 117,000             | -                   | 117,000             |
| 2015                          | 123,000             | -                   | 123,000             |
| 2016                          | 130,000             | -                   | 130,000             |
| 2017                          | 137,000             | -                   | 137,000             |
|                               | <u>\$ 1,004,000</u> | <u>\$ 1,336,000</u> | <u>\$ 2,340,000</u> |

Fall Branch Utility District Bonds issued April 6, 1978, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest         | Total             |
|-------------------------------|-------------------|------------------|-------------------|
| 2009                          | \$ 20,000         | \$ 9,000         | \$ 29,000         |
| 2010                          | 20,000            | 8,000            | 28,000            |
| 2011                          | 20,000            | 7,000            | 27,000            |
| 2012                          | 20,000            | 6,000            | 26,000            |
| 2013                          | 20,000            | 5,000            | 25,000            |
| 2014                          | 25,000            | 4,000            | 29,000            |
| 2015                          | 25,000            | 2,750            | 27,750            |
| 2016                          | 30,000            | 1,500            | 31,500            |
|                               | <u>\$ 180,000</u> | <u>\$ 43,250</u> | <u>\$ 223,250</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water Fund portion of General Obligation Refunding and Improvement Bonds, Series 1999, issued April 1, 1999, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest        | Total             |
|-------------------------------|-------------------|-----------------|-------------------|
| 2009                          | \$ 210,000        | \$ 8,925        | \$ 218,925        |
|                               | <u>\$ 210,000</u> | <u>\$ 8,925</u> | <u>\$ 218,925</u> |

2001 Water System Improvement bonds, Series 2001, issued November 6, 2001, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest         | Total             |
|-------------------------------|-------------------|------------------|-------------------|
| 2009                          | \$ 145,000        | \$ 11,800        | \$ 156,800        |
| 2010                          | 150,000           | 6,000            | 156,000           |
|                               | <u>\$ 295,000</u> | <u>\$ 17,800</u> | <u>\$ 312,800</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2002, issued December 12, 2002, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 180,000          | \$ 76,040         | \$ 256,040          |
| 2010                          | 195,000             | 69,740            | 264,740             |
| 2011                          | 200,000             | 62,427            | 262,427             |
| 2012                          | 205,000             | 54,428            | 259,428             |
| 2013                          | 210,000             | 46,227            | 256,227             |
| 2014                          | 215,000             | 37,828            | 252,828             |
| 2015                          | 220,000             | 29,227            | 249,227             |
| 2016                          | 235,000             | 20,428            | 255,428             |
| 2017                          | 240,000             | 10,440            | 250,440             |
|                               | <u>\$ 1,900,000</u> | <u>\$ 406,785</u> | <u>\$ 2,306,785</u> |

Water and Sewer Revenue and Tax Bonds, Series 2003, issued December 1, 2003, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest          | Total               |
|-------------------------------|-------------------|-------------------|---------------------|
| 2009                          | \$ 85,000         | \$ 36,234         | \$ 121,234          |
| 2010                          | 85,000            | 33,684            | 118,684             |
| 2011                          | 90,000            | 31,134            | 121,134             |
| 2012                          | 95,000            | 28,209            | 123,209             |
| 2013                          | 95,000            | 24,884            | 119,884             |
| 2014                          | 100,000           | 21,559            | 121,559             |
| 2015                          | 105,000           | 17,809            | 122,809             |
| 2016                          | 110,000           | 13,740            | 123,740             |
| 2017                          | 110,000           | 9,340             | 119,340             |
| 2018                          | 115,000           | 4,830             | 119,830             |
|                               | <u>\$ 990,000</u> | <u>\$ 221,423</u> | <u>\$ 1,211,423</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2004, issued March 1, 2004, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 555,000          | \$ 199,750        | \$ 754,750          |
| 2010                          | 585,000             | 172,000           | 757,000             |
| 2011                          | 615,000             | 142,750           | 757,750             |
| 2012                          | 650,000             | 112,000           | 762,000             |
| 2013                          | 505,000             | 79,500            | 584,500             |
| 2014                          | 530,000             | 54,250            | 584,250             |
| 2015                          | 555,000             | 27,750            | 582,750             |
|                               | <u>\$ 3,995,000</u> | <u>\$ 788,000</u> | <u>\$ 4,783,000</u> |

General Obligations Bonds, Series 2004, issued March 15, 2004, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ -                | \$ 97,200         | \$ 97,200           |
| 2010                          | 215,000             | 97,200            | 312,200             |
| 2011                          | 385,000             | 88,600            | 473,600             |
| 2012                          | 395,000             | 73,200            | 468,200             |
| 2013                          | 405,000             | 57,400            | 462,400             |
| 2014                          | 430,000             | 37,150            | 467,150             |
| 2015                          | 180,000             | 15,650            | 195,650             |
| 2016                          | 190,000             | 6,650             | 196,650             |
|                               | <u>\$ 2,200,000</u> | <u>\$ 473,050</u> | <u>\$ 2,673,050</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 100,000          | \$ 48,411         | \$ 148,411          |
| 2010                          | 105,000             | 45,411            | 150,411             |
| 2011                          | 110,000             | 42,261            | 152,261             |
| 2012                          | 110,000             | 38,686            | 148,686             |
| 2013                          | 115,000             | 34,946            | 149,946             |
| 2014                          | 120,000             | 30,921            | 150,921             |
| 2015                          | 125,000             | 26,601            | 151,601             |
| 2016                          | 130,000             | 21,851            | 151,851             |
| 2017                          | 135,000             | 16,781            | 151,781             |
| 2018                          | 135,000             | 11,381            | 146,381             |
| 2019                          | 145,000             | 5,981             | 150,981             |
|                               | <u>\$ 1,330,000</u> | <u>\$ 323,231</u> | <u>\$ 1,653,231</u> |

Water and Sewer Revenue and Tax Bonds, Series 2005, issued December 6, 2005, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest          | Total               |
|-------------------------------|-------------------|-------------------|---------------------|
| 2009                          | \$ 45,000         | \$ 29,944         | \$ 74,944           |
| 2010                          | 50,000            | 28,256            | 78,256              |
| 2011                          | 50,000            | 26,381            | 76,381              |
| 2012                          | 50,000            | 24,506            | 74,506              |
| 2013                          | 55,000            | 22,631            | 77,631              |
| 2014                          | 55,000            | 20,569            | 75,569              |
| 2015                          | 55,000            | 17,819            | 72,819              |
| 2016                          | 60,000            | 15,069            | 75,069              |
| 2017                          | 70,000            | 12,069            | 82,069              |
| 2018                          | 75,000            | 9,969             | 84,969              |
| 2019                          | 70,000            | 7,719             | 77,719              |
| 2020                          | 70,000            | 5,619             | 75,619              |
| 2021                          | 75,000            | 2,906             | 77,906              |
|                               | <u>\$ 780,000</u> | <u>\$ 223,457</u> | <u>\$ 1,003,457</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2006, issued December 20, 2006, debt service requirements to maturity are as follows for the Water portion:

| Fiscal Year<br>Ending June 30 | Principal         | Interest          | Total             |
|-------------------------------|-------------------|-------------------|-------------------|
| 2009                          | \$ 11,302         | \$ 12,865         | \$ 24,167         |
| 2010                          | 12,244            | 12,300            | 24,544            |
| 2011                          | 12,244            | 11,688            | 23,932            |
| 2012                          | 12,244            | 11,076            | 23,320            |
| 2013                          | 13,186            | 10,525            | 23,711            |
| 2014                          | 13,186            | 9,932             | 23,118            |
| 2015                          | 14,128            | 9,338             | 23,466            |
| 2016                          | 15,070            | 8,702             | 23,772            |
| 2017                          | 15,070            | 8,024             | 23,094            |
| 2018                          | 18,837            | 7,459             | 26,296            |
| 2019                          | 18,837            | 6,753             | 25,590            |
| 2020                          | 18,837            | 6,046             | 24,883            |
| 2021                          | 18,837            | 5,317             | 24,154            |
| 2022                          | 18,837            | 4,563             | 23,400            |
| 2023                          | 18,837            | 3,810             | 22,647            |
| 2024                          | 18,837            | 3,056             | 21,893            |
| 2025                          | 18,837            | 2,303             | 21,140            |
| 2026                          | 18,837            | 1,549             | 20,386            |
| 2027                          | 18,837            | 777               | 19,614            |
|                               | <u>\$ 307,044</u> | <u>\$ 136,083</u> | <u>\$ 443,127</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2008, issued June 12, 2008 debt service requirements to maturity are as follows for the Water portion:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ -                | \$ 33,558         | \$ 33,558           |
| 2010                          | 65,000              | 46,644            | 111,644             |
| 2011                          | 70,000              | 44,044            | 114,044             |
| 2012                          | 70,000              | 41,594            | 111,594             |
| 2013                          | 75,000              | 39,144            | 114,144             |
| 2014                          | 75,000              | 36,519            | 111,519             |
| 2015                          | 80,000              | 33,894            | 113,894             |
| 2016                          | 85,000              | 30,894            | 115,894             |
| 2017                          | 85,000              | 27,706            | 112,706             |
| 2018                          | 90,000              | 24,306            | 114,306             |
| 2019                          | 95,000              | 20,706            | 115,706             |
| 2020                          | 95,000              | 16,906            | 111,906             |
| 2021                          | 100,000             | 13,106            | 113,106             |
| 2022                          | 105,000             | 9,006             | 114,006             |
| 2023                          | 110,000             | 4,675             | 114,675             |
|                               | <u>\$ 1,200,000</u> | <u>\$ 422,702</u> | <u>\$ 1,622,702</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Sewer Refunding Bonds, Series 1999, issued April 1, 1999, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest        | Total             |
|-------------------------------|-------------------|-----------------|-------------------|
| 2009                          | \$ 235,000        | \$ 9,988        | \$ 244,988        |
|                               | <u>\$ 235,000</u> | <u>\$ 9,988</u> | <u>\$ 244,988</u> |

Sewer System Improvement bonds, Series 2001, issued November 6, 2001, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal         | Interest         | Total             |
|-------------------------------|-------------------|------------------|-------------------|
| 2009                          | \$ 190,000        | \$ 15,600        | \$ 205,600        |
| 2010                          | <u>200,000</u>    | <u>8,000</u>     | <u>208,000</u>    |
|                               | <u>\$ 390,000</u> | <u>\$ 23,600</u> | <u>\$ 413,600</u> |

Water and Sewer Revenue and Tax Bonds, Series 2002, issued December 12, 2002, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 350,000          | \$ 146,920        | \$ 496,920          |
| 2010                          | 365,000             | 134,670           | 499,670             |
| 2011                          | 380,000             | 120,983           | 500,983             |
| 2012                          | 395,000             | 105,783           | 500,783             |
| 2013                          | 405,000             | 89,983            | 494,983             |
| 2014                          | 420,000             | 73,783            | 493,783             |
| 2015                          | 430,000             | 56,983            | 486,983             |
| 2016                          | 455,000             | 39,783            | 494,783             |
| 2017                          | <u>470,000</u>      | <u>20,445</u>     | <u>490,445</u>      |
|                               | <u>\$ 3,670,000</u> | <u>\$ 789,333</u> | <u>\$ 4,459,333</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2003, issued December 1, 2003, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 295,000          | \$ 127,185        | \$ 422,185          |
| 2010                          | 315,000             | 118,335           | 433,335             |
| 2011                          | 310,000             | 108,885           | 418,885             |
| 2012                          | 320,000             | 98,810            | 418,810             |
| 2013                          | 335,000             | 87,610            | 422,610             |
| 2014                          | 350,000             | 75,885            | 425,885             |
| 2015                          | 360,000             | 62,760            | 422,760             |
| 2016                          | 390,000             | 48,810            | 438,810             |
| 2017                          | 390,000             | 33,210            | 423,210             |
| 2018                          | 410,000             | 17,220            | 427,220             |
|                               | <u>\$ 3,475,000</u> | <u>\$ 778,710</u> | <u>\$ 4,253,710</u> |

Water and Sewer Revenue and Tax Bonds, Series 2004, issued March 1, 2004, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal            | Interest            | Total                |
|-------------------------------|----------------------|---------------------|----------------------|
| 2009                          | \$ 1,395,000         | \$ 528,250          | \$ 1,923,250         |
| 2010                          | 1,465,000            | 458,500             | 1,923,500            |
| 2011                          | 1,550,000            | 385,250             | 1,935,250            |
| 2012                          | 1,625,000            | 307,750             | 1,932,750            |
| 2013                          | 1,315,000            | 226,500             | 1,541,500            |
| 2014                          | 1,370,000            | 160,750             | 1,530,750            |
| 2015                          | 1,445,000            | 92,250              | 1,537,250            |
| 2016                          | 500,000              | 20,000              | 520,000              |
|                               | <u>\$ 10,665,000</u> | <u>\$ 2,179,250</u> | <u>\$ 12,844,250</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

General Obligation Refunding Bonds, Series 2004, issued March 15, 2004, debt service requirements to maturity are as follows:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 40,000           | \$ 132,505        | \$ 172,505          |
| 2010                          | 285,000             | 131,625           | 416,625             |
| 2011                          | 500,000             | 120,225           | 620,225             |
| 2012                          | 520,000             | 100,225           | 620,225             |
| 2013                          | 540,000             | 79,425            | 619,425             |
| 2014                          | 575,000             | 52,425            | 627,425             |
| 2015                          | 295,000             | 23,675            | 318,675             |
| 2016                          | 255,000             | 8,925             | 263,925             |
|                               | <u>\$ 3,010,000</u> | <u>\$ 649,030</u> | <u>\$ 3,659,030</u> |

Water and Sewer Revenue and Tax Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity are as follows for the sewer portion:

| Fiscal Year<br>Ending June 30 | Principal           | Interest            | Total               |
|-------------------------------|---------------------|---------------------|---------------------|
| 2009                          | \$ 400,000          | \$ 186,341          | \$ 586,341          |
| 2010                          | 395,000             | 174,341             | 569,341             |
| 2011                          | 415,000             | 162,491             | 577,491             |
| 2012                          | 430,000             | 149,004             | 579,004             |
| 2013                          | 445,000             | 134,384             | 579,384             |
| 2014                          | 460,000             | 118,809             | 578,809             |
| 2015                          | 475,000             | 102,249             | 577,249             |
| 2016                          | 495,000             | 84,199              | 579,199             |
| 2017                          | 515,000             | 64,894              | 579,894             |
| 2018                          | 535,000             | 44,294              | 579,294             |
| 2019                          | 555,000             | 22,893              | 577,893             |
|                               | <u>\$ 5,120,000</u> | <u>\$ 1,243,899</u> | <u>\$ 6,363,899</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2005, issued December 6, 2005, debt service requirements to maturity are as follows for the sewer portion:

| Fiscal Year<br>Ending June 30 | Principal           | Interest            | Total               |
|-------------------------------|---------------------|---------------------|---------------------|
| 2009                          | \$ 225,000          | \$ 142,438          | \$ 367,438          |
| 2010                          | 230,000             | 134,000             | 364,000             |
| 2011                          | 240,000             | 125,375             | 365,375             |
| 2012                          | 250,000             | 116,375             | 366,375             |
| 2013                          | 255,000             | 107,000             | 362,000             |
| 2014                          | 270,000             | 97,437              | 367,437             |
| 2015                          | 285,000             | 83,938              | 368,938             |
| 2016                          | 295,000             | 69,687              | 364,687             |
| 2017                          | 305,000             | 54,938              | 359,938             |
| 2018                          | 310,000             | 45,787              | 355,787             |
| 2019                          | 325,000             | 36,488              | 361,488             |
| 2020                          | 340,000             | 26,737              | 366,737             |
| 2021                          | 350,000             | 13,563              | 363,563             |
|                               | <u>\$ 3,680,000</u> | <u>\$ 1,053,763</u> | <u>\$ 4,733,763</u> |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Water and Sewer Revenue and Tax Bonds, Series 2006, issued December 20, 2006, debt service requirements to maturity are as follows for the sewer portion:

| Fiscal Year<br>Ending June 30 | Principal           | Interest          | Total               |
|-------------------------------|---------------------|-------------------|---------------------|
| 2009                          | \$ 48,698           | \$ 55,434         | \$ 104,132          |
| 2010                          | 52,756              | 52,999            | 105,755             |
| 2011                          | 52,756              | 50,362            | 103,118             |
| 2012                          | 52,756              | 47,724            | 100,480             |
| 2013                          | 56,814              | 45,350            | 102,164             |
| 2014                          | 56,814              | 42,793            | 99,607              |
| 2015                          | 60,872              | 40,237            | 101,109             |
| 2016                          | 64,930              | 37,497            | 102,427             |
| 2017                          | 64,930              | 34,575            | 99,505              |
| 2018                          | 81,163              | 32,141            | 113,304             |
| 2019                          | 81,163              | 29,097            | 110,260             |
| 2020                          | 81,163              | 26,053            | 107,216             |
| 2021                          | 81,163              | 22,908            | 104,071             |
| 2022                          | 81,163              | 19,662            | 100,825             |
| 2023                          | 81,163              | 16,415            | 97,578              |
| 2024                          | 81,163              | 13,169            | 94,332              |
| 2025                          | 81,163              | 9,922             | 91,085              |
| 2026                          | 81,163              | 6,676             | 87,839              |
| 2027                          | 81,163              | 3,348             | 84,511              |
|                               | <u>\$ 1,322,956</u> | <u>\$ 586,362</u> | <u>\$ 1,909,318</u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

**Bonds Payable (continued)**

Total annual debt service requirements for enterprise fund bonds, excluding the estimated principal requirements on the TMBF bonds totaling \$2,340,000 are as follows:

| <u>Fiscal Year<br/>Ending June 30</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|---------------------------------------|---------------------|---------------------|---------------------|
| 2009                                  | \$ 4,551,875        | \$ 1,922,384        | \$ 6,474,259        |
| 2010                                  | 4,812,500           | 1,744,881           | 6,557,381           |
| 2011                                  | 5,023,750           | 1,542,188           | 6,565,938           |
| 2012                                  | 5,225,000           | 1,326,811           | 6,551,811           |
| 2013                                  | 4,870,000           | 1,101,013           | 5,971,013           |
| Next Five Years                       | 17,400,000          | 2,469,728           | 19,869,728          |
| Next Five Years                       | 3,034,375           | 334,394             | 3,368,769           |
| Next Five Years                       | <u>400,000</u>      | <u>40,800</u>       | <u>440,800</u>      |
|                                       | <u>\$45,317,500</u> | <u>\$10,482,199</u> | <u>\$55,799,699</u> |

The total on the statement of net assets has been reduced by deferred debt refunding costs of \$1,013,047 and the net premiums and discounts of (\$1,598,680).

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2008, was as follows:

|                                         | <u>Beginning<br/>Balance</u> | <u>Additions</u>     | <u>Reductions</u>    | <u>Ending<br/>Balance</u> | <u>Due within<br/>One Year</u> |
|-----------------------------------------|------------------------------|----------------------|----------------------|---------------------------|--------------------------------|
| Governmental activities:                |                              |                      |                      |                           |                                |
| General Obligation Debt                 | \$ 63,481,250                | \$ 18,645,000        | \$ 7,833,750         | \$ 74,292,500             | \$ 7,203,125                   |
| Less: Deferred amounts<br>for refunding | (874,000)                    | -                    | (95,000)             | (779,000)                 | -                              |
| Plus: Premiums and discounts            | 434,000                      | 112,398              | 105,801              | 440,597                   | -                              |
| <b>Total Bonds Payable</b>              | <b>63,041,250</b>            | <b>18,757,398</b>    | <b>7,844,551</b>     | <b>73,954,097</b>         | <b>7,203,125</b>               |
| Compensated Absences                    | 2,764,000                    | 442,479              | -                    | 3,206,479                 | 3,206,479                      |
| Interlocal Cooperative<br>Agreement     | 2,500,000                    | -                    | -                    | 2,500,000                 | 500,000                        |
| Capital Outlay Note                     | 1,600,000                    | 4,000,000            | 4,000,000            | 1,600,000                 | 121,000                        |
| Energy Efficiency Note                  | -                            | 475,000              | -                    | 475,000                   | 67,857                         |
| Notes Payable-State                     | 4,702,207                    | -                    | 358,033              | 4,344,174                 | 358,034                        |
| <b>Totals</b>                           | <b>\$ 74,607,457</b>         | <b>\$ 23,674,877</b> | <b>\$ 12,202,584</b> | <b>\$ 86,079,750</b>      | <b>\$ 11,456,495</b>           |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt (continued)**

|                                          | Beginning<br>Balance | Additions           | Reductions          | Ending<br>Balance    | Due within<br>One Year |
|------------------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Business-type activities:                |                      |                     |                     |                      |                        |
| General Obligation Debt                  | \$ 14,108,750        | \$ -                | \$ 4,886,250        | \$ 9,222,500         | \$ 1,372,375           |
| Water and Sewer Revenue<br>and Tax Bonds | 39,750,000           | 1,200,000           | 2,515,000           | 38,435,000           | 3,690,000              |
| Less: Deferred amounts<br>for refunding  | (1,219,374)          | -                   | (188,327)           | (1,031,047)          | -                      |
| Plus: Premiums and discounts             | 1,799,126            | 17,007              | 217,453             | 1,598,680            | -                      |
| <b>Total Bonds Payable</b>               | <b>54,438,502</b>    | <b>1,217,007</b>    | <b>7,430,376</b>    | <b>48,225,133</b>    | <b>5,062,375</b>       |
| Compensated Absences                     | 473,325              | 38,320              | -                   | 511,645              | 511,645                |
| State Revolving Notes                    | 5,422,648            | 590,264             | 421,847             | 5,591,065            | 437,220                |
| <b>Totals</b>                            | <b>\$ 60,334,475</b> | <b>\$ 1,845,591</b> | <b>\$ 7,852,223</b> | <b>\$ 54,327,843</b> | <b>\$ 6,011,240</b>    |

**F. Closure and postclosure costs**

The City operates a demolition landfill with a remaining life of approximately 30 years. Upon closure, federal and state laws require the landfill to be monitored for two years at the City's expense. Based upon information received from the State of Tennessee, the expected postclosure costs are immaterial to the solid waste management fund and therefore have not been recorded. The demolition landfill does not fall under the same monitoring guidelines as a sanitation landfill.

**5. OTHER INFORMATION:**

**A. Risk management**

The City carries insurance coverage through the Tennessee Municipal League (TML) Risk Management Pool for general liability, automobile, and errors and omissions coverage. Although TML is a risk management pool and the policy contains an assessment clause, no assessment has been levied during the time the City has participated in this program. The City's workers' compensation coverage is self-funded and administered by Tri-State Claims Service. The City carries a specific excess workers' compensation reinsurance agreement through Midwest Employers Reinsurance Corporation. An actuarial study was conducted by the City for the period ended November 2005 for workers' compensation. At June 30, 2006, a portion of fund balance was reserved based on the high figure of the discounted calculation at 3% for investment income basis. At June 30, 2006, this figure was estimated to be \$2,070. An additional actuarial study for workers' compensation was conducted for the period ended September 2007, and at June 30, 2008, the City concluded that this figure is not materially different from figures calculated on the November 2005 study; therefore, the existing reservation was not adjusted. The City carries additional coverage for public officials and other employees through U.S. Fidelity and Guarantee, Travelers and Western Surety insurance companies and property insurance through Hartford, Travelers and Continental Casualty insurance companies. There has been no significant reduction in insurance coverage from the prior year, and the City has not had any settlements in the last four years, which were not covered by insurance.

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**5. OTHER INFORMATION (CONTINUED):**

**A. Risk management (continued)**

Effective January 1, 2003, health insurance for government employees has been provided through a self-funded insurance program administered by United Healthcare of the River Valley. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. An actuarial study was conducted through October 2005. Health insurance coverage for school system employees is provided through the State of Tennessee Local Education Program.

Premium equivalents for participation in the self-funded program are established annually based on quotations from the third-party administrator for projected expenses. The City carries its own stop-loss insurance.

A reconciliation of workers' compensation claims for the past two years are as follows:

|                           | <u>Year Ended</u><br><u>June 30, 2008</u> | <u>Year Ended</u><br><u>June 30, 2007</u> |
|---------------------------|-------------------------------------------|-------------------------------------------|
| Claims Accrued, Beginning | \$ 272,293                                | \$ 207,764                                |
| Claims Incurred           | 1,093,512                                 | 921,529                                   |
| Claims Paid               | <u>(1,024,136)</u>                        | <u>(857,000)</u>                          |
| Claims Accrued, Ending    | \$ <u>341,669</u>                         | \$ <u>272,293</u>                         |

The City's estimate of claims accrued at year end is based on actual claims paid during April, May, and June 2008.

**B. Contingencies**

**Primary government**

The City has recorded an estimated arbitrage rebate liability in the water, sewer, and solid waste management funds. The bond issues, through 2003, have been independently reviewed and it has been determined that no arbitrage rebate liability exists for those years. At June 30, 2008, the water fund, sewer, and solid waste funds had arbitrage rebate liabilities recorded of \$76,316, \$295,884, and \$6,803, respectively. These arbitrage rebate liabilities are not directly related to any bond issue; however, are recorded in anticipation of future liabilities.

The City attorney advises that there are no known cases pending against the City, which would not be covered by insurance. The City has entered into several construction contracts in the various funds, which were not completed at year-end. To account for these liabilities, the City reserves a portion of fund balance in the appropriate governmental fund. In the proprietary funds, the City internally designates a portion of retained earnings.

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2008**

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**5. OTHER INFORMATION (CONTINUED):**

**B. Contingencies (continued)**

**Primary government (continued)**

The City received an "Agreed Order & Assessment" from the State of Tennessee dated May 18, 1995, concerning the inflow and infiltration systems of the City's sewer system. The City must be in full compliance by 2011. The estimated total cost of the project is \$25,000,000. Currently, the City has a strict schedule for the project to be completed in phases. Each phase has a deadline that the City must meet to avoid a \$20,000 fine. Thus far, all deadlines have been met. The City is funding the project with a State Revolving Loan, which is recorded in the sewer fund, and a General Obligation Bond.

The City received a "Consent Order" from the State of Tennessee dated October 25, 2005, concerning the waste water treatment plant of the City's sewer system. The City must be in full compliance by 2011. The estimated total cost of the project is \$25,000,000. Currently, the City has a strict schedule for the project to be completed in phases. Each phase has a deadline that the City must meet to avoid an \$18,000 fine. Thus far, all deadlines have been met. The City plans to fund the project with a State Revolving Loan, which is recorded in the sewer fund, and a General Obligation Bond.

Beginning in 2005, the Sullivan County Economic Development Partnership (SCEDP) issued \$2,500,000 Revenue Bond, Series 2005, of which, the City is contingently liable for 31%, or \$775,000. During May 2007, SCEDP issued an additional \$6,500,000 Revenue Bond, of which the City is contingently liable for \$2,015,000. Both bond issue proceeds were issued to finance the acquisition of considerable acreage near Tri-Cities Regional Airport for the purpose of establishing a new industrial park. The bonds are secured by the assignment of the revenue from the industrial park. The related liability ("Sullivan County Notes") is on the books of Sullivan County. The SCEDP is responsible for making the bond payments. However, in the event that they default, the City would have to pay off the bonds if they wanted to retain the project. As of June 30, 2008, \$8,810,000 was outstanding on these bonds.

**Discretely presented component unit**

The IDBK issued \$6,140,000 Multifamily Housing Revenue Bonds, Series 2003A, and \$100,000 Multifamily Housing Revenue Bonds, Series 2003B. The bond proceeds were disbursed directly to a non-profit organization (NPO) which will use the funds to finance the acquisition and rehabilitation of a 257-unit multifamily housing project located in Kingsport, Tennessee. The bonds are secured by assignment of the revenue from the project, in accordance with an agreement between the IDBK and the NPO, which was created for the specific purpose of acquiring and operating the aforementioned project. The said project and related liability are on the NPO's books. The NPO is responsible for making the bond payments. However, in the event that the NPO defaults, the IDBK would have to pay off the bonds if they wanted to retain the project. As of June 30, 2008, \$5,925,000 was outstanding on these bonds.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

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**5. OTHER INFORMATION (CONTINUED):**

**C. Pension plan**

**City of Kingsport plan**

**Plan description**

Employees of the City are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of the plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

**Funding policy**

The City has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.00% of annual covered payroll.

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008 was 16.36% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2008

**5. OTHER INFORMATION (CONTINUED):**

**C. Pension plan (continued)**

**City of Kingsport plan (continued)**

**Annual pension cost**

For the year ending June 30, 2008, the City's annual pension cost of \$5,546,001 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.50% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.00% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 18 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

**Trend Information**

| <u>Fiscal<br/>Year<br/>Ending</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|-----------------------------------|------------------------------------------|----------------------------------------------|---------------------------------------|
| June 30, 2008                     | \$5,546,001                              | 100.00%                                      | -                                     |
| June 30, 2007                     | 5,215,211                                | 100.00%                                      | -                                     |
| June 30, 2006                     | 4,145,617                                | 100.00%                                      | -                                     |
| June 30, 2005                     | 4,072,000                                | 100.00%                                      | -                                     |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

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**5. OTHER INFORMATION (CONTINUED):**

**C. Pension plan (continued)**

**Kingsport City Schools Plan**

**Plan description**

The Kingsport City Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the TCA. State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Funding policy**

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2008 was 6.24% of annual covered payroll. The employer contribution requirement for City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2008, 2007, and 2006 were \$1,782,000, \$1,700,866 and \$1,458,036, respectively, equal to the required contributions for each year.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**5. OTHER INFORMATION (CONTINUED):**

**D. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2008, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated for prior years will be phased in over 30 years, commencing with the 2008 liability.

**Postemployment Healthcare Plan – City of Kingsport**

**Plan description**

The City of Kingsport provides continuation of medical insurance coverage to eligible employees that retire under the Tennessee Consolidated Retirement System at the same time they end their services to the City. Employees hired prior to June 1, 2007 are eligible to continue coverage if they had been enrolled in the City's offered health insurance plan as an active full time employee at the date of retirement. Employees hired after June 1, 2007, must have a minimum of 25 years of service with the City, be at least 55 years old, and must have been enrolled in the health insurance provided by the City for three full consecutive years immediately prior to retirement or have 30 years of service with the City and have been enrolled in the health insurance provided by the City for one full year immediately prior to retirement.

The number of participants as of July 1, 2007, the effective date of the OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

|                                                    |                     |
|----------------------------------------------------|---------------------|
| Active employees                                   | 1,435               |
| Retired employees                                  | 143                 |
| Spouses of retired employees                       | 51                  |
| Retired employees eligible for death benefits only | <u>544</u>          |
| <b>Total</b>                                       | <u><b>2,173</b></u> |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**5. OTHER INFORMATION (CONTINUED):**

**D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Postemployment Healthcare Plan – City of Kingsport (continued)**

**Funding policy**

The premium requirements of plan members are established and may be amended by the BMA. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claim liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates.

| <u>Annual OPEB Cost and net OPEB Obligation</u>      | <u>City of Kingsport<br/>Retiree Plan</u> |
|------------------------------------------------------|-------------------------------------------|
| Annual Required Contribution (ARC)                   | \$ 3,166,263                              |
| Interest on the Net Pension Obligation (NPO)         | -                                         |
| Adjustment to the Annual Required Contribution (ARC) | -                                         |
| Annual OPEB cost                                     | 3,166,263                                 |
| Amount of contribution                               | <u>(647,366)</u>                          |
| Increase/Decrease in Net Pension Obligation (NPO)    | 2,518,897                                 |
| Net OPEB obligation - beginning of year              | <u>-</u>                                  |
| Net OPEB obligation - ending of year                 | <u>\$ 2,518,897</u>                       |

| <u>Year End*</u> | <u>Plan</u>  | <u>Annual OPEB Cost</u> | <u>Percentage of Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation<br/>at Year End</u> |
|------------------|--------------|-------------------------|-----------------------------------------------------------|------------------------------------------------|
| 06/30/08         | City Retiree | \$ 3,166,263            | 20%                                                       | \$ 2,518,897                                   |

\*Data not available for two preceding years.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**5. OTHER INFORMATION (CONTINUED):**

**D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Postemployment Healthcare Plan – City of Kingsport (continued)**

**Funded Status and Funding Process**

The funded status of the plan as of June 30, 2008, was as follows (dollars in thousands):

|                                             |    | City of Kingsport<br>Retiree Plan |
|---------------------------------------------|----|-----------------------------------|
| Actuarial valuation date                    |    | 07/01/07                          |
| Actuarial accrued liability (AAL)           | \$ | 30,541                            |
| Actuarial value of plan assets              |    | -                                 |
| Unfunded actuarial accrued liability (UAAL) | \$ | 30,541                            |
| Actuarial Value of Assets as a % of the AAL |    | 0%                                |
| Covered payroll (active plan members)       | \$ | 21,931                            |
| UAAL as a percentage of covered payroll     |    | 139%                              |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) 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.

**Actuarial Methods and Assumptions**

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**5. OTHER INFORMATION (CONTINUED):**

**D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Postemployment Healthcare Plan – Kingsport City Schools**

**Plan description**

The Kingsport City Schools participate in the state-administered Teacher Group Insurance Plan and Medicare Supplement Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302 (teachers) and TCA 8-27-701 (Medicare Supplement). Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>

**Funding policy**

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state provides a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. The required contribution rate for retired teachers ranges from 17 to 23 percent based on their years of service. During the year ended June 30, 2008, Kingsport City Schools contributed \$324,554 for the teacher group plan and \$113,000 for the medicare supplement plan.

| <u>Annual OPEB Cost and net OPEB Obligation</u>      | <u>Teacher Group<br/>Plan</u> | <u>Medicare Supplement<br/>Plan</u> |
|------------------------------------------------------|-------------------------------|-------------------------------------|
| Annual Required Contribution (ARC)                   | \$ 1,900,000                  | \$ 1,928,000                        |
| Interest on the Net Pension Obligation (NPO)         | -                             | -                                   |
| Adjustment to the Annual Required Contribution (ARC) | -                             | -                                   |
| Annual OPEB cost                                     | 1,900,000                     | 1,928,000                           |
| Amount of contribution                               | <u>(324,554)</u>              | <u>(113,000)</u>                    |
| Increase/Decrease in Net Pension Obligation (NPO)    | 1,575,446                     | 1,815,000                           |
| Net OPEB obligation - beginning of year              | -                             | -                                   |
| Net OPEB obligation - ending of year                 | <u>\$ 1,575,446</u>           | <u>\$ 1,815,000</u>                 |

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**5. OTHER INFORMATION (CONTINUED):**

**D. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Postemployment Healthcare Plan – Kingsport City Schools (continued)**

| Year End* | Plan          | Annual OPEB Cost | Percentage of Annual<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation<br>at Year End |
|-----------|---------------|------------------|--------------------------------------------------|---------------------------------------|
| 06/30/08  | Teacher Group | \$ 1,900,000     | 17%                                              | \$ 1,575,446                          |
| 06/30/08  | Medicare Supp | 1,928,000        | 6%                                               | 1,815,000                             |

\*Data not available for two preceding years.

**Funded Status and Funding Process**

The funded status of the plan as of June 30, 2008, was as follows (dollars in thousands):

|                                             | Teacher<br>Group Plan | Medicare<br>Supplement Plan |
|---------------------------------------------|-----------------------|-----------------------------|
| Actuarial valuation date                    | 07/01/07              | 07/01/07                    |
| Actuarial accrued liability (AAL)           | \$ 17,503             | \$ 18,268                   |
| Actuarial value of plan assets              | -                     | -                           |
| Unfunded actuarial accrued liability (UAAL) | \$ 17,503             | \$ 18,268                   |
| Actuarial Value of Assets as a % of the AAL | 0%                    | 0%                          |
| Covered payroll (active plan members)       | \$ 24,795             | \$ 24,795                   |
| UAAL as a percentage of covered payroll     | 70%                   | 74%                         |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) 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.

**Actuarial Methods and Assumptions**

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 6 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

**CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**5. OTHER INFORMATION (CONTINUED):**

**E. Joint Ventures**

**Tri-Cities Airport Commission**

Tri-Cities Airport Commission (the Airport) is jointly governed by representatives of Johnson City; Kingsport; Bristol, Tennessee; Bristol, Virginia and Washington and Sullivan Counties, Tennessee. The City initially contributed 20 percent of the start-up costs of the Airport in 1934 and has not contributed further since 1967. The City is represented by two of the Airport's twelve commissioners. The Airport prepares its own separate financial statements. The participating governments do not record any balances for the Airport. If the Airport ceased operations, disposition of its net assets would be controlled by the Federal Aviation Administration. The City would not be guaranteed a return of its initial investments or subsequent retained earnings.

Complete financial statements for the individual joint venture may be obtained at the administrative offices of:

Tri-Cities Airport Commission  
P.O. Box 1055  
Blountville, TN 37617

Audited information as of June 30, 2008 is presented below:

|                       | <u>Tri-Cities<br/>Airport<br/>Commission</u> |
|-----------------------|----------------------------------------------|
| Operating Revenues    | \$ 6,117,331                                 |
| Operating Expenses    | (5,415,059)                                  |
| Depreciation          | (2,889,942)                                  |
| Amortization          | (13,501)                                     |
| Other Income          | 878,429                                      |
| Capital Contributions | <u>4,330,262</u>                             |
| Change in Net Assets  | 3,007,520                                    |
| Net Assets, July 1    | <u>47,157,818</u>                            |
| Net Assets, June 30   | \$ <u>50,165,338</u>                         |
| <br>                  |                                              |
| Total Assets          | \$ 59,600,781                                |
| Total Liabilities     | <u>(9,435,443)</u>                           |
| Total Net Assets      | \$ <u>50,165,338</u>                         |

**CITY OF KINGSPORT, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2008**

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**5. OTHER INFORMATION (CONTINUED):**

**E. Joint Ventures (continued)**

**Phipps Bend Joint Venture**

The IDBK entered into a joint venture with the Hawkins County Industrial Development Board (HCIDB) to purchase and develop land known as Phipps Bend for industrial purposes.

According to the Joint Venture Agreement, HCIDB shall have an 80% interest and IDBK shall have a 20% interest in the profit and losses of the Joint Venture. However, each Venturer shall have an equal 50% right to control, manage, operate and otherwise deal with the Joint Venture in all matters and respects. A separate capital account is maintained for each Venturer. No Venturer shall withdraw any part of its original or additional capital account without the express written agreement of both parties respectively. IDBK's investment in the Phipps Bend Joint Venture is valued as follows:

|                                                      |                   |
|------------------------------------------------------|-------------------|
| Note Receivable from Phipps Bend Venture             | \$ 501,312        |
| 20% interest in capital of Phipps Bend Joint Venture | <u>154,069</u>    |
| Total Investment                                     | \$ <u>655,381</u> |

**F. Economic dependency**

A material portion of the City's property tax revenue is derived from one taxpayer, the loss of which would have a material effect on the City. During the tax years ended December 31, 2007 and 2006, the taxes assessed on the above mentioned taxpayer accounted for approximately 27% and 29%, respectively, of total property taxes assessed.

**G. Prior Period Adjustments**

**Discretely Presented Component Units**

The accumulated depreciation related to equipment for ECD was understated in the prior year as a result of an error in the amount of \$4,436. Accordingly net assets was overstated in the same amount and subsequently decreased and restated in the current year.

The Due from Other Governments balance for ECD was overstated in the prior year as a result of over accrual of expected revenues from the State of Tennessee in the amount of \$17,347. Accordingly net assets was overstated in the same amount and subsequently decreased and restated in the current year.

**H. Subsequent Events**

On August 5, 2008, the City's BMA approved a resolution authorizing indebtedness of not to exceed \$10,000,000 with a loan through the Tennessee Municipal Bond Fund (TMBF) to fund the acquisition and installation of an automated meter reading and leak detection system. TMBF loans have a variable interest rate.

**CITY OF KINGSPORT, TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN  
For the Fiscal Year Ended June 30, 2008**

**City of Kingsport, Tennessee Schedule of Funding Progress - Defined Benefit Pension Plan**

(Dollar amounts expressed in thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|----------------------------------------|------------------------------------------------|------------------------------------|--------------------------|---------------------------|---------------------------------------------------------------|
| July 1, 2007                   | \$ 117,466                             | \$ 142,266                                     | \$ 24,800                          | 82.57%                   | \$ 31,672                 | 78.30%                                                        |
| July 1, 2005                   | 104,770                                | 129,058                                        | 24,288                             | 81.18%                   | 30,278                    | 80.22%                                                        |
| July 1, 2003                   | 97,199                                 | 106,661                                        | 9,462                              | 91.13%                   | 27,888                    | 33.93%                                                        |
| July 1, 2001                   | 91,035                                 | 101,307                                        | 10,272                             | 89.86%                   | 26,519                    | 38.73%                                                        |

**CITY OF KINGSPORT, TENNESSEE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLANS  
 For the Fiscal Year Ended June 30, 2008**

**City of Kingsport-Schedule of Funding Progress - Postemployment Health Care Plan**

(Dollar amounts expressed in thousands)

| Actuarial<br>Valuation<br>Date | Plan         | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|--------------|----------------------------------------|------------------------------------------------|------------------------------------|--------------------------|---------------------------|---------------------------------------------------------------|
| July 1, 2007                   | City Retiree | \$ -                                   | \$ 30,541                                      | \$ 30,541                          | 0.00%                    | \$ 21,931                 | 139%                                                          |

**Kingsport City Schools-Schedule of Funding Progress - Postemployment Health Care Plan**

(Dollar amounts expressed in thousands)

| Actuarial<br>Valuation<br>Date | Plan          | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|---------------|----------------------------------------|------------------------------------------------|------------------------------------|--------------------------|---------------------------|---------------------------------------------------------------|
| July 1, 2007                   | Teacher Group | \$ -                                   | \$ 17,503                                      | \$ 17,503                          | 0.00%                    | \$ 24,795                 | 70%                                                           |
| July 1, 2007                   | Medicare      | -                                      | 18,268                                         | 18,268                             | 0.00%                    | 24,795                    | 74%                                                           |

**CITY OF KINGSPORT, TENNESSEE  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| Investment Earnings                                          | \$ 0                       | \$ 0                | \$ 1,727,978             | \$ 1,727,978                                                      |
| Total Revenues                                               | <u>0</u>                   | <u>0</u>            | <u>1,727,978</u>         | <u>1,727,978</u>                                                  |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Principal                                                    | 7,916,600                  | 12,192,445          | 12,191,783               | 662                                                               |
| Interest                                                     | 2,578,500                  | 2,493,888           | 2,449,755                | 44,133                                                            |
| Bond Issuance Costs                                          | 0                          | 91,972              | 85,747                   | 6,225                                                             |
| Miscellaneous                                                | 20,100                     | 43,512              | 7,590                    | 35,922                                                            |
| Total Expenditures                                           | <u>10,515,200</u>          | <u>14,821,817</u>   | <u>14,734,875</u>        | <u>86,942</u>                                                     |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(10,515,200)</u>        | <u>(14,821,817)</u> | <u>(13,006,897)</u>      | <u>1,814,920</u>                                                  |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers, Net                                               | 10,515,200                 | 10,222,105          | 8,901,430                | (1,320,675)                                                       |
| Issuance of Debt                                             | 0                          | 4,207,932           | 4,207,932                | 0                                                                 |
| Premium on Debt Issued                                       | 0                          | 25,273              | 25,273                   | 0                                                                 |
| Total Other Financing Sources (Uses)                         | <u>10,515,200</u>          | <u>14,455,310</u>   | <u>13,134,635</u>        | <u>(1,320,675)</u>                                                |
| Net Change in Fund Balances                                  | 0                          | (366,507)           | 127,738                  | 494,245                                                           |
| Fund Balances, July 1, 2007                                  | <u>0</u>                   | <u>366,507</u>      | <u>1,045,040</u>         | <u>678,533</u>                                                    |
| Fund Balances, June 30, 2008                                 | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 1,172,778</u>      | <u>\$ 1,172,778</u>                                               |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2008**

|                                            | Special Revenue Funds      |                                       |                     |                      |                            |                     |                             | Permanent Fund       |                                   |
|--------------------------------------------|----------------------------|---------------------------------------|---------------------|----------------------|----------------------------|---------------------|-----------------------------|----------------------|-----------------------------------|
|                                            | Community Development Fund | Special Revenue General Projects Fund | Public Safety Funds | Transportation Funds | Culture & Recreation Funds | Education Funds     | Total Special Revenue Funds | Allandale Trust Fund | Total Nonmajor Governmental Funds |
| <b>ASSETS:</b>                             |                            |                                       |                     |                      |                            |                     |                             |                      |                                   |
| Cash                                       | \$ 0                       | \$ 0                                  | \$ 274              | \$ 0                 | \$ 0                       | \$ 1,099,619        | \$ 1,099,893                | \$ 0                 | \$ 1,099,893                      |
| Equity in Pooled Cash & Investments        | 0                          | 657,591                               | 260,558             | 0                    | 893,524                    | 92,919              | 1,944,592                   | 18,443               | 1,963,035                         |
| Long Term Certificates of Deposit          | 0                          | 0                                     | 0                   | 0                    | 0                          | 215,434             | 215,434                     | 150,000              | 365,434                           |
| Investments                                | 0                          | 0                                     | 0                   | 0                    | 327,342                    | 64,208              | 391,550                     | 4,378                | 395,928                           |
| Accrued Interest Receivable                | 0                          | 0                                     | 0                   | 0                    | 0                          | 0                   | 0                           | 165                  | 165                               |
| Due from Other Governments                 | 131,407                    | 16,288                                | 0                   | 728,839              | 567,393                    | 906,512             | 2,350,439                   | 0                    | 2,350,439                         |
| Due from Other Funds                       | 0                          | 0                                     | 0                   | 0                    | 45,786                     | 0                   | 45,786                      | 0                    | 45,786                            |
| Inventories                                | 0                          | 0                                     | 0                   | 0                    | 0                          | 119,902             | 119,902                     | 0                    | 119,902                           |
| Restricted Cash                            | 0                          | 319,995                               | 0                   | 0                    | 0                          | 0                   | 319,995                     | 0                    | 319,995                           |
| Restricted Investments                     | 0                          | 0                                     | 18,137              | 0                    | 0                          | 0                   | 18,137                      | 0                    | 18,137                            |
| <b>Total Assets</b>                        | <b>\$ 131,407</b>          | <b>\$ 993,874</b>                     | <b>\$ 276,969</b>   | <b>\$ 728,839</b>    | <b>\$ 1,604,025</b>        | <b>\$ 2,468,584</b> | <b>\$ 8,203,708</b>         | <b>\$ 172,984</b>    | <b>\$ 6,376,692</b>               |
| <b>LIABILITIES AND FUND BALANCES:</b>      |                            |                                       |                     |                      |                            |                     |                             |                      |                                   |
| <b>Liabilities:</b>                        |                            |                                       |                     |                      |                            |                     |                             |                      |                                   |
| Accounts Payable                           | \$ 75,189                  | \$ 22,456                             | \$ 0                | \$ 98,100            | \$ 3,550                   | \$ 17,692           | \$ 217,987                  | \$ 0                 | \$ 217,987                        |
| Other Liabilities                          | 0                          | 0                                     | 0                   | 0                    | 0                          | 5,073               | 5,073                       | 0                    | 5,073                             |
| Due to Other Funds                         | 37,527                     | 0                                     | 0                   | 348,104              | 1,871                      | 879,460             | 1,264,962                   | 0                    | 1,264,962                         |
| Deferred Revenue                           | 0                          | 0                                     | 0                   | 0                    | 0                          | 33,790              | 33,790                      | 0                    | 33,790                            |
| <b>Total Liabilities</b>                   | <b>112,716</b>             | <b>22,456</b>                         | <b>0</b>            | <b>445,204</b>       | <b>5,421</b>               | <b>936,015</b>      | <b>1,521,812</b>            | <b>0</b>             | <b>1,521,812</b>                  |
| <b>Fund Balances:</b>                      |                            |                                       |                     |                      |                            |                     |                             |                      |                                   |
| Reserved for Encumbrances                  | 165,236                    | 105,771                               | 0                   | 250,716              | 0                          | 98,139              | 619,862                     | 0                    | 619,862                           |
| Reserved for Inventories                   | 0                          | 0                                     | 0                   | 0                    | 0                          | 119,902             | 119,902                     | 0                    | 119,902                           |
| Reserved for Projects                      | 0                          | 0                                     | 18,137              | 0                    | 142,730                    | 0                   | 158,867                     | 0                    | 158,867                           |
| Reserved for Perpetual Care                | 0                          | 0                                     | 0                   | 0                    | 0                          | 0                   | 0                           | 152,891              | 152,891                           |
| Unreserved, Undesignated                   | (148,545)                  | 885,847                               | 280,832             | 32,919               | 1,455,874                  | 1,314,538           | 3,783,295                   | 20,293               | 3,803,538                         |
| <b>Total Fund Balances</b>                 | <b>18,691</b>              | <b>971,418</b>                        | <b>276,969</b>      | <b>283,635</b>       | <b>1,598,604</b>           | <b>1,532,578</b>    | <b>4,681,896</b>            | <b>172,984</b>       | <b>4,854,890</b>                  |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 131,407</b>          | <b>\$ 993,874</b>                     | <b>\$ 276,969</b>   | <b>\$ 728,839</b>    | <b>\$ 1,604,025</b>        | <b>\$ 2,468,584</b> | <b>\$ 8,203,708</b>         | <b>\$ 172,984</b>    | <b>\$ 6,376,692</b>               |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2008**

|                                                                  | Special Revenue Funds      |                                       |                     |                      |                            |                     |                             | Permanent Fund       |                                   |
|------------------------------------------------------------------|----------------------------|---------------------------------------|---------------------|----------------------|----------------------------|---------------------|-----------------------------|----------------------|-----------------------------------|
|                                                                  | Community Development Fund | Special Revenue General Projects Fund | Public Safety Funds | Transportation Funds | Culture & Recreation Funds | Education Funds     | Total Special Revenue Funds | Allendale Trust Fund | Total Nonmajor Governmental Funds |
| <b>REVENUES:</b>                                                 |                            |                                       |                     |                      |                            |                     |                             |                      |                                   |
| Local Option Sales Tax                                           | \$ 0                       | \$ 0                                  | \$ 0                | \$ 0                 | \$ 3,214,653               | \$ 0                | \$ 3,214,653                | \$ 0                 | \$ 3,214,653                      |
| Federal Government                                               | 414,797                    | 78,881                                | 0                   | 904,637              | 0                          | 4,570,872           | 5,989,167                   | 0                    | 5,989,167                         |
| State Government                                                 | 0                          | 11,868                                | 14,327              | 1,491,457            | 0                          | 1,063,824           | 2,581,274                   | 0                    | 2,581,274                         |
| Charges for Services                                             | 0                          | 0                                     | 0                   | 97,070               | 100,308                    | 1,414,658           | 1,612,036                   | 0                    | 1,612,036                         |
| Fines and Forfeitures                                            | 0                          | 0                                     | 198,860             | 0                    | 0                          | 0                   | 198,860                     | 0                    | 198,860                           |
| Investment Earnings                                              | 0                          | 0                                     | 648                 | 1                    | 58,258                     | 11,550              | 71,455                      | 5,658                | 77,113                            |
| Contributions and Donations                                      | 0                          | 61,166                                | 0                   | 0                    | 33,929                     | 130,080             | 225,175                     | 0                    | 225,175                           |
| <b>Total Revenues</b>                                            | <b>414,797</b>             | <b>151,863</b>                        | <b>213,833</b>      | <b>2,493,165</b>     | <b>3,408,148</b>           | <b>7,190,784</b>    | <b>13,872,920</b>           | <b>5,658</b>         | <b>13,878,278</b>                 |
| <b>EXPENDITURES:</b>                                             |                            |                                       |                     |                      |                            |                     |                             |                      |                                   |
| General & Administrative                                         | 0                          | 1,221,388                             | 2,427               | 0                    | 0                          | 0                   | 1,223,815                   | 0                    | 1,223,815                         |
| School Food Service                                              | 0                          | 0                                     | 0                   | 0                    | 0                          | 2,713,324           | 2,713,324                   | 0                    | 2,713,324                         |
| School Federal Projects                                          | 0                          | 0                                     | 0                   | 0                    | 0                          | 3,064,828           | 3,064,828                   | 0                    | 3,064,828                         |
| Economic & Physical Development                                  | 398,874                    | 0                                     | 0                   | 0                    | 0                          | 0                   | 398,874                     | 0                    | 398,874                           |
| Public Safety                                                    | 0                          | 0                                     | 122,893             | 0                    | 0                          | 0                   | 122,893                     | 0                    | 122,893                           |
| Transportation                                                   | 0                          | 0                                     | 0                   | 3,121,178            | 0                          | 0                   | 3,121,178                   | 0                    | 3,121,178                         |
| Culture and Recreation                                           | 0                          | 0                                     | 0                   | 0                    | 132,185                    | 0                   | 132,185                     | 0                    | 132,185                           |
| Education                                                        | 0                          | 0                                     | 0                   | 0                    | 0                          | 1,474,242           | 1,474,242                   | 0                    | 1,474,242                         |
| Capital Outlay                                                   | 0                          | 94,591                                | 10,600              | 406,141              | 0                          | 208,350             | 719,572                     | 0                    | 719,572                           |
| <b>Total Expenditures</b>                                        | <b>398,874</b>             | <b>1,315,989</b>                      | <b>135,920</b>      | <b>3,527,317</b>     | <b>132,185</b>             | <b>7,460,744</b>    | <b>12,970,909</b>           | <b>0</b>             | <b>12,970,909</b>                 |
| <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b> | <b>15,923</b>              | <b>(1,164,076)</b>                    | <b>78,013</b>       | <b>(1,034,152)</b>   | <b>3,275,963</b>           | <b>(269,960)</b>    | <b>901,711</b>              | <b>5,658</b>         | <b>907,369</b>                    |
| <b>OTHER FINANCING SOURCES (USES):</b>                           |                            |                                       |                     |                      |                            |                     |                             |                      |                                   |
| Transfers In                                                     | 0                          | 638,879                               | 0                   | 1,095,618            | 1,755,123                  | 417,679             | 3,905,099                   | 0                    | 3,905,099                         |
| Transfers Out                                                    | 0                          | (4)                                   | 0                   | 0                    | (4,657,268)                | (4,000)             | (4,661,270)                 | 0                    | (4,661,270)                       |
| <b>Total Other Financing Sources (Uses)</b>                      | <b>0</b>                   | <b>638,875</b>                        | <b>0</b>            | <b>1,095,618</b>     | <b>(2,902,145)</b>         | <b>413,679</b>      | <b>(756,171)</b>            | <b>0</b>             | <b>(756,171)</b>                  |
| <b>Net Change in Fund Balances</b>                               | <b>15,923</b>              | <b>(527,401)</b>                      | <b>78,013</b>       | <b>61,466</b>        | <b>373,820</b>             | <b>143,719</b>      | <b>145,540</b>              | <b>5,658</b>         | <b>151,198</b>                    |
| <b>Fund Balances, July 1, 2007</b>                               | <b>2,768</b>               | <b>1,498,819</b>                      | <b>196,956</b>      | <b>222,169</b>       | <b>1,224,784</b>           | <b>1,388,860</b>    | <b>4,536,356</b>            | <b>167,328</b>       | <b>4,703,692</b>                  |
| <b>Fund Balances, June 30, 2008</b>                              | <b>\$ 18,691</b>           | <b>\$ 971,418</b>                     | <b>\$ 276,969</b>   | <b>\$ 283,635</b>    | <b>\$ 1,598,604</b>        | <b>\$ 1,532,579</b> | <b>\$ 4,681,896</b>         | <b>\$ 172,984</b>    | <b>\$ 4,854,860</b>               |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY  
 June 30, 2008**

|                                            | <u>Criminal<br/>Forfeiture<br/>Fund</u> | <u>Drug Fund</u>         | <u>Justice<br/>Assistance<br/>Grant Fund</u> | <u>Total Public<br/>Safety Funds</u> |
|--------------------------------------------|-----------------------------------------|--------------------------|----------------------------------------------|--------------------------------------|
| <b>ASSETS:</b>                             |                                         |                          |                                              |                                      |
| Cash                                       | \$ 0                                    | \$ 274                   | \$ 0                                         | \$ 274                               |
| Equity in Pooled Cash and Investments      | 83,450                                  | 176,955                  | 153                                          | 260,558                              |
| Restricted Investments                     | 16,137                                  | 0                        | 0                                            | 16,137                               |
| <b>Total Assets</b>                        | <b><u>\$ 99,587</u></b>                 | <b><u>\$ 177,229</u></b> | <b><u>\$ 153</u></b>                         | <b><u>\$ 276,969</u></b>             |
| <b>LIABILITIES AND FUND BALANCES:</b>      |                                         |                          |                                              |                                      |
| <b>Liabilities:</b>                        |                                         |                          |                                              |                                      |
| Accounts Payable                           | \$ 0                                    | \$ 0                     | \$ 0                                         | \$ 0                                 |
| <b>Total Liabilities</b>                   | <b><u>0</u></b>                         | <b><u>0</u></b>          | <b><u>0</u></b>                              | <b><u>0</u></b>                      |
| <b>Fund Balances:</b>                      |                                         |                          |                                              |                                      |
| <b>Reserved for:</b>                       |                                         |                          |                                              |                                      |
| Encumbrances                               | 0                                       | 0                        | 0                                            | 0                                    |
| Projects                                   | 16,137                                  | 0                        | 0                                            | 16,137                               |
| Unreserved, Undesignated                   | 83,450                                  | 177,229                  | 153                                          | 260,832                              |
| <b>Total Fund Balances</b>                 | <b><u>99,587</u></b>                    | <b><u>177,229</u></b>    | <b><u>153</u></b>                            | <b><u>276,969</u></b>                |
| <b>Total Liabilities and Fund Balances</b> | <b><u>\$ 99,587</u></b>                 | <b><u>\$ 177,229</u></b> | <b><u>\$ 153</u></b>                         | <b><u>\$ 276,969</u></b>             |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY**  
**For the Fiscal Year Ended June 30, 2008**

|                                                                      | <u>Criminal<br/>Forfeiture<br/>Fund</u> | <u>Drug Fund</u>  | <u>Justice<br/>Assistance<br/>Grant Fund</u> | <u>Total Public<br/>Safety Funds</u> |
|----------------------------------------------------------------------|-----------------------------------------|-------------------|----------------------------------------------|--------------------------------------|
| <b>REVENUES:</b>                                                     |                                         |                   |                                              |                                      |
| Federal Government                                                   | \$ 0                                    | \$ 0              | \$ 0                                         | \$ 0                                 |
| State Government                                                     | 0                                       | 14,327            | 0                                            | 14,327                               |
| Fines and Forfeitures                                                | 0                                       | 198,860           | 0                                            | 198,860                              |
| Investment Earnings                                                  | 646                                     | 0                 | 0                                            | 646                                  |
| <b>Total Revenues</b>                                                | <u>646</u>                              | <u>213,187</u>    | <u>0</u>                                     | <u>213,833</u>                       |
| <b>EXPENDITURES:</b>                                                 |                                         |                   |                                              |                                      |
| General and Administrative                                           | 0                                       | 2,427             | 0                                            | 2,427                                |
| Public Safety                                                        | 0                                       | 119,345           | 3,548                                        | 122,893                              |
| Capital Outlay                                                       | 0                                       | 10,500            | 0                                            | 10,500                               |
| <b>Total Expenditures</b>                                            | <u>0</u>                                | <u>132,272</u>    | <u>3,548</u>                                 | <u>135,820</u>                       |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <u>646</u>                              | <u>80,915</u>     | <u>(3,548)</u>                               | <u>78,013</u>                        |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                                         |                   |                                              |                                      |
| Transfers In                                                         | 0                                       | 0                 | 0                                            | 0                                    |
| Transfers Out                                                        | 0                                       | 0                 | 0                                            | 0                                    |
| <b>Total Other Financing Sources (Uses)</b>                          | <u>0</u>                                | <u>0</u>          | <u>0</u>                                     | <u>0</u>                             |
| <b>Net Change in Fund Balances</b>                                   | 646                                     | 80,915            | (3,548)                                      | 78,013                               |
| <b>Fund Balances, July 1, 2007</b>                                   | <u>98,941</u>                           | <u>96,314</u>     | <u>3,701</u>                                 | <u>198,956</u>                       |
| <b>Fund Balances, June 30, 2008</b>                                  | <u>\$ 99,587</u>                        | <u>\$ 177,229</u> | <u>\$ 153</u>                                | <u>\$ 276,969</u>                    |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION  
June 30, 2008**

|                                            | <u>Federal Transit<br/>Administration<br/>Fund</u> | <u>Metropolitan<br/>Planning<br/>Office Fund</u> | <u>State Street<br/>Aid Fund</u> | <u>Total<br/>Transportation<br/>Funds</u> |
|--------------------------------------------|----------------------------------------------------|--------------------------------------------------|----------------------------------|-------------------------------------------|
| <b>ASSETS:</b>                             |                                                    |                                                  |                                  |                                           |
| Equity in Pooled Cash and Investments      | \$ 0                                               | \$ 0                                             | \$ 0                             | \$ 0                                      |
| Due from Other Governments                 | <u>415,348</u>                                     | <u>102,534</u>                                   | <u>210,957</u>                   | <u>728,839</u>                            |
| <b>Total Assets</b>                        | <b><u>\$ 415,348</u></b>                           | <b><u>\$ 102,534</u></b>                         | <b><u>\$ 210,957</u></b>         | <b><u>\$ 728,839</u></b>                  |
| <b>LIABILITIES AND FUND BALANCES:</b>      |                                                    |                                                  |                                  |                                           |
| <b>Liabilities:</b>                        |                                                    |                                                  |                                  |                                           |
| Accounts Payable                           | \$ 2,162                                           | \$ 14,073                                        | \$ 82,865                        | \$ 99,100                                 |
| Due to Other Funds                         | <u>234,525</u>                                     | <u>65,578</u>                                    | <u>46,001</u>                    | <u>346,104</u>                            |
| <b>Total Liabilities</b>                   | <b><u>236,687</u></b>                              | <b><u>79,651</u></b>                             | <b><u>128,866</u></b>            | <b><u>445,204</u></b>                     |
| <b>Fund Balances:</b>                      |                                                    |                                                  |                                  |                                           |
| Reserved for Encumbrances                  | 225,966                                            | 24,696                                           | 54                               | 250,716                                   |
| Unreserved, Undesignated                   | <u>(47,305)</u>                                    | <u>(1,813)</u>                                   | <u>82,037</u>                    | <u>32,919</u>                             |
| <b>Total Fund Balances</b>                 | <b><u>178,661</u></b>                              | <b><u>22,883</u></b>                             | <b><u>82,091</u></b>             | <b><u>283,635</u></b>                     |
| <b>Total Liabilities and Fund Balances</b> | <b><u>\$ 415,348</u></b>                           | <b><u>\$ 102,534</u></b>                         | <b><u>\$ 210,957</u></b>         | <b><u>\$ 728,839</u></b>                  |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION**  
**For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Federal Transit<br/>Administration<br/>Fund</u> | <u>Metropolitan<br/>Planning<br/>Office Fund</u> | <u>State Street<br/>Aid Fund</u> | <u>Total<br/>Transportation<br/>Funds</u> |
|--------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------|----------------------------------|-------------------------------------------|
| <b>REVENUES:</b>                                             |                                                    |                                                  |                                  |                                           |
| Federal Government                                           | \$ 679,308                                         | \$ 225,329                                       | \$ 0                             | \$ 904,637                                |
| State Government                                             | 223,008                                            | 4,894                                            | 1,263,555                        | 1,491,457                                 |
| Charges for Services                                         | 97,070                                             | 0                                                | 0                                | 97,070                                    |
| Investment Earnings                                          | 0                                                  | 0                                                | 1                                | 1                                         |
| <b>Total Revenues</b>                                        | <u>999,386</u>                                     | <u>230,223</u>                                   | <u>1,263,556</u>                 | <u>2,493,165</u>                          |
| <b>EXPENDITURES:</b>                                         |                                                    |                                                  |                                  |                                           |
| Transportation                                               | 960,512                                            | 281,658                                          | 1,879,006                        | 3,121,176                                 |
| Capital Outlay                                               | 245,900                                            | 0                                                | 160,241                          | 406,141                                   |
| <b>Total Expenditures</b>                                    | <u>1,206,412</u>                                   | <u>281,658</u>                                   | <u>2,039,247</u>                 | <u>3,527,317</u>                          |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(207,026)</u>                                   | <u>(51,435)</u>                                  | <u>(775,691)</u>                 | <u>(1,034,152)</u>                        |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                                                    |                                                  |                                  |                                           |
| Transfers In                                                 | 264,750                                            | 55,177                                           | 775,691                          | 1,095,618                                 |
| Transfers Out                                                | 0                                                  | 0                                                | 0                                | 0                                         |
| <b>Total Other Financing Sources (Uses)</b>                  | <u>264,750</u>                                     | <u>55,177</u>                                    | <u>775,691</u>                   | <u>1,095,618</u>                          |
| <b>Net Change in Fund Balances</b>                           | 57,724                                             | 3,742                                            | 0                                | 61,466                                    |
| Fund Balances, July 1, 2007                                  | <u>120,937</u>                                     | <u>19,141</u>                                    | <u>82,091</u>                    | <u>222,169</u>                            |
| <b>Fund Balances, June 30, 2008</b>                          | <u>\$ 178,661</u>                                  | <u>\$ 22,883</u>                                 | <u>\$ 82,091</u>                 | <u>\$ 283,635</u>                         |

See Independent Auditor's Report.

CITY OF KINGSFORT, TENNESSEE  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION  
 June 30, 2008

|                                            | Regional<br>Sales Tax<br>Revenue<br>Fund | Visitors<br>Enhancement<br>Fund | Eastman<br>Annex Tax<br>Fund | Steadman<br>Cemetery<br>Fund | Public Library<br>Commission<br>Fund | Bays<br>Mountain<br>Park Fund | Senior<br>Citizens<br>Advisory<br>Board Fund | Total Culture &<br>Recreation<br>Funds |
|--------------------------------------------|------------------------------------------|---------------------------------|------------------------------|------------------------------|--------------------------------------|-------------------------------|----------------------------------------------|----------------------------------------|
| <b>ASSETS:</b>                             |                                          |                                 |                              |                              |                                      |                               |                                              |                                        |
| Equity in Pooled Cash & Investments        | \$ 258,894                               | \$ 242,511                      | \$ 151,977                   | \$ 0                         | \$ 0                                 | \$ 10,142                     | \$ 0                                         | \$ 663,524                             |
| Investments                                | 180,928                                  | 0                               | 0                            | 18,448                       | 1,126                                | 82,058                        | 44,782                                       | 327,342                                |
| Due from Other Governments                 | 567,393                                  | 0                               | 0                            | 0                            | 0                                    | 0                             | 0                                            | 567,393                                |
| Due from Other Funds                       | 45,768                                   | 0                               | 0                            | 0                            | 0                                    | 0                             | 0                                            | 45,768                                 |
| <b>Total Assets</b>                        | <b>\$ 1,052,981</b>                      | <b>\$ 242,511</b>               | <b>\$ 151,977</b>            | <b>\$ 18,448</b>             | <b>\$ 1,126</b>                      | <b>\$ 92,200</b>              | <b>\$ 44,782</b>                             | <b>\$ 1,804,025</b>                    |
| <b>LIABILITIES AND FUND BALANCES:</b>      |                                          |                                 |                              |                              |                                      |                               |                                              |                                        |
| <b>Liabilities:</b>                        |                                          |                                 |                              |                              |                                      |                               |                                              |                                        |
| Accounts Payable                           | \$ 0                                     | \$ 0                            | \$ 0                         | \$ 0                         | \$ 0                                 | \$ 0                          | \$ 3,550                                     | \$ 3,550                               |
| Due to Other Funds                         | 0                                        | 0                               | 0                            | 0                            | 0                                    | 0                             | 1,871                                        | 1,871                                  |
| <b>Total Liabilities</b>                   | <b>0</b>                                 | <b>0</b>                        | <b>0</b>                     | <b>0</b>                     | <b>0</b>                             | <b>0</b>                      | <b>5,421</b>                                 | <b>5,421</b>                           |
| <b>Fund Balances:</b>                      |                                          |                                 |                              |                              |                                      |                               |                                              |                                        |
| Reserved for Encumbrances                  | 0                                        | 0                               | 0                            | 0                            | 0                                    | 0                             | 0                                            | 0                                      |
| Reserved for Projects                      | 0                                        | 0                               | 142,730                      | 0                            | 0                                    | 0                             | 0                                            | 142,730                                |
| Unreserved, Undesignated                   | 1,052,981                                | 242,511                         | 9,247                        | 18,448                       | 1,126                                | 92,209                        | 39,361                                       | 1,455,874                              |
| <b>Total Fund Balances</b>                 | <b>1,052,981</b>                         | <b>242,511</b>                  | <b>151,977</b>               | <b>18,448</b>                | <b>1,126</b>                         | <b>92,200</b>                 | <b>39,361</b>                                | <b>1,598,604</b>                       |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 1,052,981</b>                      | <b>\$ 242,511</b>               | <b>\$ 151,977</b>            | <b>\$ 18,448</b>             | <b>\$ 1,126</b>                      | <b>\$ 92,200</b>              | <b>\$ 44,782</b>                             | <b>\$ 1,804,025</b>                    |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION**  
**For the Fiscal Year Ended June 30, 2008**

|                                                                      | Regional<br>Sales Tax<br>Revenue<br>Fund | Visitors<br>Enhancement<br>Fund | Eastman<br>Annex Tax<br>Fund | Steadman<br>Cemetery<br>Fund | Public Library<br>Commission<br>Fund | Bays<br>Mountain<br>Park Fund | Senior<br>Citizens<br>Advisory<br>Board Fund | Total Culture<br>& Recreation<br>Funds |
|----------------------------------------------------------------------|------------------------------------------|---------------------------------|------------------------------|------------------------------|--------------------------------------|-------------------------------|----------------------------------------------|----------------------------------------|
| <b>REVENUES:</b>                                                     |                                          |                                 |                              |                              |                                      |                               |                                              |                                        |
| Local Option Sales Tax                                               | \$ 3,214,653                             | \$ 0                            | \$ 0                         | \$ 0                         | \$ 0                                 | \$ 0                          | \$ 0                                         | \$ 3,214,653                           |
| Charges for Services                                                 | 0                                        | 0                               | 0                            | 0                            | 0                                    | 0                             | 100,308                                      | 100,308                                |
| Investment Earnings                                                  | 53,528                                   | 0                               | 0                            | 738                          | 398                                  | 3,323                         | 1,271                                        | 59,258                                 |
| Contributions and Donations                                          | 0                                        | 0                               | 0                            | 0                            | 3,883                                | 23,000                        | 7,046                                        | 33,929                                 |
| <b>Total Revenues</b>                                                | <b>3,268,181</b>                         | <b>0</b>                        | <b>0</b>                     | <b>738</b>                   | <b>4,281</b>                         | <b>26,323</b>                 | <b>108,625</b>                               | <b>3,408,148</b>                       |
| <b>EXPENDITURES:</b>                                                 |                                          |                                 |                              |                              |                                      |                               |                                              |                                        |
| Culture and Recreation                                               | 0                                        | 3,500                           | 0                            | 0                            | 15,000                               | 17,887                        | 95,818                                       | 132,185                                |
| <b>Total Expenditures</b>                                            | <b>0</b>                                 | <b>3,500</b>                    | <b>0</b>                     | <b>0</b>                     | <b>15,000</b>                        | <b>17,887</b>                 | <b>95,818</b>                                | <b>132,185</b>                         |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <b>3,268,181</b>                         | <b>(3,500)</b>                  | <b>0</b>                     | <b>738</b>                   | <b>(10,719)</b>                      | <b>8,456</b>                  | <b>12,807</b>                                | <b>3,275,963</b>                       |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                                          |                                 |                              |                              |                                      |                               |                                              |                                        |
| Transfers In                                                         | 0                                        | 324,201                         | 1,422,418                    | 0                            | 0                                    | 8,504                         | 0                                            | 1,755,123                              |
| Transfers Out                                                        | (3,116,790)                              | (78,190)                        | (1,482,286)                  | 0                            | 0                                    | 0                             | 0                                            | (4,857,266)                            |
| <b>Total Other Financing Sources (Uses)</b>                          | <b>(3,116,790)</b>                       | <b>246,011</b>                  | <b>(39,868)</b>              | <b>0</b>                     | <b>0</b>                             | <b>8,504</b>                  | <b>0</b>                                     | <b>(2,902,143)</b>                     |
| <b>Net Change in Fund Balances</b>                                   | <b>151,391</b>                           | <b>242,511</b>                  | <b>(39,888)</b>              | <b>738</b>                   | <b>(10,719)</b>                      | <b>16,960</b>                 | <b>12,807</b>                                | <b>373,820</b>                         |
| <b>Fund Balances, July 1, 2007</b>                                   | <b>901,590</b>                           | <b>0</b>                        | <b>191,845</b>               | <b>17,710</b>                | <b>11,845</b>                        | <b>75,240</b>                 | <b>26,554</b>                                | <b>1,224,784</b>                       |
| <b>Fund Balances, June 30, 2008</b>                                  | <b>\$ 1,052,981</b>                      | <b>\$ 242,511</b>               | <b>\$ 151,977</b>            | <b>\$ 18,448</b>             | <b>\$ 1,126</b>                      | <b>\$ 92,200</b>              | <b>\$ 39,361</b>                             | <b>\$ 1,598,804</b>                    |

**CITY OF KINGSPORT, TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION  
June 30, 2008**

|                                            | School<br>Nutrition<br>Services<br>Fund | Special<br>School<br>Projects Fund | Public Law<br>93-380 Fund | Palmer<br>Center Fund | Total Education<br>Funds |
|--------------------------------------------|-----------------------------------------|------------------------------------|---------------------------|-----------------------|--------------------------|
| <b>ASSETS:</b>                             |                                         |                                    |                           |                       |                          |
| Cash                                       | \$ 1,099,619                            | \$ 0                               | \$ 0                      | \$ 0                  | \$ 1,099,619             |
| Equity in Pooled Cash and Investments      | 62,919                                  | 0                                  | 0                         | 0                     | 62,919                   |
| Long Term Certificates of Deposit          | 215,434                                 | 0                                  | 0                         | 0                     | 215,434                  |
| Investments                                | 0                                       | 0                                  | 0                         | 64,208                | 64,208                   |
| Due from Other Governments                 | 0                                       | 283,120                            | 623,392                   | 0                     | 906,512                  |
| Inventories                                | 119,902                                 | 0                                  | 0                         | 0                     | 119,902                  |
| <b>Total Assets</b>                        | <b>\$ 1,497,874</b>                     | <b>\$ 283,120</b>                  | <b>\$ 623,392</b>         | <b>\$ 64,208</b>      | <b>\$ 2,468,594</b>      |
| <b>LIABILITIES AND FUND BALANCES:</b>      |                                         |                                    |                           |                       |                          |
| <b>Liabilities:</b>                        |                                         |                                    |                           |                       |                          |
| Accounts Payable                           | \$ 1,360                                | \$ 6,572                           | \$ 9,760                  | \$ 0                  | \$ 17,692                |
| Other Liabilities                          | 0                                       | 2,278                              | 2,795                     | 0                     | 5,073                    |
| Due to Other Funds                         | 0                                       | 268,623                            | 610,837                   | 0                     | 879,460                  |
| Deferred Revenue                           | 28,143                                  | 5,647                              | 0                         | 0                     | 33,790                   |
| <b>Total Liabilities</b>                   | <b>29,503</b>                           | <b>283,120</b>                     | <b>623,392</b>            | <b>0</b>              | <b>936,015</b>           |
| <b>Fund Balances:</b>                      |                                         |                                    |                           |                       |                          |
| Reserved for Encumbrances                  | 0                                       | 28,969                             | 69,170                    | 0                     | 98,139                   |
| Reserved for Inventories                   | 119,902                                 | 0                                  | 0                         | 0                     | 119,902                  |
| Unreserved, Undesignated                   | 1,348,469                               | (28,969)                           | (69,170)                  | 64,208                | 1,314,538                |
| <b>Total Fund Balances</b>                 | <b>1,468,371</b>                        | <b>0</b>                           | <b>0</b>                  | <b>64,208</b>         | <b>1,532,579</b>         |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 1,497,874</b>                     | <b>\$ 283,120</b>                  | <b>\$ 623,392</b>         | <b>\$ 64,208</b>      | <b>\$ 2,468,594</b>      |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS - EDUCATION**  
**For the Fiscal Year Ended June 30, 2008**

|                                                                      | School<br>Nutrition<br>Services<br>Fund | Special<br>School<br>Projects Fund | Public Law<br>93-380 Fund | Palmer<br>Center Fund | Total Education<br>Funds |
|----------------------------------------------------------------------|-----------------------------------------|------------------------------------|---------------------------|-----------------------|--------------------------|
| <b>REVENUES:</b>                                                     |                                         |                                    |                           |                       |                          |
| Federal Government                                                   | \$ 1,270,148                            | \$ 122,247                         | \$ 3,178,477              | \$ 0                  | \$ 4,570,872             |
| State Government                                                     | 26,920                                  | 1,036,704                          | 0                         | 0                     | 1,063,624                |
| Charges for Services                                                 | 1,410,981                               | 3,677                              | 0                         | 0                     | 1,414,658                |
| Investment Earnings                                                  | 8,980                                   | 0                                  | 0                         | 2,570                 | 11,550                   |
| Contributions and Donations                                          | 130,080                                 | 0                                  | 0                         | 0                     | 130,080                  |
| <b>Total Revenues</b>                                                | <b>2,847,109</b>                        | <b>1,162,628</b>                   | <b>3,178,477</b>          | <b>2,570</b>          | <b>7,190,784</b>         |
| <b>EXPENDITURES:</b>                                                 |                                         |                                    |                           |                       |                          |
| School Food Service                                                  | 2,713,324                               | 0                                  | 0                         | 0                     | 2,713,324                |
| School Federal Projects                                              | 0                                       | 0                                  | 3,064,828                 | 0                     | 3,064,828                |
| Education                                                            | 0                                       | 1,474,242                          | 0                         | 0                     | 1,474,242                |
| Capital Outlay                                                       | 0                                       | 96,390                             | 111,960                   | 0                     | 208,350                  |
| <b>Total Expenditures</b>                                            | <b>2,713,324</b>                        | <b>1,570,632</b>                   | <b>3,176,788</b>          | <b>0</b>              | <b>7,460,744</b>         |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <b>133,785</b>                          | <b>(408,004)</b>                   | <b>1,689</b>              | <b>2,570</b>          | <b>(269,960)</b>         |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                                         |                                    |                           |                       |                          |
| Transfers In                                                         | 0                                       | 417,679                            | 0                         | 0                     | 417,679                  |
| Transfers Out                                                        | 0                                       | (4,000)                            | 0                         | 0                     | (4,000)                  |
| <b>Total Other Financing Sources (Uses)</b>                          | <b>0</b>                                | <b>413,679</b>                     | <b>0</b>                  | <b>0</b>              | <b>413,679</b>           |
| <b>Net Change in Fund Balances</b>                                   | <b>133,785</b>                          | <b>5,675</b>                       | <b>1,689</b>              | <b>2,570</b>          | <b>143,719</b>           |
| <b>Fund Balances, July 1, 2007</b>                                   | <b>1,334,586</b>                        | <b>(5,675)</b>                     | <b>(1,689)</b>            | <b>61,638</b>         | <b>1,388,860</b>         |
| <b>Fund Balances, June 30, 2008</b>                                  | <b>\$ 1,468,371</b>                     | <b>\$ 0</b>                        | <b>\$ 0</b>               | <b>\$ 64,208</b>      | <b>\$ 1,532,579</b>      |

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**CITY OF KINGSPORT, TENNESSEE  
CRIMINAL FORFEITURE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                                  | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|------------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                                 |                            |                     |                          |                                                                   |
| Federal Government                                               | \$ 0                       | \$ 0                | \$ 0                     | \$ 0                                                              |
| Fines and Forfeitures                                            | 8,000                      | 8,000               | 0                        | (8,000)                                                           |
| Investment Earnings                                              | 0                          | 0                   | 646                      | 646                                                               |
| Contributions and Donations                                      | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <br>Total Revenues                                               | <br><u>8,000</u>           | <br><u>8,000</u>    | <br><u>646</u>           | <br><u>(7,354)</u>                                                |
| <br><b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Public Safety                                                    | 8,000                      | 8,000               | 0                        | 8,000                                                             |
| Capital Outlay                                                   | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <br>Total Expenditures                                           | <br><u>8,000</u>           | <br><u>8,000</u>    | <br><u>0</u>             | <br><u>8,000</u>                                                  |
| <br>Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <br><u>0</u>               | <br><u>0</u>        | <br><u>646</u>           | <br><u>646</u>                                                    |
| <br><b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                     | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                    | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <br>Total Other Financing Sources (Uses)                         | <br><u>0</u>               | <br><u>0</u>        | <br><u>0</u>             | <br><u>0</u>                                                      |
| <br>Net Change in Fund Balances                                  | <br>0                      | <br>0               | <br>646                  | <br>646                                                           |
| <br>Fund Balances, July 1, 2007                                  | <br><u>0</u>               | <br><u>0</u>        | <br><u>98,941</u>        | <br><u>98,941</u>                                                 |
| <br>Fund Balances, June 30, 2008                                 | <br><u>\$ 0</u>            | <br><u>\$ 0</u>     | <br><u>\$ 99,587</u>     | <br><u>\$ 99,587</u>                                              |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
DRUG FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| State Government                                             | \$ 0                       | \$ 0                | \$ 14,327                | \$ 14,327                                                         |
| Fines and Forfeitures                                        | 95,000                     | 112,550             | 198,860                  | 86,310                                                            |
| Contributions and Donations                                  | 0                          | 0                   | 0                        | 0                                                                 |
| <b>Total Revenues</b>                                        | <u>95,000</u>              | <u>112,550</u>      | <u>213,187</u>           | <u>100,637</u>                                                    |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| General and Administrative                                   | 2,500                      | 2,500               | 2,427                    | 73                                                                |
| Public Safety                                                | 59,800                     | 134,775             | 119,345                  | 15,430                                                            |
| Capital Outlay                                               | 55,000                     | 10,595              | 10,500                   | 95                                                                |
| <b>Total Expenditures</b>                                    | <u>117,300</u>             | <u>147,870</u>      | <u>132,272</u>           | <u>15,598</u>                                                     |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>(22,300)</u>            | <u>(35,320)</u>     | <u>80,915</u>            | <u>116,235</u>                                                    |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                 | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                | 0                          | 0                   | 0                        | 0                                                                 |
| <b>Total Other Financing Sources (Uses)</b>                  | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>Net Change in Fund Balances</b>                           | <u>(22,300)</u>            | <u>(35,320)</u>     | <u>80,915</u>            | <u>116,235</u>                                                    |
| Fund Balances, July 1, 2007                                  | <u>22,300</u>              | <u>35,320</u>       | <u>96,314</u>            | <u>60,994</u>                                                     |
| Fund Balances, June 30, 2008                                 | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 177,229</u>        | <u>\$ 177,229</u>                                                 |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
STATE STREET AID FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                                      | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|----------------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                                     |                            |                     |                          |                                                                   |
| State Government                                                     | \$ 1,298,700               | \$ 1,283,009        | \$ 1,263,555             | \$ (19,454)                                                       |
| Investment Earnings                                                  | 0                          | 0                   | 1                        | 1                                                                 |
| <b>Total Revenues</b>                                                | <u>1,298,700</u>           | <u>1,283,009</u>    | <u>1,263,556</u>         | <u>(19,453)</u>                                                   |
| <b>EXPENDITURES:</b>                                                 |                            |                     |                          |                                                                   |
| Highways and Streets                                                 | 2,053,700                  | 2,031,849           | 1,879,006                | 152,843                                                           |
| Capital Outlay                                                       | 60,000                     | 160,330             | 160,241                  | 89                                                                |
| <b>Total Expenditures</b>                                            | <u>2,113,700</u>           | <u>2,192,179</u>    | <u>2,039,247</u>         | <u>152,932</u>                                                    |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <u>(815,000)</u>           | <u>(909,170)</u>    | <u>(775,691)</u>         | <u>133,479</u>                                                    |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                            |                     |                          |                                                                   |
| Transfers In                                                         | 760,000                    | 775,691             | 775,691                  | 0                                                                 |
| Transfers Out                                                        | 0                          | 0                   | 0                        | 0                                                                 |
| <b>Total Other Financing Sources (Uses)</b>                          | <u>760,000</u>             | <u>775,691</u>      | <u>775,691</u>           | <u>0</u>                                                          |
| <b>Net Change in Fund Balances</b>                                   | <u>(55,000)</u>            | <u>(133,479)</u>    | <u>0</u>                 | <u>133,479</u>                                                    |
| <b>Fund Balances, July 1, 2007</b>                                   | <u>55,000</u>              | <u>133,479</u>      | <u>82,091</u>            | <u>(51,388)</u>                                                   |
| <b>Fund Balances, June 30, 2008</b>                                  | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 82,091</u>         | <u>\$ 82,091</u>                                                  |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
REGIONAL SALES TAX REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                                      | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|----------------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                                     |                            |                     |                          |                                                                   |
| Local Option Sales Tax                                               | \$ 3,280,700               | \$ 3,280,700        | \$ 3,214,653             | \$ (66,047)                                                       |
| Investment Earnings                                                  | 50,000                     | 50,000              | 53,528                   | 3,528                                                             |
| <b>Total Revenues</b>                                                | <u>3,330,700</u>           | <u>3,330,700</u>    | <u>3,268,181</u>         | <u>(62,519)</u>                                                   |
| <b>EXPENDITURES:</b>                                                 |                            |                     |                          |                                                                   |
| Miscellaneous                                                        | 0                          | 0                   | 0                        | 0                                                                 |
| <b>Total Expenditures</b>                                            | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <u>3,330,700</u>           | <u>3,330,700</u>    | <u>3,268,181</u>         | <u>(62,519)</u>                                                   |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                            |                     |                          |                                                                   |
| Transfers In                                                         | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                        | (3,330,700)                | (3,330,700)         | (3,116,790)              | 213,910                                                           |
| <b>Total Other Financing Sources (Uses)</b>                          | <u>(3,330,700)</u>         | <u>(3,330,700)</u>  | <u>(3,116,790)</u>       | <u>213,910</u>                                                    |
| <b>Net Change in Fund Balances</b>                                   | 0                          | 0                   | 151,391                  | 151,391                                                           |
| <b>Fund Balances, July 1, 2007</b>                                   | <u>0</u>                   | <u>0</u>            | <u>901,590</u>           | <u>901,590</u>                                                    |
| <b>Fund Balances, June 30, 2008</b>                                  | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 1,052,981</u>      | <u>\$ 1,052,981</u>                                               |

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**CITY OF KINGSPORT, TENNESSEE  
VISITORS ENHANCEMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| Other                                                        | \$ 0                       | \$ 0                | \$ 0                     | \$ 0                                                              |
| Total Revenues                                               | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Culture and Recreation                                       | 0                          | 175,240             | 3,500                    | 171,740                                                           |
| Capital Outlay                                               | 0                          | 50,000              | 0                        | 50,000                                                            |
| Total Expenditures                                           | <u>0</u>                   | <u>225,240</u>      | <u>3,500</u>             | <u>221,740</u>                                                    |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>0</u>                   | <u>(225,240)</u>    | <u>(3,500)</u>           | <u>221,740</u>                                                    |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                 | 0                          | 324,300             | 324,201                  | (99)                                                              |
| Transfers Out                                                | 0                          | (85,000)            | (78,190)                 | 6,810                                                             |
| Total Other Financing Sources (Uses)                         | <u>0</u>                   | <u>239,300</u>      | <u>246,011</u>           | <u>6,711</u>                                                      |
| Net Change in Fund Balances                                  | 0                          | 14,060              | 242,511                  | 228,451                                                           |
| Fund Balances, July 1, 2007                                  | <u>0</u>                   | <u>(14,060)</u>     | <u>0</u>                 | <u>14,060</u>                                                     |
| Fund Balances, June 30, 2008                                 | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 242,511</u>        | <u>\$ 242,511</u>                                                 |

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**CITY OF KINGSPORT, TENNESSEE  
EASTMAN ANNEX TAX FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| Other                                                        | \$ 0                       | \$ 0                | \$ 0                     | \$ 0                                                              |
| Total Revenues                                               | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Miscellaneous                                                | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| Total Expenditures                                           | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                 | 1,550,500                  | 1,422,400           | 1,422,418                | 18                                                                |
| Transfers Out                                                | <u>(1,550,500)</u>         | <u>(1,462,452)</u>  | <u>(1,462,286)</u>       | <u>166</u>                                                        |
| Total Other Financing Sources (Uses)                         | <u>0</u>                   | <u>(40,052)</u>     | <u>(39,868)</u>          | <u>184</u>                                                        |
| Net Change in Fund Balances                                  | 0                          | (40,052)            | (39,868)                 | 184                                                               |
| Fund Balances, July 1, 2007                                  | <u>0</u>                   | <u>40,052</u>       | <u>191,845</u>           | <u>151,793</u>                                                    |
| Fund Balances, June 30, 2008                                 | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 151,977</u>        | <u>\$ 151,977</u>                                                 |

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**CITY OF KINGSPORT, TENNESSEE  
 STEADMAN CEMETERY FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| Investment Earnings                                          | \$ 100                     | \$ 100              | \$ 738                   | \$ 638                                                            |
| <b>Total Revenues</b>                                        | <u>100</u>                 | <u>100</u>          | <u>738</u>               | <u>638</u>                                                        |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Maintenance                                                  | <u>100</u>                 | <u>100</u>          | <u>0</u>                 | <u>100</u>                                                        |
| <b>Total Expenditures</b>                                    | <u>100</u>                 | <u>100</u>          | <u>0</u>                 | <u>100</u>                                                        |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>0</u>                   | <u>0</u>            | <u>738</u>               | <u>738</u>                                                        |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                 | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>Total Other Financing Sources (Uses)</b>                  | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| Net Change in Fund Balances                                  | 0                          | 0                   | 738                      | 738                                                               |
| Fund Balances, July 1, 2007                                  | <u>0</u>                   | <u>0</u>            | <u>17,710</u>            | <u>17,710</u>                                                     |
| Fund Balances, June 30, 2008                                 | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 18,448</u>         | <u>\$ 18,448</u>                                                  |

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**CITY OF KINGSPORT, TENNESSEE  
PUBLIC LIBRARY COMMISSION FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| Investment Earnings                                          | \$ 500                     | \$ 500              | \$ 398                   | \$ (102)                                                          |
| Contributions and Donations                                  | 0                          | 3,883               | 3,883                    | 0                                                                 |
| <b>Total Revenues</b>                                        | <u>500</u>                 | <u>4,383</u>        | <u>4,281</u>             | <u>(102)</u>                                                      |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Culture and Recreation                                       | 500                        | 15,500              | 15,000                   | 500                                                               |
| <b>Total Expenditures</b>                                    | <u>500</u>                 | <u>15,500</u>       | <u>15,000</u>            | <u>500</u>                                                        |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>0</u>                   | <u>(11,117)</u>     | <u>(10,719)</u>          | <u>398</u>                                                        |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                 | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                | 0                          | 0                   | 0                        | 0                                                                 |
| <b>Total Other Financing Sources (Uses)</b>                  | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>Net Change in Fund Balances</b>                           | 0                          | (11,117)            | (10,719)                 | 398                                                               |
| Fund Balances, July 1, 2007                                  | <u>0</u>                   | <u>11,117</u>       | <u>11,845</u>            | <u>728</u>                                                        |
| Fund Balances, June 30, 2008                                 | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 1,126</u>          | <u>\$ 1,126</u>                                                   |

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**CITY OF KINGSPORT, TENNESSEE  
BAYS MOUNTAIN PARK FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                                      | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|----------------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                                     |                            |                     |                          |                                                                   |
| Investment Earnings                                                  | \$ 4,000                   | \$ 4,000            | \$ 3,323                 | \$ (677)                                                          |
| Contributions and Donations                                          | 18,000                     | 18,000              | 23,000                   | 5,000                                                             |
| <b>Total Revenues</b>                                                | <u>22,000</u>              | <u>22,000</u>       | <u>26,323</u>            | <u>4,323</u>                                                      |
| <b>EXPENDITURES:</b>                                                 |                            |                     |                          |                                                                   |
| Culture and Recreation                                               | 45,000                     | 45,000              | 17,867                   | 27,133                                                            |
| <b>Total Expenditures</b>                                            | <u>45,000</u>              | <u>45,000</u>       | <u>17,867</u>            | <u>27,133</u>                                                     |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <u>(23,000)</u>            | <u>(23,000)</u>     | <u>8,456</u>             | <u>31,456</u>                                                     |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                            |                     |                          |                                                                   |
| Transfers In                                                         | 0                          | 0                   | 8,504                    | 8,504                                                             |
| Transfers Out                                                        | 0                          | 0                   | 0                        | 0                                                                 |
| <b>Total Other Financing Sources (Uses)</b>                          | <u>0</u>                   | <u>0</u>            | <u>8,504</u>             | <u>8,504</u>                                                      |
| <b>Net Change in Fund Balances</b>                                   | <u>(23,000)</u>            | <u>(23,000)</u>     | <u>16,960</u>            | <u>39,960</u>                                                     |
| <b>Fund Balances, July 1, 2007</b>                                   | <u>23,000</u>              | <u>23,000</u>       | <u>75,240</u>            | <u>52,240</u>                                                     |
| <b>Fund Balances, June 30, 2008</b>                                  | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 92,200</u>         | <u>\$ 92,200</u>                                                  |

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**CITY OF KINGSPORT, TENNESSEE  
 SENIOR CITIZENS ADVISORY BOARD FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2008**

|                                                                      | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|----------------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                                     |                            |                     |                          |                                                                   |
| Charges for Services                                                 | \$ 66,300                  | \$ 66,300           | \$ 100,308               | \$ 34,008                                                         |
| Investment Earnings                                                  | 500                        | 500                 | 1,271                    | 771                                                               |
| Contributions and Donations                                          | 500                        | 9,800               | 7,046                    | (2,754)                                                           |
| <b>Total Revenues</b>                                                | <u>67,300</u>              | <u>76,600</u>       | <u>108,625</u>           | <u>32,025</u>                                                     |
| <b>EXPENDITURES:</b>                                                 |                            |                     |                          |                                                                   |
| Culture and Recreation                                               | 67,300                     | 103,135             | 95,818                   | 7,317                                                             |
| <b>Total Expenditures</b>                                            | <u>67,300</u>              | <u>103,135</u>      | <u>95,818</u>            | <u>7,317</u>                                                      |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <u>0</u>                   | <u>(26,535)</u>     | <u>12,807</u>            | <u>39,342</u>                                                     |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                            |                     |                          |                                                                   |
| Transfers In                                                         | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                        | 0                          | 0                   | 0                        | 0                                                                 |
| <b>Total Other Financing Sources (Uses)</b>                          | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| <b>Net Change in Fund Balances</b>                                   | 0                          | (26,535)            | 12,807                   | 39,342                                                            |
| <b>Fund Balances, July 1, 2007</b>                                   | <u>0</u>                   | <u>26,535</u>       | <u>26,554</u>            | <u>19</u>                                                         |
| <b>Fund Balances, June 30, 2008</b>                                  | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 39,361</u>         | <u>\$ 39,361</u>                                                  |

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**CITY OF KINGSPORT, TENNESSEE  
SCHOOL NUTRITION SERVICES FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                                  | <u>Original<br/>Budget</u> | <u>Final Budget</u>  | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|------------------------------------------------------------------|----------------------------|----------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                                 |                            |                      |                          |                                                                   |
| Federal Government                                               | \$ 1,194,550               | \$ 1,194,550         | \$ 1,270,148             | \$ 75,598                                                         |
| State Government                                                 | 28,400                     | 28,400               | 26,920                   | (1,480)                                                           |
| Charges for Services                                             | 1,471,950                  | 1,471,950            | 1,410,981                | (60,969)                                                          |
| Investment Earnings                                              | 9,550                      | 9,550                | 8,980                    | (570)                                                             |
| Contributions and Donations                                      | <u>73,550</u>              | <u>73,550</u>        | <u>130,080</u>           | <u>56,530</u>                                                     |
| <br>Total Revenues                                               | <br><u>2,778,000</u>       | <br><u>2,778,000</u> | <br><u>2,847,109</u>     | <br><u>69,109</u>                                                 |
| <br><b>EXPENDITURES:</b>                                         |                            |                      |                          |                                                                   |
| School Food Service                                              | <u>2,778,000</u>           | <u>2,778,000</u>     | <u>2,713,324</u>         | <u>64,676</u>                                                     |
| <br>Total Expenditures                                           | <br><u>2,778,000</u>       | <br><u>2,778,000</u> | <br><u>2,713,324</u>     | <br><u>64,676</u>                                                 |
| <br>Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <br><u>0</u>               | <br><u>0</u>         | <br><u>133,785</u>       | <br><u>133,785</u>                                                |
| <br><b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                      |                          |                                                                   |
| Transfers In                                                     | 0                          | 0                    | 0                        | 0                                                                 |
| Transfers Out                                                    | <u>0</u>                   | <u>0</u>             | <u>0</u>                 | <u>0</u>                                                          |
| <br>Total Other Financing Sources (Uses)                         | <br><u>0</u>               | <br><u>0</u>         | <br><u>0</u>             | <br><u>0</u>                                                      |
| <br>Net Change in Fund Balances                                  | <br>0                      | <br>0                | <br>133,785              | <br>133,785                                                       |
| <br>Fund Balances, July 1, 2007                                  | <br><u>0</u>               | <br><u>0</u>         | <br><u>1,334,586</u>     | <br><u>1,334,586</u>                                              |
| <br>Fund Balances, June 30, 2008                                 | <br><u>\$ 0</u>            | <br><u>\$ 0</u>      | <br><u>\$ 1,468,371</u>  | <br><u>\$ 1,468,371</u>                                           |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
PALMER CENTER FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| Investment Earnings                                          | \$ 500                     | \$ 500              | \$ 2,570                 | \$ 2,070                                                          |
| Total Revenues                                               | <u>500</u>                 | <u>500</u>          | <u>2,570</u>             | <u>2,070</u>                                                      |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Capital Outlay                                               | <u>500</u>                 | <u>500</u>          | <u>0</u>                 | <u>500</u>                                                        |
| Total Expenditures                                           | <u>500</u>                 | <u>500</u>          | <u>0</u>                 | <u>500</u>                                                        |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>0</u>                   | <u>0</u>            | <u>2,570</u>             | <u>2,570</u>                                                      |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                 | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| Total Other Financing Sources (Uses)                         | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| Net Change in Fund Balances                                  | 0                          | 0                   | 2,570                    | 2,570                                                             |
| Fund Balances, July 1, 2007                                  | <u>0</u>                   | <u>0</u>            | <u>61,638</u>            | <u>61,638</u>                                                     |
| Fund Balances, June 30, 2008                                 | <u>\$ 0</u>                | <u>\$ 0</u>         | <u>\$ 64,208</u>         | <u>\$ 64,208</u>                                                  |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
 ALLANDALE TRUST FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2008**

|                                                              | <u>Original<br/>Budget</u> | <u>Final Budget</u> | <u>Actual<br/>Amount</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|--------------------------------------------------------------|----------------------------|---------------------|--------------------------|-------------------------------------------------------------------|
| <b>REVENUES:</b>                                             |                            |                     |                          |                                                                   |
| Investment Earnings                                          | \$ 6,000                   | \$ 6,000            | \$ 5,658                 | \$ (342)                                                          |
| Total Revenues                                               | <u>6,000</u>               | <u>6,000</u>        | <u>5,658</u>             | <u>(342)</u>                                                      |
| <b>EXPENDITURES:</b>                                         |                            |                     |                          |                                                                   |
| Culture and Recreation                                       | <u>6,000</u>               | <u>6,000</u>        | <u>0</u>                 | <u>6,000</u>                                                      |
| Total Expenditures                                           | <u>6,000</u>               | <u>6,000</u>        | <u>0</u>                 | <u>6,000</u>                                                      |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>0</u>                   | <u>0</u>            | <u>5,658</u>             | <u>5,658</u>                                                      |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                            |                     |                          |                                                                   |
| Transfers In                                                 | 0                          | 0                   | 0                        | 0                                                                 |
| Transfers Out                                                | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| Total Other Financing Sources (Uses)                         | <u>0</u>                   | <u>0</u>            | <u>0</u>                 | <u>0</u>                                                          |
| Net Change in Fund Balances                                  | 0                          | 0                   | 5,658                    | 5,658                                                             |
| Fund Balances, July 1, 2007                                  | <u>0</u>                   | <u>0</u>            | <u>167,326</u>           | <u>167,326</u>                                                    |
| Fund Balances, June 30, 2008                                 | <u><u>\$ 0</u></u>         | <u><u>\$ 0</u></u>  | <u><u>\$ 172,984</u></u> | <u><u>\$ 172,984</u></u>                                          |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**  
**June 30, 2008**

|                                       | <u>Fleet<br/>Operations &amp;<br/>Maintenance<br/>Fund</u> | <u>Insurance<br/>Reserve Fund</u> | <u>Health<br/>Insurance<br/>Fund</u> | <u>Total Internal<br/>Service Funds</u> |
|---------------------------------------|------------------------------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------------|
| <b>ASSETS:</b>                        |                                                            |                                   |                                      |                                         |
| <b>Current Assets:</b>                |                                                            |                                   |                                      |                                         |
| Equity in Pooled Cash and Investments | \$ 1,547,796                                               | \$ 3,134,383                      | \$ 3,089,167                         | \$ 7,771,346                            |
| Accounts Receivable                   | 1,190                                                      | 132                               | 4,431                                | 5,753                                   |
| Accrued Interest Receivable           | 240,831                                                    | 73                                | 0                                    | 240,904                                 |
| Due from Other Governments            | 5,656                                                      | 0                                 | 0                                    | 5,656                                   |
| Due from Other Funds                  | 876,722                                                    | 0                                 | 0                                    | 876,722                                 |
| Inventories                           | 386,923                                                    | 0                                 | 0                                    | 386,923                                 |
| Prepays                               | 0                                                          | 125,231                           | 0                                    | 125,231                                 |
| <b>Total Current Assets</b>           | <u>3,059,118</u>                                           | <u>3,259,819</u>                  | <u>3,093,598</u>                     | <u>9,412,535</u>                        |
| <b>Capital Assets:</b>                |                                                            |                                   |                                      |                                         |
| Land                                  | 14,695                                                     | 0                                 | 0                                    | 14,695                                  |
| Machinery and Equipment               | 21,317,718                                                 | 0                                 | 0                                    | 21,317,718                              |
| Less: Accumulated Depreciation        | <u>(14,132,328)</u>                                        | <u>0</u>                          | <u>0</u>                             | <u>(14,132,328)</u>                     |
| <b>Total Capital Assets</b>           | <u>7,200,085</u>                                           | <u>0</u>                          | <u>0</u>                             | <u>7,200,085</u>                        |
| <b>Other Assets:</b>                  |                                                            |                                   |                                      |                                         |
| Deposits                              | 0                                                          | 30,000                            | 0                                    | 30,000                                  |
| <b>Total Other Assets</b>             | <u>0</u>                                                   | <u>30,000</u>                     | <u>0</u>                             | <u>30,000</u>                           |
| <b>Restricted Assets:</b>             |                                                            |                                   |                                      |                                         |
| Cash in Bank                          | 446,565                                                    | 0                                 | 0                                    | 446,565                                 |
| Long Term Certificates of Deposit     | 3,800,000                                                  | 500,000                           | 0                                    | 4,300,000                               |
| Investments                           | 120,344                                                    | 0                                 | 0                                    | 120,344                                 |
| <b>Total Restricted Assets</b>        | <u>4,366,909</u>                                           | <u>500,000</u>                    | <u>0</u>                             | <u>4,866,909</u>                        |
| <b>Total Assets</b>                   | <u>14,626,112</u>                                          | <u>3,789,819</u>                  | <u>3,093,598</u>                     | <u>21,509,529</u>                       |
| <b>LIABILITIES:</b>                   |                                                            |                                   |                                      |                                         |
| <b>Current Liabilities:</b>           |                                                            |                                   |                                      |                                         |
| Accounts Payable                      | 109,084                                                    | 157,257                           | 821                                  | 267,162                                 |
| Benefits Payable                      | 0                                                          | 341,669                           | 900,000                              | 1,241,669                               |
| Compensated Absences Payable          | 74,213                                                     | 10,068                            | 4,654                                | 88,935                                  |
| <b>Total Current Liabilities</b>      | <u>183,297</u>                                             | <u>508,994</u>                    | <u>905,475</u>                       | <u>1,597,766</u>                        |
| <b>Total Liabilities</b>              | <u>183,297</u>                                             | <u>508,994</u>                    | <u>905,475</u>                       | <u>1,597,766</u>                        |
| <b>NET ASSETS:</b>                    |                                                            |                                   |                                      |                                         |
| Invested in Capital Assets            | 7,200,085                                                  | 0                                 | 0                                    | 7,200,085                               |
| Reserved for Encumbrances             | 824,027                                                    | 0                                 | 0                                    | 824,027                                 |
| Unrestricted                          | <u>6,418,703</u>                                           | <u>3,280,825</u>                  | <u>2,188,123</u>                     | <u>11,887,651</u>                       |
| <b>Total Net Assets</b>               | <u>\$ 14,442,815</u>                                       | <u>\$ 3,280,825</u>               | <u>\$ 2,188,123</u>                  | <u>\$ 19,911,763</u>                    |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**For the Fiscal Year Ended June 30, 2008**

|                                       | <u>Fleet<br/>Operations &amp;<br/>Maintenance<br/>Fund</u> | <u>Insurance<br/>Reserve Fund</u> | <u>Health<br/>Insurance<br/>Fund</u> | <u>Total Internal<br/>Service Funds</u> |
|---------------------------------------|------------------------------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------------|
| <b>OPERATING REVENUE:</b>             |                                                            |                                   |                                      |                                         |
| Charges for Sales and Services        | \$ 5,221,503                                               | \$ 1,887,516                      | \$ 5,694,121                         | \$ 12,803,140                           |
| Miscellaneous                         | 0                                                          | 9,060                             | 0                                    | 9,060                                   |
| <b>Total Operating Revenue</b>        | <u>5,221,503</u>                                           | <u>1,896,576</u>                  | <u>5,694,121</u>                     | <u>12,812,200</u>                       |
| <b>OPERATING EXPENSES:</b>            |                                                            |                                   |                                      |                                         |
| Personnel Services and Benefits       | 1,083,859                                                  | 206,896                           | 55,273                               | 1,346,028                               |
| Materials and Supplies                | 2,847,765                                                  | 6,281                             | 1,643                                | 2,855,689                               |
| Contractual Services                  | 86,314                                                     | 46,931                            | 71,119                               | 204,364                                 |
| Insurance                             | 2,384                                                      | 337,406                           | 274,630                              | 614,420                                 |
| Insurance Claims                      | 0                                                          | 1,509,106                         | 4,694,110                            | 6,203,216                               |
| Depreciation                          | 1,402,053                                                  | 0                                 | 0                                    | 1,402,053                               |
| Miscellaneous                         | 67,576                                                     | 0                                 | 264,195                              | 331,771                                 |
| <b>Total Operating Expenses</b>       | <u>5,489,951</u>                                           | <u>2,106,620</u>                  | <u>5,360,970</u>                     | <u>12,957,541</u>                       |
| <b>Operating Income (Loss)</b>        | <u>(268,448)</u>                                           | <u>(210,044)</u>                  | <u>333,151</u>                       | <u>(145,341)</u>                        |
| <b>NONOPERATING REVENUES:</b>         |                                                            |                                   |                                      |                                         |
| Gain on Disposal of Fixed Assets      | 10,750                                                     | 0                                 | 0                                    | 10,750                                  |
| State Revenue                         | 5,656                                                      | 0                                 | 0                                    | 5,656                                   |
| Investment Earnings                   | 357,255                                                    | 158,010                           | 121,976                              | 637,241                                 |
| <b>Total Nonoperating Revenues</b>    | <u>373,661</u>                                             | <u>158,010</u>                    | <u>121,976</u>                       | <u>653,647</u>                          |
| <b>Income (Loss) Before Transfers</b> | <u>105,213</u>                                             | <u>(52,034)</u>                   | <u>455,127</u>                       | <u>508,306</u>                          |
| <b>Transfers In</b>                   | <u>244,413</u>                                             | <u>0</u>                          | <u>0</u>                             | <u>244,413</u>                          |
| <b>Change in Net Assets</b>           | <u>349,626</u>                                             | <u>(52,034)</u>                   | <u>455,127</u>                       | <u>752,719</u>                          |
| <b>Net Assets, July 1, 2007</b>       | <u>14,093,189</u>                                          | <u>3,332,859</u>                  | <u>1,732,996</u>                     | <u>19,159,044</u>                       |
| <b>Net Assets, June 30, 2008</b>      | <u>\$ 14,442,815</u>                                       | <u>\$ 3,280,825</u>               | <u>\$ 2,188,123</u>                  | <u>\$ 19,911,763</u>                    |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2008**

|                                                                                                             | <u>Fleet<br/>Operations &amp;<br/>Maintenance<br/>Fund</u> | <u>Insurance<br/>Reserve Fund</u> | <u>Health<br/>Insurance<br/>Fund</u> | <u>Total Internal<br/>Service Funds</u> |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                |                                                            |                                   |                                      |                                         |
| Receipts from Interfund Services Provided                                                                   | \$ 5,222,537                                               | \$ 1,896,576                      | \$ 5,695,073                         | \$ 12,814,186                           |
| Payments to Suppliers                                                                                       | (3,084,771)                                                | (1,821,850)                       | (5,313,725)                          | (10,220,346)                            |
| Payments to Employees                                                                                       | (1,076,543)                                                | (201,804)                         | (54,214)                             | (1,332,561)                             |
| <b>Net Cash Provided (Used) by Operating Activities</b>                                                     | <u>1,061,223</u>                                           | <u>(127,078)</u>                  | <u>327,134</u>                       | <u>1,261,279</u>                        |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                                                     |                                                            |                                   |                                      |                                         |
| Advances from Other Funds                                                                                   | 149,778                                                    | 0                                 | 0                                    | 149,778                                 |
| <b>Net Cash Provided by Noncapital Financing Activities</b>                                                 | <u>149,778</u>                                             | <u>0</u>                          | <u>0</u>                             | <u>149,778</u>                          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                                            |                                                            |                                   |                                      |                                         |
| Capital Transfers from Other Funds                                                                          | 244,413                                                    | 0                                 | 0                                    | 244,413                                 |
| Purchase of Capital Assets                                                                                  | (2,131,986)                                                | 0                                 | 0                                    | (2,131,986)                             |
| Proceeds from Sales of Capital Assets                                                                       | 14,550                                                     | 0                                 | 0                                    | 14,550                                  |
| <b>Net Cash Used by Capital and Related Financing Activities</b>                                            | <u>(1,873,023)</u>                                         | <u>0</u>                          | <u>0</u>                             | <u>(1,873,023)</u>                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                |                                                            |                                   |                                      |                                         |
| Proceeds from Sales and Maturities of Investments                                                           | 1,500,000                                                  | 0                                 | 0                                    | 1,500,000                               |
| Purchase of Investments                                                                                     | (1,508,940)                                                | 0                                 | 0                                    | (1,508,940)                             |
| Interest Received                                                                                           | 184,397                                                    | 158,050                           | 121,976                              | 464,423                                 |
| <b>Net Cash Provided by Investing Activities</b>                                                            | <u>175,457</u>                                             | <u>158,050</u>                    | <u>121,976</u>                       | <u>455,483</u>                          |
| <b>Net Increase (Decrease) In Cash and Cash Equivalents</b>                                                 | <u>(486,565)</u>                                           | <u>30,972</u>                     | <u>449,110</u>                       | <u>(6,483)</u>                          |
| Cash and Cash Equivalents, July 1, 2007                                                                     | <u>2,480,926</u>                                           | <u>3,103,411</u>                  | <u>2,640,057</u>                     | <u>8,224,394</u>                        |
| <b>Cash and Cash Equivalents, June 30, 2008</b>                                                             | <u>\$ 1,994,361</u>                                        | <u>\$ 3,134,383</u>               | <u>\$ 3,089,167</u>                  | <u>\$ 8,217,911</u>                     |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>       |                                                            |                                   |                                      |                                         |
| Operating Income (Loss)                                                                                     | \$ (268,448)                                               | \$ (210,044)                      | \$ 333,151                           | \$ (145,341)                            |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:       |                                                            |                                   |                                      |                                         |
| Depreciation                                                                                                | 1,402,053                                                  | 0                                 | 0                                    | 1,402,053                               |
| (Increase) Decrease in Assets:                                                                              |                                                            |                                   |                                      |                                         |
| Accounts Receivable                                                                                         | 1,034                                                      | 0                                 | 952                                  | 1,986                                   |
| Inventory                                                                                                   | (20,440)                                                   | 0                                 | 0                                    | (20,440)                                |
| Prepays                                                                                                     | 0                                                          | (7,287)                           | 0                                    | (7,287)                                 |
| Increase (Decrease) in Liabilities:                                                                         |                                                            |                                   |                                      |                                         |
| Accounts Payable                                                                                            | (60,292)                                                   | 15,785                            | (8,028)                              | (52,535)                                |
| Benefits Payable                                                                                            | 0                                                          | 69,376                            | 0                                    | 69,376                                  |
| Compensated Absences Payable                                                                                | 7,316                                                      | 5,092                             | 1,059                                | 13,467                                  |
| <b>Net Cash Provided (Used) by Operating Activities</b>                                                     | <u>\$ 1,061,223</u>                                        | <u>\$ (127,078)</u>               | <u>\$ 327,134</u>                    | <u>\$ 1,261,279</u>                     |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:</b> |                                                            |                                   |                                      |                                         |
| Equity in Pooled Cash and Investments                                                                       | \$ 1,547,796                                               | \$ 3,134,383                      | \$ 3,089,167                         | \$ 7,771,346                            |
| Restricted Assets Cash in Bank                                                                              | 446,565                                                    | 0                                 | 0                                    | 446,565                                 |
| <b>Cash and Cash Equivalents, June 30, 2008</b>                                                             | <u>\$ 1,994,361</u>                                        | <u>\$ 3,134,383</u>               | <u>\$ 3,089,167</u>                  | <u>\$ 8,217,911</u>                     |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2008**

|                                                                                                                  | <b>Industrial<br/>Development<br/>Board</b> | <b>Emergency<br/>Communications<br/>District</b> |
|------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                     |                                             |                                                  |
| Receipts from Customers and Users                                                                                | \$ 5,541,127                                | \$ 628,168                                       |
| Payments to Suppliers                                                                                            | (4,423,478)                                 | (457,981)                                        |
| <b>Net Cash Provided (Used) by Operating Activities</b>                                                          | <b>1,117,649</b>                            | <b>170,187</b>                                   |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                                                          |                                             |                                                  |
| Transfer from Primary Government                                                                                 | -                                           | -                                                |
| <b>Net Cash Provided by Noncapital Financing Activities</b>                                                      | <b>-</b>                                    | <b>-</b>                                         |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                                                 |                                             |                                                  |
| Purchases of Capital Assets                                                                                      | -                                           | (54,392)                                         |
| Proceeds from Line of Credit                                                                                     | -                                           | -                                                |
| Grants                                                                                                           | -                                           | 51                                               |
| <b>Net Cash Provided (Used) by Capital and Related<br/>Financing Activities</b>                                  | <b>-</b>                                    | <b>(54,341)</b>                                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                     |                                             |                                                  |
| Proceeds from Sales and Maturities of Investments                                                                | 149,887                                     | -                                                |
| Purchases of Investments                                                                                         | -                                           | -                                                |
| Loss on Sale of Property                                                                                         | -                                           | -                                                |
| Interest Received                                                                                                | 58,965                                      | 55,145                                           |
| <b>Net Cash Provided by Investing Activities</b>                                                                 | <b>208,852</b>                              | <b>55,145</b>                                    |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                                      | <b>1,326,501</b>                            | <b>170,991</b>                                   |
| Cash and Cash Equivalents, July 1, 2007                                                                          | 452,027                                     | 1,468,755                                        |
| Cash and Cash Equivalents, June 30, 2008                                                                         | <u>\$ 1,778,528</u>                         | <u>\$ 1,639,746</u>                              |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO<br/>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>        |                                             |                                                  |
| Operating Income (Loss)                                                                                          | \$ (293,893)                                | \$ 94,850                                        |
| <b>Adjustments to Reconcile Operating Income (Loss) to Net Cash<br/>Provided (Used) by Operating Activities:</b> |                                             |                                                  |
| Depreciation                                                                                                     | 3,084                                       | 86,737                                           |
| <b>(Increase) Decrease in Assets:</b>                                                                            |                                             |                                                  |
| Accounts Receivable                                                                                              | (461,800)                                   | (2,872)                                          |
| Due from Joint Venture                                                                                           | 19,639                                      | -                                                |
| Due from Other Governments                                                                                       | -                                           | (6,208)                                          |
| Due from Primary Government                                                                                      | -                                           | -                                                |
| Land Held for Sale or Development                                                                                | 1,298,150                                   | -                                                |
| Prepaid Items                                                                                                    | (2,325)                                     | (1,467)                                          |
| <b>Increase (Decrease) in Liabilities:</b>                                                                       |                                             |                                                  |
| Accounts Payable                                                                                                 | 266,291                                     | (853)                                            |
| Other Payables                                                                                                   | 288,503                                     | -                                                |
| <b>Net Cash Provided (Used) by Operating Activities</b>                                                          | <b>\$ 1,117,649</b>                         | <b>\$ 170,187</b>                                |

See Independent Auditor's Report.

**CITY OF KINGSPORT, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**COMPARATIVE SCHEDULES BY SOURCE**  
**June 30, 2008 and 2007**

|                                                                    | <b>2008</b>           | <b>2007</b>           |
|--------------------------------------------------------------------|-----------------------|-----------------------|
| <b>GOVERNMENTAL FUNDS CAPITAL ASSETS:</b>                          |                       |                       |
| Land                                                               | \$ 18,774,132         | \$ 13,288,906         |
| Buildings                                                          | 91,008,318            | 90,885,181            |
| Improvements Other Than Buildings                                  | 11,774,469            | 10,578,656            |
| Equipment                                                          | 12,900,876            | 12,481,672            |
| Software                                                           | 283,042               | 283,042               |
| Infrastructure                                                     | 258,598,229           | 257,689,751           |
| Construction in Progress                                           | 51,209,271            | 38,486,595            |
| <b>Total Governmental Funds Fixed Assets</b>                       | <b>\$ 444,548,337</b> | <b>\$ 423,693,803</b> |
| <b>INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:</b> |                       |                       |
| General Obligation Bonds                                           | \$ 320,622,432        | \$ 320,622,432        |
| Contributions from Municipalities                                  | 576,947               | 576,947               |
| Federal Grants                                                     | 5,278,826             | 4,941,525             |
| State Grants                                                       | 286,061               | 286,061               |
| County Grants                                                      | 63,817                | 63,817                |
| Federal Revenue Sharing                                            | 261,130               | 261,130               |
| General Fund Revenue                                               | 15,778,255            | 15,725,875            |
| Gifts                                                              | 16,403,592            | 9,500,149             |
| Forfeitures                                                        | 51,873                | 35,148                |
| Special Revenue Funds                                              | 30,222,477            | 29,400,469            |
| Operating Revenue                                                  | 3,682,022             | 3,682,022             |
| Capital Lease Purchase                                             | 110,545               | 110,545               |
| Notes Payable                                                      | 1,089                 | 1,089                 |
| Construction in Progress                                           | 51,209,271            | 38,486,595            |
| <b>Total Governmental Funds Capital Assets</b>                     | <b>\$ 444,548,337</b> | <b>\$ 423,693,804</b> |

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See Independent Auditor's Report.

CITY OF KINGSFORD, TENNESSEE  
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
 SCHEDULE BY FUNCTION AND ACTIVITY  
 JUNE 30, 2008

| Function and Activity                          | Land             | Buildings        | Improvements<br>other than<br>Buildings | Equipment        | Software      | Infrastructure     | Construction<br>In Progress | Total              |
|------------------------------------------------|------------------|------------------|-----------------------------------------|------------------|---------------|--------------------|-----------------------------|--------------------|
|                                                |                  |                  |                                         |                  |               |                    |                             |                    |
| General Government:                            |                  |                  |                                         |                  |               |                    |                             |                    |
| General Government                             | \$ 9,512,158     | \$ 1,768,036     | \$ 655,497                              | \$ 98,704        | \$ 26,173     | \$ -               | \$ 5,360,503                | \$ 17,421,071      |
| City Manager                                   | -                | -                | 20,889                                  | -                | -             | -                  | -                           | 20,889             |
| Finance                                        | -                | -                | -                                       | 47,577           | 5,495         | -                  | -                           | 53,072             |
| Information Services                           | -                | -                | -                                       | 1,562,440        | -             | -                  | -                           | 1,562,440          |
| Geographic Information                         | -                | -                | -                                       | 124,253          | 9,000         | -                  | -                           | 133,253            |
| <b>Total General Government</b>                | <b>9,512,158</b> | <b>1,768,036</b> | <b>678,386</b>                          | <b>1,832,974</b> | <b>40,668</b> | <b>-</b>           | <b>5,360,503</b>            | <b>19,190,725</b>  |
| Economic and Physical Development:             |                  |                  |                                         |                  |               |                    |                             |                    |
| Development Services                           | -                | 650,519          | 45,984                                  | 34,575           | -             | -                  | -                           | 731,078            |
| Transportation                                 | -                | 878,953          | 68,102                                  | 1,238,063        | 64,040        | -                  | -                           | 2,249,058          |
| Engineering                                    | -                | -                | -                                       | 64,381           | -             | -                  | -                           | 64,381             |
| <b>Total Economic and Physical Development</b> | <b>-</b>         | <b>1,529,372</b> | <b>114,088</b>                          | <b>1,338,999</b> | <b>64,040</b> | <b>-</b>           | <b>-</b>                    | <b>3,044,497</b>   |
| Public Safety:                                 |                  |                  |                                         |                  |               |                    |                             |                    |
| Police                                         | 90,587           | 4,411,217        | 69,147                                  | 854,152          | 23,053        | -                  | -                           | 5,448,156          |
| Fire                                           | 455,230          | 2,139,315        | 215,059                                 | 775,389          | -             | -                  | 79,097                      | 3,664,080          |
| Communication                                  | -                | 66,535           | -                                       | 66,972           | -             | -                  | -                           | 133,507            |
| Central Dispatch                               | -                | -                | 78,405                                  | 2,168,188        | -             | -                  | -                           | 2,246,573          |
| <b>Total Public Safety</b>                     | <b>545,817</b>   | <b>6,617,067</b> | <b>362,611</b>                          | <b>3,864,681</b> | <b>23,053</b> | <b>-</b>           | <b>79,097</b>               | <b>11,492,326</b>  |
| Public Works:                                  |                  |                  |                                         |                  |               |                    |                             |                    |
| General and Administrative                     | -                | 315,240          | 5,370                                   | 33,180           | -             | 344,470            | -                           | 698,260            |
| Sanitation                                     | -                | -                | -                                       | 13,742           | -             | -                  | -                           | 13,742             |
| Streets                                        | -                | -                | 1,123,214                               | 51,453           | -             | 4,019,333          | 1,300,938                   | 6,494,936          |
| Maintenance                                    | -                | -                | -                                       | 217,964          | -             | -                  | -                           | 217,964            |
| Bridges System                                 | -                | -                | -                                       | -                | -             | 6,206,316          | 937,234                     | 7,143,550          |
| Highways System                                | -                | -                | -                                       | -                | -             | 243,805,639        | 12,635                      | 243,818,274        |
| <b>Total Public Works</b>                      | <b>-</b>         | <b>315,240</b>   | <b>1,128,584</b>                        | <b>318,339</b>   | <b>-</b>      | <b>254,175,758</b> | <b>2,250,805</b>            | <b>258,186,728</b> |

(continued)

CITY OF KINGSPORT, TENNESSEE  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION AND ACTIVITY**  
 JUNE 30, 2008

| Function and Activity                          | Land                 | Buildings            | Improvements<br>other than<br>Buildings | Equipment            | Software          | Infrastructure        | Construction<br>In Progress | Total                 |
|------------------------------------------------|----------------------|----------------------|-----------------------------------------|----------------------|-------------------|-----------------------|-----------------------------|-----------------------|
|                                                |                      |                      |                                         |                      |                   |                       |                             |                       |
| <b>Culture and Recreation:</b>                 |                      |                      |                                         |                      |                   |                       |                             |                       |
| Senior Citizens                                | -                    | 3,871,548            | -                                       | 7,197                | -                 | -                     | -                           | 3,878,743             |
| Recreation                                     | 4,611,227            | 7,564,958            | 2,563,970                               | 576,499              | -                 | -                     | 8,608,323                   | 23,924,975            |
| Bays Mountain                                  | 980,962              | 862,042              | 315,891                                 | 46,486               | -                 | -                     | 421,688                     | 2,627,067             |
| Allandale                                      | 306,018              | 344,930              | 338,886                                 | 192,686              | -                 | -                     | -                           | 1,180,520             |
| Library                                        | 133,000              | 3,620,816            | -                                       | 130,648              | -                 | 4,422,471             | -                           | 8,306,737             |
| <b>Total Culture and Recreation</b>            | <b>6,031,207</b>     | <b>16,264,092</b>    | <b>3,216,747</b>                        | <b>953,516</b>       | <b>-</b>          | <b>4,422,471</b>      | <b>9,030,009</b>            | <b>39,918,042</b>     |
| Education                                      | 2,684,950            | 64,514,511           | 6,276,055                               | 4,596,367            | 155,281           | -                     | 34,488,857                  | 112,716,021           |
| <b>Total Governmental Funds Capital Assets</b> | <b>\$ 18,774,132</b> | <b>\$ 91,008,318</b> | <b>\$ 11,774,469</b>                    | <b>\$ 12,900,876</b> | <b>\$ 283,042</b> | <b>\$ 258,598,229</b> | <b>\$ 51,209,271</b>        | <b>\$ 444,548,337</b> |

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See Independent Auditors' Report.

**CITY OF KINGSPORT, TENNESSEE**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**  
**For the Fiscal Year Ended June 30, 2008**

| Function and Activity                          | Governmental<br>Funds Capital<br>Assets<br>July 1, 2007 | Additions            | Deletions           | Adjustments      | Governmental<br>Funds Capital<br>Assets<br>June 30, 2008 |
|------------------------------------------------|---------------------------------------------------------|----------------------|---------------------|------------------|----------------------------------------------------------|
| <b>General Government:</b>                     |                                                         |                      |                     |                  |                                                          |
| General Government                             | \$ 7,748,780                                            | \$ 9,720,199         | \$ (550,000)        | \$ 502,092       | \$ 17,421,071                                            |
| City Manager                                   | 20,889                                                  | -                    | -                   | -                | 20,889                                                   |
| Finance                                        | 53,072                                                  | -                    | -                   | -                | 53,072                                                   |
| Information Services                           | 1,365,696                                               | 196,744              | -                   | -                | 1,562,440                                                |
| Geographic Information                         | 133,253                                                 | -                    | -                   | -                | 133,253                                                  |
| <b>Total General Government</b>                | <b>9,321,690</b>                                        | <b>9,916,943</b>     | <b>(550,000)</b>    | <b>502,092</b>   | <b>19,190,725</b>                                        |
| <b>Economic and Physical Development:</b>      |                                                         |                      |                     |                  |                                                          |
| Development Services                           | 738,078                                                 | -                    | -                   | (7,000)          | 731,078                                                  |
| Transportation                                 | 1,980,474                                               | 267,292              | -                   | 1,292            | 2,249,058                                                |
| Engineering                                    | 39,325                                                  | 25,036               | -                   | -                | 64,361                                                   |
| <b>Total Economic and Physical Development</b> | <b>2,757,877</b>                                        | <b>292,328</b>       | <b>-</b>            | <b>(5,708)</b>   | <b>3,044,497</b>                                         |
| <b>Public Safety:</b>                          |                                                         |                      |                     |                  |                                                          |
| Police                                         | 5,420,931                                               | 27,225               | -                   | -                | 5,448,156                                                |
| Fire                                           | 3,624,993                                               | 40,097               | -                   | (1,000)          | 3,664,090                                                |
| Communication                                  | 133,507                                                 | -                    | -                   | -                | 133,507                                                  |
| Central Dispatch                               | 2,246,573                                               | -                    | -                   | -                | 2,246,573                                                |
| <b>Total Public Safety</b>                     | <b>11,426,004</b>                                       | <b>67,322</b>        | <b>-</b>            | <b>(1,000)</b>   | <b>11,492,326</b>                                        |
| <b>Public Works:</b>                           |                                                         |                      |                     |                  |                                                          |
| General and Administrative                     | 695,791                                                 | -                    | -                   | 2,469            | 698,260                                                  |
| Sanitation                                     | 13,742                                                  | -                    | -                   | -                | 13,742                                                   |
| Streets                                        | 5,710,342                                               | 1,111,712            | -                   | (327,118)        | 6,494,936                                                |
| Maintenance                                    | 210,089                                                 | 18,875               | -                   | (11,000)         | 217,964                                                  |
| Bridges System                                 | 6,978,316                                               | 165,234              | -                   | -                | 7,143,550                                                |
| Highways System                                | 244,063,639                                             | 12,635               | -                   | (458,000)        | 243,618,274                                              |
| <b>Total Public Works</b>                      | <b>257,671,919</b>                                      | <b>1,308,456</b>     | <b>-</b>            | <b>(793,649)</b> | <b>258,186,726</b>                                       |
| <b>Culture and Recreation:</b>                 |                                                         |                      |                     |                  |                                                          |
| Senior Citizens                                | 3,878,743                                               | -                    | -                   | -                | 3,878,743                                                |
| Recreation                                     | 23,105,135                                              | 670,281              | -                   | 149,559          | 23,924,975                                               |
| Bays Mountain                                  | 2,380,080                                               | 356,987              | (115,000)           | 5,000            | 2,627,067                                                |
| Allandale                                      | 1,276,768                                               | 176,000              | -                   | (272,248)        | 1,180,520                                                |
| Library                                        | 8,296,741                                               | 9,896                | -                   | -                | 8,306,737                                                |
| <b>Total Culture and Recreation</b>            | <b>38,937,467</b>                                       | <b>1,213,264</b>     | <b>(115,000)</b>    | <b>(117,689)</b> | <b>39,918,042</b>                                        |
| Education                                      | 103,578,847                                             | 8,805,135            | (83,915)            | 415,954          | 112,716,021                                              |
| <b>Total Governmental Funds Capital Assets</b> | <b>\$ 423,693,804</b>                                   | <b>\$ 21,603,448</b> | <b>\$ (748,915)</b> | <b>\$ -</b>      | <b>\$ 444,548,337</b>                                    |

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See Independent Auditors' Report.

**CITY OF KINGSFORT, TENNESSEE**  
**ENTERPRISE FUNDS**  
**SCHEDULE OF OPERATING COSTS**  
For the Fiscal Year Ended June 30, 2008

|                                            | Water Fund          | Sewer Fund          | Solid Waste Management Fund | MeadowView Conference Resort and Convention Center Fund | Cattails at MeadowView Golf Course Fund | Total Enterprise Funds |
|--------------------------------------------|---------------------|---------------------|-----------------------------|---------------------------------------------------------|-----------------------------------------|------------------------|
| <b>General and Administrative:</b>         |                     |                     |                             |                                                         |                                         |                        |
| Personnel Services                         | \$ 582,090          | \$ 222,942          | \$ 101,105                  | \$ 0                                                    | \$ 0                                    | \$ 906,137             |
| Contractual Services                       | 180,045             | 112,452             | 7,797                       | 48,257                                                  | 182,786                                 | 531,337                |
| Supplies                                   | 151,018             | 4,813               | 0                           | 119,852                                                 | 0                                       | 275,683                |
| Insurance                                  | 111,853             | 109,400             | 15,000                      | 6,554                                                   | 4,250                                   | 247,057                |
| Subsidies and Contributions                | 0                   | 0                   | 0                           | 186,452                                                 | 0                                       | 186,452                |
| Base Management Fee                        | 0                   | 0                   | 0                           | 100,371                                                 | 31,916                                  | 132,287                |
| Other                                      | 163,122             | 89,873              | 64,417                      | 170,351                                                 | 52,124                                  | 539,887                |
| <b>Total General and Administrative</b>    | <b>1,188,128</b>    | <b>539,480</b>      | <b>188,319</b>              | <b>631,837</b>                                          | <b>271,076</b>                          | <b>2,818,840</b>       |
| <b>Operations:</b>                         |                     |                     |                             |                                                         |                                         |                        |
| Water Plant Operations                     | 1,881,800           | 0                   | 0                           | 0                                                       | 0                                       | 1,881,800              |
| Sewer Plant Operations                     | 0                   | 1,727,048           | 0                           | 0                                                       | 0                                       | 1,727,048              |
| Water Distribution System Maintenance      | 2,644,742           | 0                   | 0                           | 0                                                       | 0                                       | 2,644,742              |
| Sewer Collection System Maintenance        | 0                   | 1,696,489           | 0                           | 0                                                       | 0                                       | 1,696,489              |
| Reading, Service and Maintenance of Meters | 900,499             | 0                   | 0                           | 0                                                       | 0                                       | 900,499                |
| Landfill Operations and Services           | 0                   | 0                   | 843,018                     | 0                                                       | 0                                       | 843,018                |
| Solid Waste Collection Services            | 0                   | 0                   | 624,804                     | 0                                                       | 0                                       | 624,804                |
| Organic Refuse Services                    | 0                   | 0                   | 1,616,760                   | 0                                                       | 0                                       | 1,616,760              |
| Recycling Services                         | 0                   | 0                   | 419,446                     | 0                                                       | 0                                       | 419,446                |
| Golf Grounds Maintenance                   | 0                   | 0                   | 0                           | 0                                                       | 322,503                                 | 322,503                |
| Golf Pro Shop                              | 0                   | 0                   | 0                           | 0                                                       | 427,675                                 | 427,675                |
| Golf Shop Food and Beverage                | 0                   | 0                   | 0                           | 0                                                       | 59,383                                  | 59,383                 |
| <b>Total Operations</b>                    | <b>5,427,041</b>    | <b>3,423,537</b>    | <b>3,504,028</b>            | <b>0</b>                                                | <b>809,561</b>                          | <b>13,164,167</b>      |
| <b>Total Operating Costs</b>               | <b>\$ 6,615,169</b> | <b>\$ 3,963,017</b> | <b>\$ 3,692,347</b>         | <b>\$ 631,837</b>                                       | <b>\$ 1,080,637</b>                     | <b>\$ 15,983,007</b>   |

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Fiscal Year Ended June 30, 2008

| CFDA Number                            | Program Name / Grant Number                       | Grantor Agency                 | Balance June 30, 2007 | Cash Receipts | Expenditures | Balance June 30, 2008 |
|----------------------------------------|---------------------------------------------------|--------------------------------|-----------------------|---------------|--------------|-----------------------|
| <b>SCHOOL NUTRITION SERVICES FUND:</b> |                                                   |                                |                       |               |              |                       |
|                                        | Pass Through Tennessee Department of Education:   |                                |                       |               |              |                       |
| 10.555                                 | National School Lunch Program                     | U.S. Department of Agriculture | \$ -                  | \$ 960,940    | \$ 960,940   | \$ -                  |
| 10.553                                 | School Breakfast Program                          | U.S. Department of Agriculture | -                     | 309,209       | 309,209      | -                     |
|                                        | Pass Through Tennessee Department of Agriculture: |                                |                       |               |              |                       |
| 10.550                                 | Commodity Supplemental Feeding                    | U.S. Department of Agriculture | 74,744                | 122,518       | 104,043      | 93,217 ***            |
|                                        | Total School Nutrition Services Fund              |                                | 74,744                | 1,392,665     | 1,374,192    | 93,217                |
| <b>PUBLIC LAW 93-380 FUND:</b>         |                                                   |                                |                       |               |              |                       |
|                                        | Pass Through Tennessee Department of Education:   |                                |                       |               |              |                       |
| 84.010                                 | Title I, Project 07-01, 07-21                     | U.S. Department of Education   | (253,685)             | 293,093       | 39,508       | -                     |
| 84.010                                 | Title I, Project 08-01                            | U.S. Department of Education   | -                     | 1,137,033     | 1,429,895    | (292,832) *           |
| 84.027                                 | IDEA Part B, 07-01, 07-21                         | U.S. Department of Education   | (145,027)             | 509,280       | 384,253      | -                     |
| 84.027                                 | IDEA Part B, 08-01                                | U.S. Department of Education   | -                     | 717,428       | 870,289      | (152,841) *           |
| 84.048                                 | Carl Perkins, 2007                                | U.S. Department of Education   | (25,979)              | 25,979        | -            | -                     |
| 84.048                                 | Carl Perkins, 2008                                | U.S. Department of Education   | -                     | 55,158        | 129,301      | (74,142) *            |
| 84.173                                 | Pre School 07-01, 07-21                           | U.S. Department of Education   | (7,320)               | 7,320         | -            | -                     |
| 84.173                                 | Pre School 08-01                                  | U.S. Department of Education   | -                     | 22,202        | 37,137       | (14,935) *            |
| 84.298                                 | Title V, 2006-01, 2006-21                         | U.S. Department of Education   | (6,726)               | 7,722         | 996          | -                     |
| 84.298                                 | Title V, 2007-01, 2007-21                         | U.S. Department of Education   | (4,145)               | 8,208         | 6,562        | (2,489) *             |
| 84.298                                 | Title V, 2008-01                                  | U.S. Department of Education   | -                     | -             | 3,270        | (3,270) *             |
| 84.365                                 | Title III, 2007, 2007-01, 2007-21                 | U.S. Department of Education   | (12,226)              | 13,843        | 1,617        | -                     |
| 84.367                                 | Title II, 2007, 2007-01, 2007-21                  | U.S. Department of Education   | -                     | 117,974       | 13,142       | (7,859) *             |
| 84.367                                 | Title II, 2008, 2008-01                           | U.S. Department of Education   | -                     | 180,203       | 222,653      | (42,450) *            |
| 84.367                                 | Title II D, 2006, 2006-01, 2006-21                | U.S. Department of Education   | (9,030)               | 8,030         | -            | -                     |
| 84.367                                 | Title II D, 2007, 2007-01, 2007-21                | U.S. Department of Education   | (3,692)               | 3,692         | 12,628       | (12,628) *            |
| 84.368                                 | Title II D, 2008, 2008-01                         | U.S. Department of Education   | -                     | -             | 9,204        | (9,204) *             |
| 84.368                                 | Title IV, 2007, 2007-01                           | U.S. Department of Education   | (10,793)              | 10,793        | -            | -                     |
| 84.368                                 | Title IV, 2008, 2008-01                           | U.S. Department of Education   | -                     | 21,482        | 32,194       | (10,732) *            |
|                                        | Total Public Law 93-380 Fund                      |                                | (589,619)             | 3,144,704     | 3,178,477    | (623,392)             |

(continued)

**CITY OF KINGSPORT, TENNESSEE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For the Fiscal Year Ended June 30, 2008

| CFDA Number                                          | Program Name / Grant Number                                | Grantor Agency                                   | Balance June 30, 2007 | Cash Receipts | Expenditures | Balance June 30, 2008 |
|------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------|-----------------------|---------------|--------------|-----------------------|
| <b>SPECIAL SCHOOL PROJECTS FUND:</b>                 |                                                            |                                                  |                       |               |              |                       |
| Direct Programs:                                     |                                                            |                                                  |                       |               |              |                       |
| 84.287                                               | Community of Learners                                      | U.S. Department of Education                     | (86,108)              | 118,640       | 50,519       | (17,988) *            |
| Pass-Through Tennessee Department of Education:      |                                                            |                                                  |                       |               |              |                       |
| 83.318                                               | Education for Tennessee Grant                              | U.S. Department of Education                     | (3,717)               | 63,480        | 71,729       | (11,966) *            |
| 84.196                                               | Homeless Assistance Grant                                  | U.S. Department of Education                     | (9,774)               | 29,628        | 38,875       | (17,020) *            |
| Total Special School Projects Fund                   |                                                            |                                                  | (99,600)              | 211,749       | 159,123      | (46,974)              |
| <b>SPECIAL REVENUE GENERAL PROJECTS FUND:</b>        |                                                            |                                                  |                       |               |              |                       |
| Pass-through Community Capacity Development Office:  |                                                            |                                                  |                       |               |              |                       |
| 16.595                                               | Weed and Seed Program                                      | U.S. Department of Justice                       | -                     | 25,103        | 33,954       | (8,851) *             |
| 16.595                                               | Weed and Seed Program                                      | U.S. Department of Justice                       | (8,253)               | 12,731        | 4,478        | -                     |
| Pass-through Tennessee Department of Agriculture:    |                                                            |                                                  |                       |               |              |                       |
| 10.664                                               | Tree Inventory Plan / Z-07-033312-00                       | U.S. Department of Agriculture                   | (2,822)               | 3,000         | 178          | -                     |
| Pass-through Tennessee Department of Transportation: |                                                            |                                                  |                       |               |              |                       |
| 20.600                                               | Next Step Traffic Enforcement / Z-07-035876-00             | U.S. Department of Transportation                | (10,578)              | 19,735        | 9,158        | -                     |
| 20.600                                               | Multiple Approach to Reduce Crash Hazards / Z-08-023694-00 | U.S. Department of Transportation                | -                     | 8,231         | 11,508       | (3,277) *             |
| Total Special Revenue General Projects Fund          |                                                            |                                                  | (21,654)              | 68,800        | 58,274       | (12,128)              |
| <b>COMMUNITY DEVELOPMENT FUND:</b>                   |                                                            |                                                  |                       |               |              |                       |
| Direct Programs:                                     |                                                            |                                                  |                       |               |              |                       |
| 14.218                                               | Community Development Block Grants                         | U.S. Department of Housing and Urban Development | (34,352)              | 279,324       | 368,936      | (123,964) *           |
| Total Community Development Fund                     |                                                            |                                                  | (34,352)              | 279,324       | 368,938      | (123,964)             |

(continued)

CITY OF KINGSPORT, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Fiscal Year Ended June 30, 2008

| CFDA Number                                         | Program Name / Grant Number                | Grantor Agency                    | Balance June 30, 2007 | Cash Receipts | Expenditures | Balance June 30, 2008 |
|-----------------------------------------------------|--------------------------------------------|-----------------------------------|-----------------------|---------------|--------------|-----------------------|
| <b>FEDERAL TRANSIT ADMINISTRATION FUND:</b>         |                                            |                                   |                       |               |              |                       |
| Direct Programs:                                    |                                            |                                   |                       |               |              |                       |
| 20.507                                              | FTA Capital/Operating/Planning TN-80-X218  | U.S. Department of Transportation | -                     | 23,054        | 45,083       | (22,029) *            |
| 20.507                                              | FTA Capital/Operating/Planning TN-80-X235  | U.S. Department of Transportation | (28,773)              | 28,773        | 108,000      | (108,000) *           |
| 20.507                                              | FTA Capital/Operating/Planning TN-80-X250  | U.S. Department of Transportation | (112,186)             | 284,549       | 215,532      | (93,171) *            |
| 20.507                                              | FTA Capital/Operating/Planning TN-80-X263  | U.S. Department of Transportation | -                     | 169,639       | 310,693      | (141,054) *           |
| Total Federal Transit Administration Fund           |                                            |                                   | (140,961)             | 486,015       | 679,308      | (334,254)             |
| <b>CAPITAL PROJECTS FUND:</b>                       |                                            |                                   |                       |               |              |                       |
| Pass-Through Tennessee Department of Transportation |                                            |                                   |                       |               |              |                       |
| 20.219                                              | Surface Transportation Program             | U.S. Department of Transportation | (88,917)              | 78,507        | 9,580        | -                     |
| 20.219                                              | STP-EN-9108(29)                            | U.S. Department of Transportation | -                     | -             | 93,138       | (93,138) *            |
| Total Capital Projects Fund                         |                                            |                                   | (88,917)              | 78,507        | 102,728      | (83,138)              |
| <b>GENERAL PURPOSE SCHOOL FUND:</b>                 |                                            |                                   |                       |               |              |                       |
| Pass-Through Tennessee Department of Education      |                                            |                                   |                       |               |              |                       |
| 84.002                                              | Adult Basic Education                      | U.S. Department of Education      | -                     | 130,289       | 138,800      | (8,511) *             |
| Total General Purpose School Fund                   |                                            |                                   | -                     | 130,289       | 138,800      | (8,511)               |
| <b>GENERAL FUND:</b>                                |                                            |                                   |                       |               |              |                       |
| Pass-Through First Tennessee Development District:  |                                            |                                   |                       |               |              |                       |
| 93.044                                              | Title III-B & III-D KINGS-2007-HOOT-07     | U.S. Dept of Hlth & Human Srv     | (818)                 | 818           | -            | -                     |
| 93.044                                              | Title III-B & III-D KINGS-2008-HOOT-08     | U.S. Dept of Hlth & Human Srv     | -                     | 14,800        | 14,800       | -                     |
| Total General Fund                                  |                                            |                                   | (818)                 | 15,718        | 14,800       | -                     |
| <b>JUSTICE ASSISTANCE GRANT FUND:</b>               |                                            |                                   |                       |               |              |                       |
| Direct Programs:                                    |                                            |                                   |                       |               |              |                       |
| 18.579                                              | Justice Assistance Grant / 2005-DJ-BX-0359 | U.S. Department of Justice        | 3,701                 | -             | 3,548        | 153 **                |
| Total Justice Assistance Grant Fund                 |                                            |                                   | 3,701                 | -             | 3,548        | 153                   |

(continued)

CITY OF KINGSPORT, TENNESSEE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Fiscal Year Ended June 30, 2008

| CFDA Number                                          | Program Name / Grant Number                     | Grantor Agency                    | Balance June 30, 2007 | Cash Receipts | Expenditures | Balance June 30, 2008 |
|------------------------------------------------------|-------------------------------------------------|-----------------------------------|-----------------------|---------------|--------------|-----------------------|
| <b>METROPOLITAN PLANNING OFFICE FUND:</b>            |                                                 |                                   |                       |               |              |                       |
| Pass-Through Tennessee Department of Transportation: |                                                 |                                   |                       |               |              |                       |
| 20.205                                               | FHWA Project No. SPR-PL-1(210)                  | Federal Highway Administration    | (70,865)              | 119,136       | 48,271       | -                     |
| 20.205                                               | FHWA Project No. SPR-PL-1(221)                  | Federal Highway Administration    | -                     | 69,738        | 137,910      | (68,174) *            |
| 20.207                                               | FTA Capital / Operating / Planning Section 5303 | U.S. Department of Transportation | (22,980)              | 31,587        | 32,162       | (23,555) *            |
| Pass-Through Virginia Department of Transportation:  |                                                 |                                   |                       |               |              |                       |
| 20.205                                               | FHWA Project VA PL Funds                        | Federal Highway Administration    | (4,000)               | 4,000         | 4,000        | (4,000) *             |
| 20.207                                               | FTA Capital / Operating / Planning VA           | U.S. Department of Transportation | (2,786)               | 2,788         | 2,988        | (2,988) *             |
| Total Metropolitan Planning Office Fund              |                                                 |                                   | (100,631)             | 227,245       | 225,331      | (98,717)              |
| Total Federal Awards                                 |                                                 |                                   | \$ (978,107)          | \$ 6,035,016  | \$ 6,304,617 | \$ (1,247,708)        |

**NOTE A: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Kingsport, Tennessee and is presented on the 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 B: FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and used. The balance amounts represent inventory on hand. Non-monetary assistance has not been included in the financial statements.

**NOTE C: PAYMENTS TO SUB-RECIPIENTS**

Payments were made from the Community Development Block Grant to the South Central Kingsport CDC, CASA of Sullivan County, and Learning Centers of KHRA in the amounts of \$81,306; \$15,879; and \$45,465; respectively.

\* Receivable \*\* Unused Revenue \*\*\* Inventory on Hand  
 See Independent's Auditor's Report.

**CITY OF KINGSFORT, TENNESSEE**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
 For the Fiscal Year Ended June 30, 2008

| State Grant Number                                 | Program Name / Grant Number                      | Grantor Agency                           | Balance June 30, 2007 | Cash Receipts | Expenditures | Balance June 30, 2008 |
|----------------------------------------------------|--------------------------------------------------|------------------------------------------|-----------------------|---------------|--------------|-----------------------|
| <b>GENERAL FUND:</b>                               |                                                  |                                          |                       |               |              |                       |
| Z-08-22003-00                                      | TOUR Program Senders Family Christmas            | Tennessee Arts Commission                | \$ -                  | \$ 2,500      | \$ 2,500     | \$ -                  |
| Z-08-22028-00                                      | TOUR Program Blue Highway Concert                | Tennessee Arts Commission                | -                     | 2,500         | 2,500        | -                     |
| Z-08-21715-00                                      | Travelling Arts Exhibits                         | Tennessee Arts Commission                | -                     | -             | 2,950        | (2,950) *             |
| Z-08-22012                                         | Artist Registry/Inventor and Symposium           | Tennessee Arts Commission                | -                     | -             | 3,500        | (3,500) *             |
| Pass-Through First Tennessee Development District: |                                                  |                                          |                       |               |              |                       |
| N/A                                                | State Senior Center Operations Grant             | TN Department of Health & Human Services | (1,987)               | 20,001        | 20,000       | (1,988) *             |
| Total General Fund                                 |                                                  |                                          | (1,987)               | 25,001        | 31,450       | (8,116)               |
| <b>SPECIAL REVENUE GENERAL PROJECTS FUND:</b>      |                                                  |                                          |                       |               |              |                       |
| N/A                                                | Library Services And Technology Grant            | Tennessee Department of State            | -                     | 7,000         | 7,000        | -                     |
| RC0507SL                                           | Kingsport Art and Sculpture Walk / VIN 0789-2373 | Tennessee Arts Commission                | -                     | 1,115         | 2,075        | (960) *               |
| N/A                                                | LSTA Direct Service Grant                        | Tennessee Department of State            | -                     | 12,765        | 12,765       | -                     |
| Z-07-20485-00                                      | Gates Foundation Hardware Upgrade Program        | Tennessee State Library and Archives     | -                     | 6,414         | 6,414        | -                     |
| Z-08-0201322-00                                    | Farmers Market Promotion and Retail Grant        | Tennessee Department of Agriculture      | -                     | -             | 3,200        | (3,200) *             |
| Total Special Revenue General Projects Fund        |                                                  |                                          | -                     | 27,294        | 31,454       | (4,160)               |
| <b>METROPOLITAN PLANNING ORGANIZATION FUND:</b>    |                                                  |                                          |                       |               |              |                       |
| GG-07-20927-00                                     | TN-80-0001-01 Operating 82-5303-F3-005           | Tennessee Department of Transportation   | (2,873)               | 3,949         | 1,078        | -                     |
| GG-08-11508-00                                     | TN-80-0002-01 Operating 82-5303-S3-008           | Tennessee Department of Transportation   | -                     | -             | 2,844        | (2,844) *             |
| Total Metropolitan Planning Organization Fund      |                                                  |                                          | (2,873)               | 3,949         | 4,020        | (2,944)               |
| <b>FEDERAL TRANSIT ADMINISTRATION FUND:</b>        |                                                  |                                          |                       |               |              |                       |
| 82-901-9680-04                                     | TN-90-X-218 Capital                              | Tennessee Department of Transportation   | -                     | 2,882         | 2,882        | -                     |
| 82-5307-S-002                                      | TN-90-X-235 Capital                              | Tennessee Department of Transportation   | -                     | -             | 13,500       | (13,500) *            |
| 82-5307-S2-003                                     | TN-90-X-250 Capital                              | Tennessee Department of Transportation   | (3,024)               | 5,498         | 10,389       | (7,897) *             |
| 82-UROP-S2-007                                     | TN-90-X-250 Operating                            | Tennessee Department of Transportation   | (37,866)              | 118,488       | 80,622       | -                     |
| 82-UROP-S2-004                                     | TN-90-X-283 Capital                              | Tennessee Department of Transportation   | -                     | 3,754         | 7,808        | (3,855) *             |
| 82-UROP-S2-007                                     | TN-90-X-283 Operating                            | Tennessee Department of Transportation   | -                     | 52,919        | 108,028      | (55,107) *            |
| Total Federal Transit Administration Fund          |                                                  |                                          | (40,890)              | 183,539       | 223,008      | (80,359)              |

(continued)

**CITY OF KINGSPORT, TENNESSEE**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
 For the Fiscal Year Ended June 30, 2008

| State Grant Number                   | Program Name / Grant Number           | Grantor Agency                               | Balance June 30, 2007 | Cash Receipts | Expenditures | Balance June 30, 2008 |
|--------------------------------------|---------------------------------------|----------------------------------------------|-----------------------|---------------|--------------|-----------------------|
| <b>COMMUNITY DEVELOPMENT FUND:</b>   |                                       |                                              |                       |               |              |                       |
| Z-07-031499                          | Emergency Shelter Grant               | TN Department of Health & Human Services     | (837)                 | 1,848         | 1,012        | -                     |
| Z-08-022828                          | Emergency Shelter Grant               | TN Department of Health & Human Services     | -                     | 37,105        | 44,849       | (7,744) *             |
| Total Community Development Fund     |                                       |                                              | (837)                 | 38,954        | 45,861       | (7,744)               |
| <b>SPECIAL SCHOOL PROJECTS FUND:</b> |                                       |                                              |                       |               |              |                       |
| GD7-ABX                              | One Room Drop in School 07            | Tennessee Department of Education            | (27,274)              | 27,291        | 17           | -                     |
| GDB/ABX                              | One Room Drop in School 08            | Tennessee Department of Education            | -                     | 48,608        | 83,183       | (34,577) *            |
| GG-07-12871-00                       | Truancy Intervention Program 2007     | Tennessee Department of Children's Services  | (14,360)              | 15,222        | 862          | -                     |
| GG-08-21843                          | Truancy Intervention Program 2008     | Tennessee Department of Children's Services  | -                     | 54,936        | 69,715       | (14,779) *            |
| 019-08-3-054 to 057                  | LEAPS Program                         | Tennessee Department of Education            | (50,866)              | 219,954       | 208,820      | (39,732) *            |
| GP-46590                             | Safe Schools                          | Tennessee Department of Education            | (3,635)               | 46,923        | 46,982       | (3,994) *             |
| MWB-ACX                              | Pre-Kindergarten - Lottery            | Tennessee Department of Education            | (68,052)              | 318,591       | 282,527      | (33,988) *            |
| MXB-AXX                              | Early Childhood Program               | Tennessee Department of Education            | (43,600)              | 185,135       | 166,135      | (24,600) *            |
| MTE-AXX                              | Family Resources                      | Tennessee Department of Education            | -                     | 32,531        | 33,300       | (769) *               |
| GZB-AXX                              | Coordinated School Health             | TN Department of Health & Human Services     | -                     | 50,489        | 108,288      | (57,797) *            |
| Total Special School Projects Fund   |                                       |                                              | (207,787)             | 997,378       | 999,827      | (210,236)             |
| <b>CAPITAL PROJECTS FUND:</b>        |                                       |                                              |                       |               |              |                       |
| GG-05-11850-00                       | Bays Mountain Land Acquisition        | Tennessee Dept of Environment & Conservation | 3,468                 | (3,468)       | -            | -                     |
| DG-07-01987-00                       | Local Park and Recreation Fund (LPRF) | Tennessee Dept of Environment & Conservation | -                     | 192,819       | 250,000      | (57,181) *            |
| Total Capital Projects Fund          |                                       |                                              | 3,468                 | 189,351       | 250,000      | (57,181)              |
| <b>FLEET FUND:</b>                   |                                       |                                              |                       |               |              |                       |
| Z-07-036475-00                       | Alternative Fuels Grant               | Tennessee Dept of Environment & Conservation | -                     | -             | 5,656        | (5,656) *             |
| Total Fleet Fund                     |                                       |                                              | -                     | -             | 5,656        | (5,656)               |
| Total State Awards                   |                                       |                                              | \$ (250,586)          | \$ 1,465,468  | \$ 1,591,276 | \$ (376,396)          |

\* Receivable \*\* Unused Revenue \*\*\* Inventory on Hand  
 See Independent's Auditor's Report.

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## STATISTICAL SECTION

This part of the City of Kingsport, Tennessee'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.

| <b>Contents:</b>                                                                                                                                                                                                                                                            | <u>Page</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b><u>Financial Trends</u></b><br><i>Tables 1 - 6 contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>                                                                             | 150         |
| <b><u>Revenue Capacity</u></b><br><i>Tables 7 -10 contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>                                                                                               | 158         |
| <b><u>Debt Capacity</u></b><br><i>Tables 11 - 15 present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>                            | 162         |
| <b><u>Demographic and Economic Information</u></b><br><i>Tables 16 - 17 offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>                                          | 167         |
| <b><u>Operating Information</u></b><br><i>Tables 18 - 27 contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i> | 169         |

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

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Table 1

**CITY OF KINGSPOUR, TENNESSEE**  
**NET ASSETS BY COMPONENT**  
For the Fiscal Years Noted  
(accural basis of accounting)

|                                                  | Fiscal Year           |                       |                       |                       |                       |                       |                       |
|--------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                  | 2002                  | 2003                  | 2004                  | 2005                  | 2006                  | 2007                  | 2008                  |
| <b>Governmental Activities</b>                   |                       |                       |                       |                       |                       |                       |                       |
| Invested in Capital Assets, Net of Related Debt  | \$ 234,544,000        | \$ 235,345,000        | \$ 236,295,000        | \$ 236,125,000        | \$ 245,201,000        | \$ 244,856,000        | \$ 251,706,778        |
| Restricted                                       | 8,981,000             | 6,878,000             | 6,694,000             | 1,081,000             | 4,099,000             | 33,768,000            | 30,399,946            |
| Unrestricted                                     | 37,305,000            | 39,500,000            | 38,668,000            | 50,500,000            | 38,707,000            | 9,145,000             | 2,085,078             |
| <b>Total Governmental Activities Net Assets</b>  | <b>\$ 280,830,000</b> | <b>\$ 281,821,000</b> | <b>\$ 281,657,000</b> | <b>\$ 287,706,000</b> | <b>\$ 288,007,000</b> | <b>\$ 287,769,000</b> | <b>\$ 284,191,802</b> |
| <b>Business-Type Activities</b>                  |                       |                       |                       |                       |                       |                       |                       |
| Invested in Capital Assets, Net of Related Debt  | \$ 98,946,000         | \$ 103,253,000        | \$ 113,859,000        | \$ 119,477,000        | \$ 126,885,000        | \$ 133,869,000        | \$ 142,403,592        |
| Restricted                                       | 1,046,000             | 1,068,000             | 562,000               | 897,000               | 838,000               | 952,000               | 1,119,119             |
| Unrestricted                                     | 2,627,000             | 3,939,000             | 43,000                | 3,174,000             | 6,069,000             | 10,225,000            | 13,816,505            |
| <b>Total Business-Type Activities Net Assets</b> | <b>\$ 102,619,000</b> | <b>\$ 108,260,000</b> | <b>\$ 114,464,000</b> | <b>\$ 123,548,000</b> | <b>\$ 133,792,000</b> | <b>\$ 145,046,000</b> | <b>\$ 157,339,216</b> |
| <b>Primary Government</b>                        |                       |                       |                       |                       |                       |                       |                       |
| Invested in Capital Assets, Net of Related Debt  | \$ 333,490,000        | \$ 338,598,000        | \$ 350,154,000        | \$ 355,602,000        | \$ 372,086,000        | \$ 378,725,000        | \$ 394,110,370        |
| Restricted                                       | 10,027,000            | 7,944,000             | 7,258,000             | 1,978,000             | 4,937,000             | 34,720,000            | 31,519,065            |
| Unrestricted                                     | 39,932,000            | 43,539,000            | 38,711,000            | 53,674,000            | 44,778,000            | 19,370,000            | 15,901,583            |
| <b>Total Primary Government Net Assets</b>       | <b>\$ 383,449,000</b> | <b>\$ 390,081,000</b> | <b>\$ 396,121,000</b> | <b>\$ 411,254,000</b> | <b>\$ 421,799,000</b> | <b>\$ 432,815,000</b> | <b>\$ 441,531,018</b> |

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34. Financial statements prior to June 30, 2008 were rounded to thousands.

CITY OF KINGSPORT, TENNESSEE  
CHANGES IN NET ASSETS  
For the Fiscal Years Noted  
(accrual basis of accounting)

|                                                 | Fiscal Year    |                |                |                |                |                |                |
|-------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                                 | 2002           | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           |
| <b>Expenses</b>                                 |                |                |                |                |                |                |                |
| <b>Governmental Activities:</b>                 |                |                |                |                |                |                |                |
| General Government                              | \$ 5,530,000   | \$ 5,295,000   | \$ 5,671,000   | \$ 4,687,000   | \$ 5,603,000   | \$ 10,185,000  | \$ 10,448,110  |
| Public Safety                                   | 12,631,000     | 13,396,000     | 13,918,000     | 14,787,000     | 16,076,000     | 16,994,000     | 19,844,589     |
| Public Works                                    | 9,278,000      | 9,225,000      | 10,151,000     | 8,737,000      | 11,638,000     | 11,388,000     | 13,370,957     |
| Highway Transportation Planning                 | 2,034,000      | 2,368,000      | 2,893,000      | 2,679,000      | 2,894,000      | 2,820,000      | 3,121,178      |
| Economic and Physical Development               | 3,128,000      | 3,066,000      | 2,829,000      | 3,085,000      | 3,280,000      | 3,418,000      | 4,097,955      |
| Culture and Recreation                          | 4,096,000      | 4,469,000      | 4,294,000      | 4,456,000      | 5,253,000      | 5,097,000      | 6,802,922      |
| Education                                       | 47,840,000     | 50,850,000     | 52,939,000     | 54,274,000     | 57,985,000     | 60,306,000     | 66,063,108     |
| Interest on Long-Term Debt                      | 2,713,000      | 2,329,000      | 2,228,000      | 2,062,000      | 1,737,000      | 1,470,000      | 3,244,491      |
| Other                                           | 234,000        | 314,000        | 476,000        | -              | -              | -              | -              |
| Total Governmental Activities Expenses          | \$ 87,465,000  | \$ 91,409,000  | \$ 98,098,000  | \$ 94,667,000  | \$ 104,488,000 | \$ 111,878,000 | \$ 128,993,208 |
| <b>Business-Type Activities:</b>                |                |                |                |                |                |                |                |
| Water                                           | 8,216,000      | 7,503,000      | 7,483,000      | 7,616,000      | 8,051,000      | 7,910,000      | 8,971,314      |
| Sewer                                           | 8,015,000      | 6,824,000      | 7,631,000      | 7,945,000      | 7,700,000      | 7,582,000      | 7,941,556      |
| Solid Waste Management                          | 2,794,000      | 2,915,000      | 3,076,000      | 3,304,000      | 3,188,000      | 4,432,000      | 3,798,888      |
| MeadowView Conference Center                    | 2,117,000      | 1,701,000      | 2,321,000      | 1,740,000      | 1,392,000      | 1,230,000      | 1,246,702      |
| Catalita at MeadowView Golf Course              | 1,351,000      | 1,246,000      | 1,299,000      | 1,329,000      | 1,355,000      | 1,432,000      | 1,447,591      |
| Total Business-Type Activities Expenses         | \$ 22,493,000  | \$ 20,199,000  | \$ 21,748,000  | \$ 21,630,000  | \$ 21,696,000  | \$ 22,666,000  | \$ 23,405,929  |
| <b>Total Primary Government Expenses</b>        | \$ 109,978,000 | \$ 111,608,000 | \$ 117,886,000 | \$ 116,197,000 | \$ 126,184,000 | \$ 134,294,000 | \$ 150,399,037 |
| <b>Program Revenues</b>                         |                |                |                |                |                |                |                |
| <b>Governmental Activities:</b>                 |                |                |                |                |                |                |                |
| Charges for Services:                           | \$ 1,664,000   | \$ 406,000     | \$ 322,000     | \$ 368,000     | \$ 507,000     | \$ 621,000     | \$ 138,937     |
| General Government                              | 140,000        | 274,000        | 216,000        | 287,000        | 286,000        | 314,000        | 2,478,198      |
| Public Safety                                   | 51,000         | 49,000         | 98,000         | 96,000         | 66,000         | 97,000         | 97,070         |
| Highway Transportation Planning                 | 247,000        | 241,000        | 321,000        | 308,000        | 435,000        | 519,000        | 513,595        |
| Economic and Physical Development               | 663,000        | 519,000        | 495,000        | 571,000        | 679,000        | 878,000        | 748,935        |
| Culture and Recreation                          | 2,584,000      | 2,800,000      | 2,571,000      | 2,648,000      | 2,639,000      | 2,726,000      | 2,472,281      |
| Education                                       | 22,877,000     | 24,420,000     | 25,195,000     | 27,005,000     | 26,957,000     | 29,035,000     | 31,846,530     |
| Operating Grants and Contributions              | 821,000        | 1,629,000      | 940,000        | 2,739,000      | 1,627,000      | 706,000        | 6,982,702      |
| Capital Grants and Contributions                | 28,847,000     | 30,138,000     | 30,159,000     | 34,020,000     | 33,220,000     | 34,898,000     | 45,280,248     |
| Total Governmental Activities Program Revenues  | \$ 34,847,000  | \$ 30,138,000  | \$ 30,159,000  | \$ 34,020,000  | \$ 33,220,000  | \$ 34,898,000  | \$ 45,280,248  |
| <b>Business-Type Activities:</b>                |                |                |                |                |                |                |                |
| Charges for Services:                           | 10,157,000     | 10,708,000     | 10,946,000     | 11,802,000     | 12,227,000     | 12,797,000     | 13,073,516     |
| Water                                           | 10,349,000     | 10,429,000     | 10,761,000     | 11,792,000     | 12,468,000     | 12,373,000     | 12,740,998     |
| Sewer                                           | 391,000        | 383,000        | 441,000        | 680,000        | 489,000        | 600,000        | 783,960        |
| Solid Waste Management                          | 239,000        | 248,000        | 248,000        | 287,000        | 253,000        | 287,000        | 283,188        |
| MeadowView Conference Center                    | 1,132,000      | 973,000        | 968,000        | 960,000        | 982,000        | 1,025,000      | 1,095,861      |
| Catalita at MeadowView Golf Course              | 201,000        | -              | 821,000        | 1,029,000      | 693,000        | 1,832,000      | 2,660,735      |
| Capital Grants and Contributions                | 22,469,000     | 22,741,000     | 23,965,000     | 26,410,000     | 27,112,000     | 28,694,000     | 30,638,258     |
| Total Business-Type Activities Program Revenues | \$ 51,318,000  | \$ 52,679,000  | \$ 54,123,000  | \$ 60,430,000  | \$ 60,332,000  | \$ 63,590,000  | \$ 75,918,504  |

(continued)

CITY OF KINGSFORT, TENNESSEE  
CHANGES IN NET ASSETS  
For the Fiscal Years Noted  
(accrual basis of accounting)

|                                                         | Fiscal Year     |                 |                 |                 |                 |                 |                 |
|---------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                                         | 2002            | 2003            | 2004            | 2005            | 2006            | 2007            | 2008            |
| Net (Expense)/Revenue                                   |                 |                 |                 |                 |                 |                 |                 |
| Governmental Activities                                 | \$ (56,636,000) | \$ (61,271,000) | \$ (65,940,000) | \$ (60,647,000) | \$ (71,246,000) | \$ (76,782,000) | \$ (81,712,960) |
| Business-Type Activities                                | (24,000)        | 2,552,000       | 2,197,000       | 4,880,000       | 5,448,000       | 8,108,000       | 7,232,427       |
| Total Primary Government Net (Expense)                  | \$ (56,660,000) | \$ (58,719,000) | \$ (63,743,000) | \$ (55,767,000) | \$ (65,802,000) | \$ (70,674,000) | \$ (74,480,533) |
| <b>General Revenues and Other Changes in Net Assets</b> |                 |                 |                 |                 |                 |                 |                 |
| Governmental Activities:                                |                 |                 |                 |                 |                 |                 |                 |
| Taxes:                                                  |                 |                 |                 |                 |                 |                 |                 |
| Property Taxes                                          | \$ 35,254,000   | \$ 36,399,000   | \$ 36,532,000   | \$ 39,122,000   | \$ 41,609,000   | \$ 42,857,000   | \$ 43,181,138   |
| Sales Taxes                                             | 23,674,000      | 24,133,000      | 24,394,000      | 25,174,000      | 26,154,000      | 27,570,000      | 27,531,437      |
| Other Taxes                                             | 4,115,000       | 4,013,000       | 3,828,000       | 3,743,000       | 4,460,000       | 5,069,000       | 6,117,575       |
| Grants and Contributions Not Restricted                 | 986,000         | 665,000         | 581,000         | 524,000         | 569,000         | 713,000         | 641,999         |
| Unrestricted Investment Earnings                        | 1,118,000       | 873,000         | 598,000         | 1,015,000       | 1,662,000       | 2,801,000       | 3,392,236       |
| Gain (Loss) on Disposal of Capital Assets               | 20,000          | 4,000           | 13,000          | 30,000          | 2,000           | 4,000           | 269,917         |
| Miscellaneous                                           | 621,000         | 4,000           | 1,589,000       | 944,000         | 972,000         | 1,340,000       | 1,036,779       |
| Transfers                                               | (5,087,000)     | (2,987)         | (3,757,000)     | (3,899,000)     | (4,035,319)     | (3,810,000)     | (4,035,319)     |
| Total Governmental Activities                           | \$ 60,921,000   | \$ 68,717,013   | \$ 65,776,000   | \$ 65,696,000   | \$ 71,549,000   | \$ 78,544,000   | \$ 78,135,762   |
| Business-Type Activities:                               |                 |                 |                 |                 |                 |                 |                 |
| Unrestricted Investment Earnings                        | 442,000         | 295,000         | 239,000         | 351,000         | 677,000         | 1,334,000       | 1,024,852       |
| Gain (Loss) on Disposal of Capital Assets               | (6,000)         | 6,000           | 4,000           | (8,000)         | -               | 2,000           | 50              |
| Miscellaneous                                           | 5,087,000       | 2,987,000       | 3,757,000       | 3,856,000       | 3,899,000       | 3,810,000       | 4,035,319       |
| Transfers                                               | 5,603,000       | 3,288,000       | 4,007,000       | 4,204,000       | 4,798,000       | 5,148,000       | 5,080,231       |
| Total Business-Type Activities                          | \$ 6,036,000    | \$ 6,576,000    | \$ 7,007,000    | \$ 7,468,000    | \$ 9,378,000    | \$ 10,304,000   | \$ 10,140,402   |
| Total Primary Government                                | \$ 66,957,000   | \$ 75,293,013   | \$ 72,783,000   | \$ 73,164,000   | \$ 80,927,000   | \$ 88,848,000   | \$ 88,276,164   |
| Change in Net Assets                                    | \$ 2,283,000    | \$ 5,448,013    | \$ (184,000)    | \$ 6,049,000    | \$ 301,000      | \$ (238,000)    | \$ (3,577,198)  |
| Governmental Activities                                 | 5,479,000       | 6,640,000       | 6,204,000       | 9,084,000       | 10,244,000      | 11,254,000      | 12,292,858      |
| Business-Type Activities                                | 7,762,000       | 11,286,013      | 6,940,000       | 16,133,000      | 10,845,000      | 11,016,000      | 8,715,460       |
| Total Primary Government                                | \$ 13,241,000   | \$ 17,926,013   | \$ 13,144,000   | \$ 25,217,000   | \$ 21,089,000   | \$ 22,270,000   | \$ 21,008,318   |

Source: City of Kingsport Finance Department.

Note: Information is only available for years ended after adoption of GASB 34.  
Note: All changes in net assets are exclusive of any prior period adjustments.  
Financial statements prior to June 30, 2008 were rounded to thousands.

Table 3

**CITY OF KINGSFORT, TENNESSEE**  
**GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE**  
 For the Fiscal Years Noted  
 (accrual basis of accounting)

| Fiscal Year | Property Tax  | Local Sales Tax | Income Tax | Business Tax | Alcoholic Beverage Tax |               | Hotel / Motel Tax | Total |
|-------------|---------------|-----------------|------------|--------------|------------------------|---------------|-------------------|-------|
|             |               |                 |            |              | Beverage Tax           | Alcoholic Tax |                   |       |
| 2002        | \$ 35,254,000 | \$ 23,874,000   | \$ 664,000 | \$ 1,427,000 | \$ 1,307,000           | \$ 717,000    | \$ 63,243,000     |       |
| 2003        | 36,399,000    | 24,133,000      | 659,000    | 1,272,000    | 1,318,000              | 764,000       | 64,545,000        |       |
| 2004        | 38,532,000    | 24,394,000      | 379,000    | 1,416,000    | 1,296,000              | 735,000       | 66,752,000        |       |
| 2005        | 39,122,000    | 25,174,000      | 468,000    | 1,219,000    | 1,313,000              | 743,000       | 68,039,000        |       |
| 2006        | 41,609,000    | 26,154,000      | 750,000    | 1,551,000    | 1,368,000              | 791,000       | 72,223,000        |       |
| 2007        | 42,857,000    | 27,570,000      | 1,026,000  | 1,707,000    | 1,398,000              | 938,000       | 75,496,000        |       |
| 2008        | 43,181,138    | 27,531,437      | 1,324,987  | 1,951,834    | 1,459,593              | 1,381,161     | 76,830,150        |       |

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34. Financial statements prior to June 30, 2008 were rounded to thousands.

Table 4

**CITY OF KINGSFORT, TENNESSEE**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
 Last Ten Fiscal Years  
 (modified accrual basis of accounting)

|                                           | Fiscal Year          |                      |                      |                      |                      |                      |                      |                      |                      |                      |
|-------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                           | 1999                 | 2000                 | 2001                 | 2002                 | 2003                 | 2004                 | 2005                 | 2006                 | 2007                 | 2008                 |
| <b>General Fund</b>                       |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Reserved                                  | \$ 4,042,000         | \$ 4,180,000         | \$ 2,816,000         | \$ 2,910,000         | \$ 3,378,000         | \$ 3,950,000         | \$ 3,607,000         | \$ 3,232,000         | \$ 3,510,000         | \$ 3,381,331         |
| Unreserved                                | 8,869,000            | 11,147,000           | 13,838,000           | 14,827,000           | 14,920,000           | 12,720,000           | 12,078,000           | 16,420,000           | 17,409,000           | 14,848,415           |
| <b>Total General Fund</b>                 | <b>\$ 12,911,000</b> | <b>\$ 15,327,000</b> | <b>\$ 16,752,000</b> | <b>\$ 17,537,000</b> | <b>\$ 18,298,000</b> | <b>\$ 16,670,000</b> | <b>\$ 15,685,000</b> | <b>\$ 18,652,000</b> | <b>\$ 20,919,000</b> | <b>\$ 18,239,746</b> |
| <b>All Other Governmental Funds</b>       |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Reserved                                  | \$ 797,000           | \$ 852,000           | \$ 583,000           | \$ 753,000           | \$ 5,602,000         | \$ 4,713,000         | \$ 7,797,000         | \$ 4,747,000         | \$ 5,895,000         | \$ 14,981,015        |
| Unreserved, reported in:                  |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Debt Service                              | 5,511,000            | 113,000              | -                    | 15,000               | -                    | 71,000               | 33,000               | 89,000               | 1,022,000            | 1,140,765            |
| Special Revenue Funds                     | 3,931,000            | 4,815,000            | 4,991,000            | 6,447,000            | 5,732,000            | 5,956,000            | 5,385,000            | 5,050,000            | 7,566,000            | 6,895,192            |
| Capital Project Funds                     | 12,036,000           | 16,977,000           | 9,641,000            | 8,777,000            | 6,886,000            | 6,532,000            | 686,000              | 3,757,000            | 33,434,000           | 30,073,388           |
| Permanent Fund                            |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| <b>Total all Other Governmental Funds</b> | <b>\$ 22,274,000</b> | <b>\$ 22,757,000</b> | <b>\$ 15,195,000</b> | <b>\$ 15,992,000</b> | <b>\$ 18,023,000</b> | <b>\$ 17,272,000</b> | <b>\$ 13,803,000</b> | <b>\$ 13,623,000</b> | <b>\$ 47,707,000</b> | <b>\$ 53,080,653</b> |

Source: City of Kingsport Finance Department

Note: Financial statements prior to June 30, 2008 were rounded to thousands.

CITY OF KINGSPORT, TENNESSEE  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

|                                              | Fiscal Year       |                   |                   |                   |                    |                    |                    |                    |                    |                    |
|----------------------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                              | 1999              | 2000              | 2001              | 2002              | 2003               | 2004               | 2005               | 2006               | 2007               | 2008               |
| <b>Revenues:</b>                             |                   |                   |                   |                   |                    |                    |                    |                    |                    |                    |
| Taxes                                        | \$ 42,899,000     | \$ 40,843,000     | \$ 42,567,000     | \$ 43,844,000     | \$ 45,088,000      | \$ 48,524,000      | \$ 48,415,000      | \$ 51,532,000      | \$ 53,341,000      | \$ 57,472,884      |
| Licenses and Permits                         | 267,000           | 208,000           | 207,000           | 401,000           | 264,000            | 324,000            | 350,000            | 350,000            | 526,000            | 778,798            |
| Intergovernmental                            | 40,124,000        | 40,435,000        | 43,519,000        | 44,025,000        | 46,016,000         | 46,457,000         | 49,907,000         | 50,004,000         | 52,688,000         | 52,217,860         |
| Charges for Services                         | 5,136,000         | 5,508,000         | 4,800,000         | 4,843,000         | 3,503,000          | 3,561,000          | 3,689,000          | 3,900,000          | 4,162,000          | 3,940,108          |
| Fines and Forfeitures                        | 431,000           | 394,000           | 642,000           | 506,000           | 421,000            | 297,000            | 443,000            | 560,000            | 787,000            | 2,233,348          |
| Contributions                                | 256,000           | 132,000           | 26,000            | 73,000            | 319,000            | 272,000            | 459,000            | 459,000            | 316,000            | 385,508            |
| Investment Earnings                          | 1,030,000         | 2,202,000         | 1,997,000         | 761,000           | 488,000            | 395,000            | 731,000            | 1,188,000          | 2,123,000          | 2,754,998          |
| Miscellaneous                                | 285,000           | 542,000           | 368,000           | 274,000           | 276,000            | 327,000            | 332,000            | 360,000            | 555,000            | 714,898            |
| <b>Total Revenues</b>                        | <b>90,429,000</b> | <b>90,293,000</b> | <b>94,025,000</b> | <b>94,327,000</b> | <b>96,397,000</b>  | <b>98,157,000</b>  | <b>104,426,000</b> | <b>108,353,000</b> | <b>114,486,000</b> | <b>120,498,500</b> |
| <b>Expenditures:</b>                         |                   |                   |                   |                   |                    |                    |                    |                    |                    |                    |
| General Government                           | 4,801,000         | 5,110,000         | 5,200,000         | 5,326,000         | 5,526,000          | 5,657,000          | 5,898,000          | 6,240,000          | 7,698,000          | 8,228,820          |
| Public Safety                                | 11,081,000        | 11,079,000        | 11,331,000        | 12,198,000        | 12,634,000         | 13,085,000         | 13,890,000         | 14,556,000         | 15,566,000         | 16,983,598         |
| Public Works                                 | 6,629,000         | 7,074,000         | 6,641,000         | 4,448,000         | 4,289,000          | 5,207,000          | 4,814,000          | 5,018,000          | 5,178,000          | 5,639,562          |
| Transportation                               | 1,942,000         | 2,081,000         | 2,108,000         | 2,034,000         | 2,368,000          | 2,893,000          | 2,879,000          | 2,894,000          | 2,820,000          | 3,121,178          |
| Development                                  | 2,181,000         | 2,243,000         | 3,567,000         | 2,877,000         | 2,816,000          | 2,558,000          | 2,948,000          | 3,068,000          | 3,219,000          | 3,681,462          |
| Recreation                                   | 2,895,000         | 2,962,000         | 3,197,000         | 3,190,000         | 3,274,000          | 3,022,000          | 3,726,000          | 4,011,000          | 3,933,000          | 4,594,675          |
| Education                                    | 39,193,000        | 40,959,000        | 42,788,000        | 44,589,000        | 46,618,000         | 48,581,000         | 51,437,000         | 53,161,000         | 55,800,000         | 57,968,972         |
| Miscellaneous                                | -                 | -                 | 249,000           | 220,000           | 309,000            | 348,000            | 516,000            | 722,000            | 878,000            | 1,019,288          |
| Capital Outlay                               | 5,572,000         | 6,888,000         | 14,951,000        | 7,368,000         | 7,502,000          | 10,048,000         | 11,933,000         | 10,562,000         | 4,954,000          | 21,263,050         |
| Debt Service:                                |                   |                   |                   |                   |                    |                    |                    |                    |                    |                    |
| Principal                                    | 5,624,000         | 5,219,000         | 6,081,000         | 6,628,000         | 19,770,000         | 11,080,000         | 7,847,000          | 8,525,000          | 8,488,000          | 12,191,783         |
| Interest                                     | 3,333,000         | 2,839,000         | 2,898,000         | 2,713,000         | 2,289,000          | 2,170,000          | 1,982,000          | 1,735,000          | 1,470,000          | 2,446,755          |
| Bond Issuance Costs                          | -                 | -                 | 18,000            | 34,000            | 123,000            | 211,000            | 43,000             | 100,000            | 300,000            | 389,556            |
| Arbitrage Rebate                             | -                 | 257,000           | -                 | -                 | -                  | -                  | -                  | -                  | -                  | -                  |
| Other Charges                                | 5,000             | 37,000            | 8,000             | 14,000            | 5,000              | 30,000             | 16,000             | 20,000             | 11,000             | 7,590              |
| <b>Total Expenditures</b>                    | <b>89,236,000</b> | <b>86,736,000</b> | <b>99,235,000</b> | <b>91,737,000</b> | <b>107,741,000</b> | <b>104,666,000</b> | <b>107,729,000</b> | <b>110,632,000</b> | <b>110,317,000</b> | <b>137,540,308</b> |
| Excess of revenues over (under) expenditures | 7,192,000         | 3,525,000         | (5,210,000)       | 2,590,000         | (11,354,000)       | (6,511,000)        | (3,302,000)        | (2,279,000)        | 4,179,000          | (17,041,808)       |

(Continued)

**CITY OF KINGSFORT, TENNESSEE**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

|                                                                | Fiscal Year          |                     |                       |                    |                     |                       |                       |                   |                      |                     |
|----------------------------------------------------------------|----------------------|---------------------|-----------------------|--------------------|---------------------|-----------------------|-----------------------|-------------------|----------------------|---------------------|
|                                                                | 1999                 | 2000                | 2001                  | 2002               | 2003                | 2004                  | 2005                  | 2006              | 2007                 | 2008                |
| <b>Other Financing Sources (Uses):</b>                         |                      |                     |                       |                    |                     |                       |                       |                   |                      |                     |
| Transfers In                                                   | \$ 18,258,000        | \$ 23,161,000       | \$ 25,305,000         | \$ 24,826,000      | \$ 28,658,000       | \$ 28,792,000         | \$ 30,484,000         | \$ 32,824,000     | \$ 36,504,000        | \$ 36,400,986       |
| Transfers Out                                                  | (18,568,000)         | (26,360,000)        | (28,149,000)          | (29,997,000)       | (32,681,000)        | (32,606,000)          | (34,396,000)          | (36,723,000)      | (40,314,000)         | (40,890,728)        |
| Issuance of Debt                                               | 10,349,000           | 2,035,000           | 1,909,000             | 2,620,000          | 17,155,000          | 13,725,000            | 2,850,000             | 6,771,000         | 35,441,000           | 23,120,000          |
| State Loan Proceeds                                            | 380,000              | 414,000             | -                     | -                  | -                   | -                     | -                     | -                 | -                    | -                   |
| Bond Anticipation Notes                                        | 400,000              | -                   | -                     | -                  | -                   | 561,000               | -                     | -                 | -                    | 112,398             |
| Bond Premiums                                                  | -                    | -                   | -                     | -                  | -                   | -                     | -                     | -                 | -                    | 800,000             |
| Sale of Building                                               | -                    | -                   | -                     | -                  | -                   | -                     | -                     | -                 | -                    | -                   |
| Refunding Bond Proceeds                                        | 26,002,000           | -                   | -                     | -                  | -                   | -                     | -                     | -                 | -                    | -                   |
| Payments to Refunded Bond Escrow Agent                         | (26,152,000)         | -                   | -                     | -                  | -                   | (6,340,000)           | -                     | -                 | -                    | -                   |
| Bond Proceeds From Other Governments                           | -                    | 181,000             | -                     | -                  | -                   | -                     | -                     | -                 | -                    | -                   |
| <b>Total Other Financing Sources (Uses)</b>                    | <b>8,669,000</b>     | <b>(599,000)</b>    | <b>(935,000)</b>      | <b>(2,551,000)</b> | <b>14,132,000</b>   | <b>4,132,000</b>      | <b>(1,052,000)</b>    | <b>2,872,000</b>  | <b>31,631,000</b>    | <b>19,752,868</b>   |
| <b>Net Change in Fund Balances</b>                             | <b>\$ 15,861,000</b> | <b>\$ 2,856,000</b> | <b>\$ (6,145,000)</b> | <b>\$ 39,000</b>   | <b>\$ 2,778,000</b> | <b>\$ (2,379,000)</b> | <b>\$ (4,354,000)</b> | <b>\$ 593,000</b> | <b>\$ 35,810,000</b> | <b>\$ 2,710,858</b> |
| <b>Debt Service as a Percentage of Noncapital Expenditures</b> | <b>11.5%</b>         | <b>10.5%</b>        | <b>10.7%</b>          | <b>11.1%</b>       | <b>22.1%</b>        | <b>14.2%</b>          | <b>10.3%</b>          | <b>10.4%</b>      | <b>9.7%</b>          | <b>12.8%</b>        |

Source: City of Kingsport Finance Department

Note: All net changes in fund balances are exclusive of any prior period adjustments. Financial statements prior to June 30, 2008 were rounded to thousands.

Table 6

**CITY OF KINGSPORT, TENNESSEE**  
**GENERAL GOVERNMENT TAX REVENUES BY SOURCE**  
 For the Fiscal Years Noted  
 (modified accrual basis of accounting)

| Fiscal Year | Property Tax  | Local Sales Tax | Income Tax | Business Tax | Alcoholic Beverage Tax | Hotel / Motel Tax | Total         |
|-------------|---------------|-----------------|------------|--------------|------------------------|-------------------|---------------|
| 2002        | \$ 34,911,000 | \$ 23,874,000   | \$ 664,000 | \$ 1,427,000 | \$ 1,307,000           | \$ 717,000        | \$ 62,900,000 |
| 2003        | 36,117,000    | 24,133,000      | 659,000    | 1,272,000    | 1,318,000              | 764,000           | 64,263,000    |
| 2004        | 37,775,000    | 24,394,000      | 379,000    | 1,416,000    | 1,296,000              | 735,000           | 65,995,000    |
| 2005        | 39,290,000    | 25,174,000      | 468,000    | 1,219,000    | 1,313,000              | 743,000           | 68,207,000    |
| 2006        | 41,770,000    | 26,154,000      | 750,000    | 1,551,000    | 1,368,000              | 791,000           | 72,384,000    |
| 2007        | 42,929,000    | 27,570,000      | 1,026,000  | 1,707,000    | 1,398,000              | 938,000           | 75,568,000    |
| 2008        | 43,322,288    | 27,531,437      | 1,324,987  | 1,951,834    | 1,459,593              | 1,381,161         | 76,971,300    |

Source: City of Kingsport Finance Department

Note: Information is only available for years ended after adoption of GASB 34.

Certain tax revenue that flows from other governments has historically been rolled up as intergovernmental revenue in Table 5 and the related statement of revenues, expenditures, and changes in fund balances.

Financial statements prior to June 30, 2008 were rounded to thousands.

Table 7

**CITY OF KINGSPORT, TENNESSEE  
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS**

| Fiscal Year Ended June 30 | Real Property |                             |                                  | Personal Property | Public Utility | Total Taxable Assessed Value | Total Direct Tax Rate | Estimated Actual Taxable Value | Assessed Value as a Percentage of Actual Value |
|---------------------------|---------------|-----------------------------|----------------------------------|-------------------|----------------|------------------------------|-----------------------|--------------------------------|------------------------------------------------|
|                           | Tax Year      | Residential & Farm Property | Industrial & Commercial Property |                   |                |                              |                       |                                |                                                |
| 1999                      | 1998          | \$ 320,281,642              | \$ 291,535,254                   | \$ 308,429,782    | \$ 37,273,648  | \$ 957,520,326               | 2.39                  | \$ 3,105,281,345               | 30.84%                                         |
| 2000                      | 1999          | 328,273,815                 | 291,537,209                      | 289,111,759       | 33,216,706     | 942,139,489                  | 2.39                  | 3,155,975,910                  | 29.85%                                         |
| 2001                      | 2000          | 335,408,356                 | 299,653,106                      | 280,452,313       | 35,562,788     | 951,076,563                  | 2.39                  | 3,177,912,163                  | 29.93%                                         |
| 2002                      | 2001          | 378,890,929                 | 350,414,588                      | 307,948,010       | 39,512,083     | 1,076,763,610                | 2.22                  | 3,489,323,774                  | 30.86%                                         |
| 2003                      | 2002          | 381,837,990                 | 353,943,783                      | 306,104,121       | 44,088,034     | 1,085,973,928                | 2.29                  | 3,512,115,287                  | 30.92%                                         |
| 2004                      | 2003          | 386,620,196                 | 381,988,450                      | 337,980,179       | 43,108,340     | 1,149,697,165                | 2.29                  | 3,705,828,043                  | 31.02%                                         |
| 2005                      | 2004          | 392,197,892                 | 390,447,568                      | 332,088,376       | 46,710,193     | 1,161,444,029                | 2.29                  | 3,736,183,711                  | 31.09%                                         |
| 2006                      | 2005          | 416,736,199                 | 438,583,408                      | 360,312,126       | 48,475,652     | 1,264,107,385                | 2.26                  | 4,053,938,000                  | 31.18%                                         |
| 2007                      | 2006          | 432,446,370                 | 451,842,280                      | 382,898,959       | 46,401,525     | 1,313,589,134                | 2.26                  | 4,194,699,000                  | 31.32%                                         |
| 2008                      | 2007          | 443,963,472                 | 459,872,279                      | 341,168,271       | 40,991,606     | 1,285,995,628                | 2.30                  | 4,137,292,349                  | 31.08%                                         |

Source: City of Kingsport Finance Department

Note: Tax rates are per \$100 of assessed value

**CITY OF KINGSPORT, TENNESSEE  
PROPERTY TAX RATES (per \$100 assessed value)  
DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS**

| Fiscal Year<br>Ended June<br>30 | City Direct<br>Rates | Overlapping Rates  |                   |
|---------------------------------|----------------------|--------------------|-------------------|
|                                 |                      | Sullivan<br>County | Hawkins<br>County |
| 1999                            | \$ 2.39              | \$ 2.58            | \$ 3.00           |
| 2000                            | 2.39                 | 2.58               | 3.00              |
| 2001                            | 2.39                 | 2.63               | 3.00              |
| 2002                            | 2.22                 | 2.35               | 2.41              |
| 2003                            | 2.29                 | 2.35               | 2.41              |
| 2004                            | 2.29                 | 2.35               | 2.41              |
| 2005                            | 2.29                 | 2.67               | 2.53              |
| 2006                            | 2.26                 | 2.53               | 2.68              |
| 2007                            | 2.26                 | 2.53               | 2.36              |
| 2008                            | 2.30                 | 2.53               | 2.61              |

Source: City of Kingsport Finance Department

Note: Overlapping rates are those of county governments that apply to property owners within the City of Kingsport.

**CITY OF KINGSPORT, TENNESSEE  
PRINCIPAL PROPERTY TAXPAYERS  
FOR THE FISCAL YEARS NOTED**

| Taxpayer                                                | 2008                   |      |                                            | 1999                   |      |                                            |
|---------------------------------------------------------|------------------------|------|--------------------------------------------|------------------------|------|--------------------------------------------|
|                                                         | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value |
| Eastman Chemical Company                                | \$ 349,026,433         | 1    | 27.1%                                      | \$ 303,308,828         | 1    | 31.7%                                      |
| Wellmont Health System/<br>Holston Valley Health Care   | 19,615,786             | 2    | 1.5%                                       | 4,479,372              | 9    | 0.5%                                       |
| Domtar, Inc (Weyerhaeuser Co/<br>Willamette Industries) | 17,696,589             | 3    | 1.4%                                       | 15,492,729             | 3    | 1.6%                                       |
| Kingsport Power Company                                 | 14,382,508             | 4    | 1.1%                                       | 13,789,133             | 5    | 1.4%                                       |
| Fort Henry Mall                                         | 13,278,122             | 5    | 1.0%                                       | 10,212,289             | 7    | 1.1%                                       |
| Mountain States Health / HCA                            | 9,747,838              | 6    | 0.8%                                       | 17,116,247             | 2    | 1.8%                                       |
| Wal Mart Properties/Real Estate                         | 9,388,720              | 7    | 0.7%                                       |                        |      | 0.0%                                       |
| Sprint/United Inter-Mountain<br>Telephone Southeast     | 9,049,673              | 8    | 0.7%                                       | 14,319,098             | 4    | 1.5%                                       |
| Eastman Credit Union                                    | 8,653,328              | 9    | 0.7%                                       |                        |      | 0.0%                                       |
| AGC America, Inc                                        | 6,652,163              | 10   | 0.5%                                       | 5,253,902              | 8    | 0.5%                                       |
| Quebecor                                                |                        |      | 0.0%                                       | 12,805,409             | 6    | 1.3%                                       |
| Crosscreek                                              |                        |      | 0.0%                                       | 3,455,240              | 10   | 0.4%                                       |
| <b>Totals</b>                                           | <b>\$ 457,491,160</b>  |      | <b>35.5%</b>                               | <b>\$ 400,232,247</b>  |      | <b>41.8%</b>                               |

Total Taxable Assessed Value:  
 FYE 2008 (Tax Year 2007) 1,285,995,628  
 FYE 1999 (Tax Year 1998) 957,520,326

Source: City of Kingsport Finance Department

Table 10

**CITY OF KINGSFORT, TENNESSEE  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS**

| Fiscal Year<br>Ended June<br>30 | Tax Levy for<br>Fiscal Year | Subsequent<br>Adjustments<br>to Levy | Adjusted Tax<br>Levy | Collected within the Fiscal |                                   | Total Collections to Date |                                   |                                    |
|---------------------------------|-----------------------------|--------------------------------------|----------------------|-----------------------------|-----------------------------------|---------------------------|-----------------------------------|------------------------------------|
|                                 |                             |                                      |                      | Amount                      | Percentage of<br>Adjusted<br>Levy | Amount                    | Percentage of<br>Adjusted<br>Levy | Uncollected<br>Delinquent<br>Taxes |
| 1999                            | \$ 22,914,214               | \$ (17,364)                          | \$ 22,896,850        | \$ 22,326,536               | 97.51%                            | \$ 554,483                | 99.93%                            | \$ 15,831                          |
| 2000                            | 22,522,659                  | 17,832                               | 22,540,491           | 21,896,993                  | 97.15%                            | 617,865                   | 99.89%                            | 25,633                             |
| 2001                            | 22,824,429                  | 6,779                                | 22,831,208           | 22,121,322                  | 96.89%                            | 648,785                   | 99.73%                            | 61,101                             |
| 2002                            | 23,911,170                  | (13,233)                             | 23,897,937           | 23,042,569                  | 96.42%                            | 748,952                   | 99.55%                            | 106,416                            |
| 2003                            | 24,868,827                  | 63,260                               | 24,932,087           | 24,104,536                  | 96.68%                            | 757,682                   | 99.72%                            | 69,869                             |
| 2004                            | 26,332,293                  | 894                                  | 26,333,187           | 25,315,529                  | 96.14%                            | 918,503                   | 99.62%                            | 99,155                             |
| 2005                            | 26,616,925                  | (18,158)                             | 26,598,767           | 25,793,768                  | 96.97%                            | 682,514                   | 99.54%                            | 122,485                            |
| 2006                            | 28,738,644                  | (456)                                | 28,738,188           | 27,985,510                  | 97.38%                            | 579,451                   | 99.40%                            | 173,227                            |
| 2007                            | 29,564,326                  | (771)                                | 29,563,555           | 28,769,796                  | 97.32%                            | 453,466                   | 98.85%                            | 340,293                            |
| 2008                            | 29,582,951                  | -                                    | 29,582,951           | 28,616,818                  | 96.73%                            | -                         | 96.73%                            | 966,133                            |

Source: City of Kingsport Finance Department

Table 11

**CITY OF KINGSPORT, TENNESSEE**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
 Last Ten Fiscal Years

| Fiscal Year<br>Ended June<br>30 | Governmental Activities        |                  |                                | Business-Type Activities |                  |             | Total Primary<br>Government | Percentage of<br>Personal<br>Income | Per Capita |
|---------------------------------|--------------------------------|------------------|--------------------------------|--------------------------|------------------|-------------|-----------------------------|-------------------------------------|------------|
|                                 | General<br>Obligation<br>Bonds | Notes<br>Payable | General<br>Obligation<br>Bonds | Revenue<br>Bonds         | Notes<br>Payable |             |                             |                                     |            |
| 1999                            | 65,891,000                     | 380,000          | 61,263,000                     | 378,000                  | 7,351,000        | 135,263,000 | 13.76%                      | \$ 3,263                            |            |
| 2000                            | 62,770,000                     | 730,000          | 71,014,000                     | 354,000                  | 7,709,000        | 142,577,000 | 12.64%                      | \$ 3,439                            |            |
| 2001                            | 58,416,000                     | 911,000          | 64,017,000                     | 330,000                  | 8,625,000        | 132,299,000 | 11.53%                      | \$ 3,191                            |            |
| 2002                            | 54,766,000                     | 554,000          | 61,743,000                     | 300,000                  | 11,419,000       | 128,782,000 | 11.04%                      | \$ 3,107                            |            |
| 2003                            | 48,434,000                     | 4,450,000        | 61,394,000                     | 270,000                  | 13,046,000       | 127,594,000 | 11.37%                      | \$ 3,078                            |            |
| 2004                            | 49,288,000                     | 346,000          | 63,890,000                     | 240,000                  | 7,920,000        | 121,684,000 | 11.01%                      | \$ 2,935                            |            |
| 2005                            | 44,395,000                     | 241,000          | 63,045,000                     | 225,000                  | 6,293,000        | 114,199,000 | 9.85%                       | \$ 2,755                            |            |
| 2006                            | 38,931,000                     | 3,932,000        | 60,303,000                     | 210,000                  | 5,829,000        | 109,205,000 | 9.11%                       | \$ 2,634                            |            |
| 2007                            | 63,481,000                     | 6,302,000        | 53,665,000                     | 195,000                  | 5,423,000        | 129,066,000 | 10.23%                      | \$ 3,113                            |            |
| 2008                            | 74,292,500                     | 6,419,174        | 47,477,500                     | 180,000                  | 5,591,065        | 133,950,239 | 10.68%                      | \$ 3,232                            |            |

Source: City of Kingsport Finance Department

Note:

- Details regarding the City's outstanding debt can be found in the notes to the financial statements.
- See the Schedule of Demographic and Economic Statistics for personal income and population data.
- Financial statements prior to June 30, 2008 were rounded to thousands.

**CITY OF KINGSPORT, TENNESSEE**  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
 Last Ten Fiscal Years

| Fiscal Year<br>Ended June<br>30 | General<br>Obligation<br>Bonds | Less: Amounts<br>Available in<br>Debt Service<br>Fund | Net General<br>Obligation<br>Bonds | Percentage of                           |            |
|---------------------------------|--------------------------------|-------------------------------------------------------|------------------------------------|-----------------------------------------|------------|
|                                 |                                |                                                       |                                    | Estimated<br>Actual Taxable<br>Value of | Per Capita |
| 1999                            | 65,891,000                     | 5,511,000                                             | 60,380,000                         | 1.94%                                   | \$ 1,457   |
| 2000                            | 62,770,000                     | 113,000                                               | 62,657,000                         | 1.99%                                   | 1,511      |
| 2001                            | 58,416,000                     | -                                                     | 58,416,000                         | 1.84%                                   | 1,409      |
| 2002                            | 54,766,000                     | 15,000                                                | 54,751,000                         | 1.57%                                   | 1,321      |
| 2003                            | 48,434,000                     | -                                                     | 48,434,000                         | 1.38%                                   | 1,168      |
| 2004                            | 49,288,000                     | 71,000                                                | 49,217,000                         | 1.33%                                   | 1,187      |
| 2005                            | 44,395,000                     | 33,000                                                | 44,362,000                         | 1.19%                                   | 1,070      |
| 2006                            | 38,931,000                     | 92,000                                                | 38,839,000                         | 0.96%                                   | 937        |
| 2007                            | 63,481,000                     | 422,000                                               | 63,059,000                         | 1.50%                                   | 1,521      |
| 2008                            | 74,292,500                     | 392,348                                               | 73,900,152                         | 1.79%                                   | 1,783      |

Source: City of Kingsport Finance Department

Note:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.  
 See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.  
 See the Schedule of Demographic and Economic Statistics for personal income and population data.  
 Financial statements prior to June 30, 2008 were rounded to thousands.

**CITY OF KINGSPORT, TENNESSEE**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**For the Fiscal Year Ended June 30, 2008**

| <u>Governmental Unit</u>                 | <u>Debt Outstanding</u>      | <u>Estimated Percentage Applicable</u> | <u>Estimated Share of Overlapping Debt</u> |
|------------------------------------------|------------------------------|----------------------------------------|--------------------------------------------|
| <b>Debt Repaid with Property Taxes:</b>  |                              |                                        |                                            |
| <b>Net Direct Debt:</b>                  |                              |                                        |                                            |
| City of Kingsport                        | \$ 74,655,000                | 100.00%                                | \$ 74,655,000                              |
| Total Direct Debt                        | <u>74,655,000</u>            | <u>100.00%</u>                         | <u>74,655,000</u>                          |
| <b>Overlapping Debt:</b>                 |                              |                                        |                                            |
| Sullivan County                          | 36,610,000                   | 41.33%                                 | 15,130,913                                 |
| Hawkins County                           | <u>52,398,000</u>            | <u>6.30%</u>                           | <u>3,301,074</u>                           |
| Subtotal, Overlapping Debt               | <u>89,008,000</u>            | <u>47.63%</u>                          | <u>18,431,987</u>                          |
| <b>Total Direct and Overlapping Debt</b> | <b><u>\$ 163,663,000</u></b> |                                        | <b><u>\$ 93,086,987</u></b>                |

**Sources:**

- City of Kingsport Finance Department
- County Governments

**Note:** Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Kingsport. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Table 14

**CITY OF KINGSPORT, TENNESSEE  
LEGAL DEBT MARGIN INFORMATION  
Last Ten Fiscal Years**

|                                                                                  | 1999           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2008           | 2007           | 2008           |
|----------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Debt Limit                                                                       | \$ 191,504,065 | \$ 188,427,898 | \$ 190,215,313 | \$ 215,352,722 | \$ 217,194,786 | \$ 228,939,433 | \$ 232,288,808 | \$ 252,821,477 | \$ 262,717,827 | \$ 257,199,128 |
| Total Net Debt<br>Applicable to Limit                                            | 65,891,000     | 62,770,000     | 58,418,000     | 65,906,000     | 62,786,000     | 56,978,000     | 50,275,000     | 43,335,000     | 65,910,000     | 74,655,000     |
| Legal Debt Margin                                                                | \$ 125,613,065 | \$ 125,657,898 | \$ 131,799,313 | \$ 149,446,722 | \$ 154,398,786 | \$ 172,961,433 | \$ 182,013,808 | \$ 209,486,477 | \$ 196,807,827 | \$ 182,544,128 |
| Total Net Debt<br>Applicable to the<br>Limit as a<br>Percentage of Debt<br>Limit | 34.41%         | 33.31%         | 30.71%         | 30.60%         | 28.91%         | 24.78%         | 21.64%         | 17.14%         | 25.09%         | 29.03%         |

**Legal Debt Margin Calculation for Fiscal Year 2008**

|                                            |                  |
|--------------------------------------------|------------------|
| Total Taxable Assessed Value               | \$ 1,285,995,628 |
| Debt Limit (20% of Taxable Assessed Value) | 257,199,128      |
| Debt Applicable to Limit:                  |                  |
| General Obligation Debt                    | 74,292,500       |
| Add: Solid Waste General Obligation Debt   | 362,500          |
| Total Net Debt Applicable to Limit         | 74,655,000       |
| Legal Debt Margin                          | \$ 182,544,128   |

**Limitation on Borrowing Power**

City Charter - Article XIII, Section 5. "The total bonded indebtedness of the City shall not exceed twenty per centum (20%) of the assessed value of the taxable property of the City according to the last complete assessment." Revenue Bonds and Special Assessment Bonds are excluded in computing the debt limit.

Bond Rating: "Moody's" A-1

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE  
PLEDGED-REVENUE COVERAGE  
Last Ten Fiscal Years**

| Fiscal Year                                  | Operating Revenue | Less:<br>(1)<br>Operating Expenses | Net Available Revenue | Debt Service |           |           | Total | Coverage |
|----------------------------------------------|-------------------|------------------------------------|-----------------------|--------------|-----------|-----------|-------|----------|
|                                              |                   |                                    |                       | Principal    | Interest  |           |       |          |
| <b><u>Water and Sewer Revenue Bonds:</u></b> |                   |                                    |                       |              |           |           |       |          |
| 1999                                         | 18,204,000        | 8,759,000                          | 9,445,000             | 4,801,000    | 2,038,000 | 6,839,000 | 1.38  |          |
| 2000                                         | 18,162,000        | 8,832,000                          | 9,330,000             | 5,068,000    | 2,407,000 | 7,475,000 | 1.25  |          |
| 2001                                         | 19,500,000        | 9,803,000                          | 9,697,000             | 5,996,000    | 2,867,000 | 8,863,000 | 1.09  |          |
| 2002                                         | 20,506,000        | 9,674,000                          | 10,832,000            | 5,754,000    | 1,954,000 | 7,708,000 | 1.41  |          |
| 2003                                         | 21,137,000        | 8,770,000                          | 12,367,000            | 6,669,000    | 1,588,000 | 8,257,000 | 1.50  |          |
| 2004                                         | 22,318,000        | 9,321,000                          | 12,997,000            | 6,851,000    | 1,775,000 | 8,626,000 | 1.51  |          |
| 2005                                         | 24,613,000        | 9,144,000                          | 15,469,000            | 8,173,000    | 1,732,000 | 9,905,000 | 1.56  |          |
| 2006                                         | 25,388,000        | 9,601,000                          | 15,787,000            | 6,334,000    | 1,734,000 | 8,068,000 | 1.96  |          |
| 2007                                         | 26,802,000        | 9,341,000                          | 17,461,000            | 6,327,000    | 1,608,000 | 7,935,000 | 2.20  |          |
| 2008                                         | 25,814,512        | 10,578,186                         | 15,236,326            | 5,271,846    | 1,606,431 | 6,878,277 | 2.22  |          |

(1) Total operating expenses exclusive of depreciation.

Source: City of Kingsport Finance Department

Note: Financial statements prior to June 30, 2008 were rounded to thousands.

Table 16

**CITY OF KINGSFORT, TENNESSEE  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**

| Fiscal<br>Year<br>Ended<br>June 30 | Population | Personal<br>Income | Per Capita<br>Personal<br>Income | Median<br>Age | Education<br>Level In<br>Years of<br>Formal<br>Schooling | School<br>Enrollment | Unemployment<br>Rate |
|------------------------------------|------------|--------------------|----------------------------------|---------------|----------------------------------------------------------|----------------------|----------------------|
|                                    |            |                    |                                  |               |                                                          |                      |                      |
| 2000                               | 44,905     | 1,127,789,075      | 25,115                           | *             | *                                                        | 6,341                | 3.8%                 |
| 2001                               | 44,467     | 1,147,648,803      | 25,809                           | 41.9          | *                                                        | 6,316                | 4.3%                 |
| 2002                               | 44,362     | 1,166,986,772      | 26,306                           | *             | *                                                        | 6,372                | 5.6%                 |
| 2003                               | 44,362     | 1,122,314,238      | 25,299                           | *             | *                                                        | 6,412                | 5.9%                 |
| 2004                               | 44,231     | 1,105,023,073      | 24,983                           | *             | *                                                        | 6,382                | 5.5%                 |
| 2005                               | 44,070     | 1,159,746,120      | 26,316                           | *             | *                                                        | 6,377                | 5.5%                 |
| 2006                               | 44,130     | 1,198,703,190      | 27,163                           | *             | *                                                        | 6,451                | 5.4%                 |
| 2007                               | 44,191     | 1,261,608,859      | 28,549                           | *             | *                                                        | 6,455                | 4.2%                 |
| 2008                               | 44,435     | 1,254,044,570      | 28,222                           | *             | *                                                        | 6,396                | 6.2%                 |

\* Information was not available.

Source: City of Kingsport Finance Department

Table 17

CITY OF KINGSPORT, TENNESSEE  
 PRINCIPAL EMPLOYERS  
 FOR THE FISCAL YEARS NOTED

| Employer                           | 2008          |      |                                       | 2000*         |      |                                       |
|------------------------------------|---------------|------|---------------------------------------|---------------|------|---------------------------------------|
|                                    | Employees     | Rank | Percentage of Total County Employment | Employees     | Rank | Percentage of Total County Employment |
| Eastman Chemical Company           | 8,000         | 1    | 11.4%                                 | 8,630         | 1    | 12.2%                                 |
| Wellmont Health Systems            | 2,000         | 2    | 2.9%                                  | 1,922         | 3    | 2.7%                                  |
| Kingsport City Schools             | 1,037         | 3    | 1.5%                                  | 962           | 5    | 1.4%                                  |
| Wal-Mart                           | 900           | 4    | 1.3%                                  | N/A           | -    | -                                     |
| Holston Medical Group              | 890           | 5    | 1.3%                                  | N/A           | -    | -                                     |
| Mountain States Health             | 845           | 6    | 1.2%                                  | N/A           | -    | -                                     |
| City of Kingsport                  | 745           | 7    | 1.1%                                  | 700           | 6    | 1.0%                                  |
| AGC America, Inc.                  | 600           | 8    | 0.9%                                  | 1,230         | 4    | 1.7%                                  |
| BAE SYSTEMS Ordnance Systems, Inc. | 428           | 9    | 0.6%                                  | N/A           | -    | -                                     |
| Domtar                             | 370           | 10   | 0.5%                                  | N/A           | -    | -                                     |
| Quebecor World                     | N/A           | -    | -                                     | 2,141         | 2    | 3.0%                                  |
| Willamette Industries              | N/A           | -    | -                                     | 581           | 7    | 0.8%                                  |
| Chiquola Fabrics                   | N/A           | -    | -                                     | 375           | 8    | 0.5%                                  |
| ICG Holliston                      | N/A           | -    | -                                     | 210           | 9    | 0.3%                                  |
| Kingsport Publishing Times-News    | N/A           | -    | -                                     | 209           | 10   | 0.3%                                  |
|                                    | <u>15,815</u> |      | <u>22.6%</u>                          | <u>16,960</u> |      | <u>24.0%</u>                          |

Total Sullivan County Employment:

|          |        |
|----------|--------|
| FYE 2008 | 70,080 |
| FYE 2000 | 70,530 |

\*Principal Employer information is not available prior to FY 2000

Sources:

- Kingsport Economic Development Board
- Tennessee Department of Economic Security

Table 18

**CITY OF KINGSPORT, TENNESSEE  
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
FOR THE FISCAL YEARS NOTED**

| Function           | Fiscal Year  |              |              |              |              |              |              |  |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
|                    | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         |  |
| General Government | 80           | 81           | 79           | 80           | 81           | 80           | 92           |  |
| Public Safety      | 234          | 233          | 235          | 237          | 237          | 243          | 254          |  |
| Public Works       | 103          | 105          | 105          | 109          | 106          | 113          | 119          |  |
| Development        | 49           | 49           | 46           | 47           | 47           | 36           | 25           |  |
| Recreation         | 53           | 53           | 54           | 56           | 57           | 57           | 58           |  |
| Education          | 913          | 924          | 945          | 961          | 970          | 978          | 982          |  |
| Water              | 78           | 78           | 78           | 80           | 80           | 80           | 78           |  |
| Sewer              | 46           | 46           | 45           | 40           | 40           | 40           | 40           |  |
| Solid Waste        | 37           | 36           | 36           | 36           | 35           | 31           | 30           |  |
|                    | <u>1,593</u> | <u>1,605</u> | <u>1,623</u> | <u>1,646</u> | <u>1,653</u> | <u>1,658</u> | <u>1,678</u> |  |

Sources:

- City of Kingsport Finance Department
- Kingsport City School System

Note:

-Information prior to FY2002 was not readily available.

**CITY OF KINGSPORT, TENNESSEE  
OPERATING INDICATORS BY FUNCTION  
FOR THE FISCAL YEARS NOTED**

| Function                                | Fiscal Year  |              |
|-----------------------------------------|--------------|--------------|
|                                         | 2007         | 2008         |
| Education:                              |              |              |
| Student Transportation:                 |              |              |
| Miles                                   | 368,869      | 377,916      |
| Average Daily Ridership                 | 1,949        | 1,943        |
| Public Safety:                          |              |              |
| Police:                                 |              |              |
| Physical Arrests                        | 3,206        | 3,348        |
| Parking Citations                       | 3,722        | 3,016        |
| Traffic Citations                       | 12,895       | 12,957       |
| Calls for Service                       | 47,934       | 48,981       |
| Fire:                                   |              |              |
| Calls for Service                       | 5,987        | 6,445        |
| Inspections                             | 3,403        | 2,899        |
| Fire Loss                               | \$ 1,471,657 | \$ 1,565,342 |
| Public Works:                           |              |              |
| Potholes Repaired                       | 538          | 924          |
| Streets Swept (linear miles)            | 7,853        | 6,339        |
| Traffic Signal Maintenance Calls        | 650          | 547          |
| Leaves Collected (Tons)                 | 1,716        | 1,595        |
| Parks and Recreation:                   |              |              |
| Civic Auditorium Rentals                | 1,127        | 899          |
| Civic Auditorium Attendance             | 54,219       | 70,197       |
| Pool Attendance                         | 27,552       | 25,231       |
| Participation in athletic events        | 180,766      | 187,561      |
| Renaissance Center Rentals              | 1,908        | 1,870        |
| Renaissance Center Attendance           | 181,650      | 198,575      |
| Allandale Rentals                       | 297          | 293          |
| Allandale Visitors                      | 29,808       | 23,591       |
| K - Play Games Played                   | 1,350        | 1,428        |
| K - Play Attendance                     | 91,145       | 97,320       |
| Senior Center:                          |              |              |
| Active Members                          | 1,842        | 2,365        |
| Average Daily Attendance                | 188          | 226          |
| Bays Mountain Park:                     |              |              |
| Total Programs                          | 1,667        | 1,259        |
| Total Attendance                        | 148,041      | 173,063      |
| Library:                                |              |              |
| Total Circulation                       | 206,586      | 210,476      |
| Building Attendance                     | 176,854      | 193,344      |
| Water:                                  |              |              |
| Average Daily Consumption in Gallons    | 14.5 mgd     | 14.6 mgd     |
| Maximum Daily Capacity in Gallons       | 28.0 mgd     | 28.0 mgd     |
| Water Taps                              | 339          | 442          |
| Sewer:                                  |              |              |
| Average Daily Treatment in Gallons      | 8.8 mgd      | 8.8 mgd      |
| Maximum Daily Plant Capacity in Gallons | 12.4 mgd     | 12.4 mgd     |
| Sewer Taps                              | 187          | 206          |
| Solid Waste:                            |              |              |
| Landfill Material Accepted (Tons)       | 24,434       | 32,574       |
| Household Refuse Collected (Tons)       | 16,046       | 16,244       |
| Recyclables Collected (Tons)            | 2,587        | 2,613        |
| Golf Course:                            |              |              |
| Rounds of Golf                          | 26,175       | 27,338       |

Source: Various City Departments

**CITY OF KINGSPORT, TENNESSEE  
CAPITAL ASSET STATISTICS BY FUNCTION  
FOR THE FISCAL YEARS NOTED**

| Function                                    | Fiscal Year |       |
|---------------------------------------------|-------------|-------|
|                                             | 2007        | 2008  |
| Education:                                  |             |       |
| Student Transportation:                     |             |       |
| Buses                                       | 35          | 37    |
| Public Safety:                              |             |       |
| Police:                                     |             |       |
| Stations                                    | 1           | 1     |
| Patrol Units                                | 104         | 109   |
| Motorcycle Units                            | 1           | 1     |
| Fire:                                       |             |       |
| Stations                                    | 6           | 6     |
| Fire Trucks/Rescue Units                    | 14          | 14    |
| Public Works:                               |             |       |
| Streets (Miles)                             | 429         | 434   |
| Street Lights                               | 8,921       | 9,031 |
| Traffic Signals                             | 103         | 102   |
| Leisure Services:                           |             |       |
| Parks and Recreation:                       |             |       |
| Park Sites                                  | 17          | 17    |
| Park Acreage                                | 191         | 191   |
| Swimming Pools                              | 2           | 2     |
| Tennis Courts                               | 8           | 8     |
| Community Centers                           | 5           | 5     |
| Senior Citizens:                            |             |       |
| Senior Center                               | 1           | 1     |
| Other Recreational Facilities:              |             |       |
| Bays Mountain Park & Nature Center -Acreage | 3,550       | 3,550 |
| Hunter Wright Baseball Stadium - Acreage    | 54          | 54    |
| School System:                              |             |       |
| Elementary Schools                          | 7           | 7     |
| Middle Schools                              | 2           | 2     |
| High Schools                                | 1           | 1     |
| Water and Sewer:                            |             |       |
| Water Mains (Miles)                         | 750         | 817   |
| Fire Hydrants                               | 1,691       | 1,740 |
| Sanitary Sewers (Miles)                     | 515         | 515   |
| Storm Sewers (Miles)                        | 209         | 209   |
| Solid Waste:                                |             |       |
| Collection Trucks                           | 14          | 15    |
| Golf Courses                                | 1           | 1     |

Source: Various City Departments

**CITY OF KINGSPORT, TENNESSEE**  
**UTILITY RATE STRUCTURE & NUMBER OF CUSTOMERS**  
**June 30, 2008**

**Water Rates:**

| Inside City         |    |                   |
|---------------------|----|-------------------|
| First 1,000 gallons | \$ | 3.36 per 1000 gal |
| Next 13,000 gallons | \$ | 2.71 per 1000 gal |
| Next 35,000 gallons | \$ | 2.09 per 1000 gal |
| Over 50,000 gallons | \$ | 1.43 per 1000 gal |

| Outside City         |    |                    |
|----------------------|----|--------------------|
| First 1,000 gallons  | \$ | 14.82 per 1000 gal |
| Next 9,000 gallons   | \$ | 6.43 per 1000 gal  |
| Next 10,000 gallons  | \$ | 5.82 per 1000 gal  |
| Next 70,000 gallons  | \$ | 5.40 per 1000 gal  |
| Next 100,000 gallons | \$ | 4.42 per 1000 gal  |
| Over 190,000 gallons | \$ | 4.15 per 1000 gal  |

**Sewer Rates:**

| Inside City        |    |                   |
|--------------------|----|-------------------|
| Minimum charge     | \$ | 13.26 2,000 gal   |
| Additional gallons | \$ | 6.63 per 1000 gal |

| Outside City       |    |                   |
|--------------------|----|-------------------|
| Minimum charge     | \$ | 16.24 2,000 gal   |
| Additional gallons | \$ | 8.12 per 1000 gal |

**Number of Customers:**

|       | Inside City | Outside City |
|-------|-------------|--------------|
| Water | 19,473      | 14,534       |
| Sewer | 18,731      | 1,795        |

**CITY OF KINGSPORT, TENNESSEE**  
**SCHEDULE OF UNACCOUNTED FOR WATER**  
**June 30, 2008**  
**(All amounts in gallons)**

Table 22

|                                          |                  |                      |
|------------------------------------------|------------------|----------------------|
| <b>Water Treated and Purchased:</b>      |                  |                      |
| Water Pumped (potable)                   | 5,328,439,000    |                      |
| Water Purchased                          | <u>3,623,000</u> |                      |
| <b>Total Water Treated and Purchased</b> |                  | 5,332,062,000        |
| <b>Accounted for Water:</b>              |                  |                      |
| Water Sold                               | 3,353,195,600    |                      |
| Metered for Consumption                  | 169,701,100      |                      |
| Fire Department(s) Usage                 | 2,338,600        |                      |
| Flushing                                 | 18,027,100       |                      |
| Tank Cleaning/Filling                    | 9,106,800        |                      |
| Street Cleaning                          | 3,464,900        |                      |
| Bulk Sales                               | -                |                      |
| Water Bill Adjustments                   | -                |                      |
| Other                                    | -                |                      |
| <b>Total Accounted for Water</b>         |                  | <u>3,555,834,100</u> |
| <b>Unaccounted for Water</b>             |                  | <u>1,776,227,900</u> |
| <b>Percent Unaccounted for Water</b>     |                  | <u>33.31%</u>        |
| <b>Cost per 1,000 gallons of Water</b>   |                  | <u>\$1.24</u>        |
| <b>Cost of Unaccounted for Water</b>     |                  | <u>\$2,202,523</u>   |

Table 23

**CITY OF KINGSPORT, TENNESSEE  
TOP TEN WATER CUSTOMERS  
FOR FISCAL YEAR ENDED JUNE 30, 2008**

| <u>Customer Name</u>                  | <u>Consumption</u>   | <u>Revenue</u>      | <u>Revenue as %<br/>of FY08<br/>Water Sales</u> |
|---------------------------------------|----------------------|---------------------|-------------------------------------------------|
| Eastman Chemical Company              | 703,357,100          | \$ 1,033,993        | 8.51%                                           |
| Domtar Paper Company, LLC             | 65,867,000           | 108,998             | 0.90%                                           |
| Wellmont Health System                | 61,517,200           | 90,500              | 0.74%                                           |
| Royal Ordnance of North America, Inc. | 47,477,800           | 68,940              | 0.57%                                           |
| Pet Dairy, Inc.                       | 42,578,600           | 62,055              | 0.51%                                           |
| Kingsport Housing Authority           | 29,166,200           | 49,906              | 0.41%                                           |
| AGC                                   | 21,533,800           | 43,646              | 0.36%                                           |
| Indian Path Hospital                  | 17,604,300           | 25,697              | 0.21%                                           |
| Allandale Falls Apt, LLC              | 15,550,500           | 22,747              | 0.19%                                           |
| MeadowView Conference Resort          | 12,518,100           | 19,298              | 0.16%                                           |
|                                       | <u>1,017,170,600</u> | <u>\$ 1,525,780</u> | <u>12.56%</u>                                   |

Source: City of Kingsport Finance Department

Table 24

**CITY OF KINGSPORT, TENNESSEE  
TOP TEN SEWER CUSTOMERS  
FOR FISCAL YEAR ENDED JUNE 30, 2008**

| <u>Customer Name</u>        | <u>Consumption</u> | <u>Revenue</u>      | <u>Revenue as %<br/>of FY08<br/>Sewer User Fees</u> |
|-----------------------------|--------------------|---------------------|-----------------------------------------------------|
| Eastman Chemical Company    | 206,803,500        | \$ 1,371,541        | 11.20%                                              |
| Wellmont Health Systems     | 43,653,400         | 289,508             | 2.36%                                               |
| Pet Dairy, Inc.             | 30,353,100         | 201,293             | 1.64%                                               |
| Kingsport Housing Authority | 29,166,200         | 194,906             | 1.59%                                               |
| Domtar Paper Company, LLC   | 15,998,000         | 106,122             | 0.87%                                               |
| Allandale Falls Apt, LLC    | 15,550,500         | 103,100             | 0.84%                                               |
| Model City Apts             | 12,024,500         | 79,732              | 0.65%                                               |
| Cross Creek Apartments, LLC | 10,982,800         | 72,822              | 0.59%                                               |
| Indian Path Hospital        | 10,626,600         | 70,454              | 0.58%                                               |
| Cabana Apartments, Inc.     | 10,081,500         | 66,840              | 0.55%                                               |
|                             | <u>385,240,100</u> | <u>\$ 2,556,318</u> | <u>20.87%</u>                                       |

Source: City of Kingsport Finance Department



**CITY OF KINGSPORT, TENNESSEE**  
**SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS**  
For the Fiscal Year Ended June 30, 2008

| <u>NAME</u>            | <u>TITLE</u>                          | <u>ANNUAL SALARY</u> | <u>AMOUNT OF SURETY BOND</u> |
|------------------------|---------------------------------------|----------------------|------------------------------|
| John Campbell          | City Manager                          | \$ 146,197           | \$ 5,000                     |
| J. Michael Billingsley | City Attorney                         | 108,175              | -                            |
| James H. Demming       | City Recorder/Chief Financial Officer | 99,961               | 385,000                      |
| Keith E. Smith         | City Treasurer                        | 76,679               | 200,000                      |
| Richard Kitzmiller     | Director of Schools                   | 142,450              | -                            |
| Gale Osborne           | Chief of Police                       | 84,900               | -                            |
| Dennis R. Phillips     | Mayor                                 | 3,000                | -                            |
| Larry Munsey           | Vice-Mayor                            | 2,400                | -                            |
| Patrick W. Shull       | Alderman                              | 2,400                | -                            |
| C. Ken Marsh, Jr.      | Alderman                              | 2,400                | -                            |
| Benjamin K. Mallicote  | Alderman                              | 2,400                | -                            |
| Valerie Joh            | Alderman                              | 2,400                | -                            |
| Jantry Shupe           | Alderman                              | 2,400                | -                            |

Source: City of Kingsport Finance Department

**CITY OF KINGSFORT, TENNESSEE  
SCHEDULE OF INSURANCE IN FORCE  
June 30, 2008**

| Type of Coverage/<br>Insurance Carrier                                                                                                         | Policy<br>Number                                | Policy<br>Period                                                         | Details of<br>Coverage                                                                                                                          | Claim<br>Limits                                       | Annual<br>Premiums         |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------|
| <u>Comprehensive General Liability/<br/>TML Risk Management Pool</u>                                                                           | TML-21300                                       | 7/1/07-7/1/10<br>Annual Renewal<br>7/1/08-7/1/09                         | General Liability<br>Auto Liability<br>Auto Physical Damage<br>Errors and Omissions                                                             | \$ 3,000,000<br>3,000,000<br>Replacement<br>3,000,000 | \$ 110,113                 |
| <u>Midwest Employers Reinsurance Corp.</u>                                                                                                     | EWC: 005902<br>(reinsurance agreement)          | 1/1/08-12/31/08                                                          | Worker's Compensation                                                                                                                           | Statutory                                             | 78,133                     |
| <u>Government/Crime/<br/>St. Paul / U.S. Fidelity &amp; Guarantee Co.</u>                                                                      | 104703171                                       | 1/1/07-1/1/08                                                            | Employee Blanket Dishonesty (City)                                                                                                              | 250,000                                               | 1,224                      |
| <u>Travelers Insurance Co.</u>                                                                                                                 | 105012751                                       | 07/01/07-07/01/08                                                        | Employee Blanket Dishonesty (Schools)                                                                                                           | 510,000                                               | 6,484                      |
| <u>Unemployment Compensation</u>                                                                                                               | Self insured                                    |                                                                          |                                                                                                                                                 |                                                       |                            |
| <u>Property and Casualty<br/>Continental Casualty Company</u>                                                                                  | RMP2071010211                                   | 12/31/07-12/31/08                                                        | Buildings and Contents                                                                                                                          | 194,607,453                                           | 120,878                    |
| <u>Travelers Insurance Co.</u>                                                                                                                 | I-660-710X3600-660                              | 2/13/08-2/13/09                                                          | Justice Center Commercial/ Gen Property                                                                                                         | 5,928,000                                             | 9,874                      |
| <u>Hartford Insurance Co.</u>                                                                                                                  | 20MSCYQ7488                                     | 5/28/08-5/28/09                                                          | Grand Piano - Allandale                                                                                                                         |                                                       | 534                        |
| <u>Boiler and Machinery<br/>The Cincinnati Insurance Co.</u>                                                                                   | BEP2846328                                      | 1/1/08-1/1/09                                                            | Boilers and Machinery                                                                                                                           | 100,000                                               | 4,348                      |
| <u>Public Officials Bond<br/>St. Paul / U.S. Fidelity &amp; Guarantee Co.<br/>RLI</u>                                                          | 400MQ3028<br>RSB2003698                         | 8/1/07-8/1/08<br>4/30/08-4/30/09                                         | Bond - Treasurer (K. Smith)<br>Bond - Treasurer (K. Smith)<br>(State of Tennessee Schools)                                                      | 200,000<br>1,277,000                                  | 1,250<br>5,331             |
| <u>Travelers Insurance Company<br/>Travelers Insurance Company<br/>St. Paul / U.S. Fidelity &amp; Guarantee Co.<br/>Western Surety Company</u> | 400NS5672<br>104224291<br>104476426<br>58368775 | 3/15/08-3/15/09<br>10/1/07-10/1/08<br>12/31/07-12/31/08<br>4/1/08-4/1/08 | Bond - Recorder (J. Demming)<br>Bond - City Manager (J. Campbell)<br>Bond - City Judge (J.R. Boatwright)<br>Blanket Notary Errors and Omissions | 385,000<br>5,000<br>1,000<br>25,000                   | 1,537<br>100<br>100<br>858 |
| <u>Other<br/>Stadium General Liability/ Hunter Wright<br/>Property - D.B. High School<br/>Indiana Insurance Company</u>                        | CBP9566738                                      | 3/8/08-3/8/09                                                            | General Liability/ Scoreboard/<br>Public Address system                                                                                         | 2,000,000                                             | 1,329                      |
| <b>Total Premium</b>                                                                                                                           |                                                 |                                                                          |                                                                                                                                                 |                                                       | <b>\$ 342,093</b>          |

Source: City of Kingsport

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Independent Auditors' 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

Honorable Mayor and Board of Aldermen  
City of Kingsport  
Kingsport, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 17, 2008. We did not audit the financial statements of the Emergency Communications District (the ECD), a discretely presented component unit, which represents 16 percent, 22 percent, and 13 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units, as of and for the year ended June 30, 2008. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the City's basic financial statements, insofar as it relates to the amounts included for the ECD, is based solely on the report 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.

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 opinions on the basic 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 08-01, 08-02 and 08-03.

|                     |                                                               |                       |                    |
|---------------------|---------------------------------------------------------------|-----------------------|--------------------|
| <b>Johnson City</b> | 801B Sunset Drive, P.O. Box 3745, Johnson City, TN 37602-3745 | <b>(423) 282-4511</b> | Fax (423) 283-4532 |
| <b>Kingsport</b>    | 440 E. Sullivan Street, Kingsport, TN 37660                   | <b>(423) 246-1725</b> | Fax (423) 245-2839 |
| <b>Greeneville</b>  | 1140 Tusculum Boulevard, Greeneville, TN 37745-4039           | <b>(423) 638-8516</b> | Fax (423) 638-3361 |

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Of the significant deficiencies listed above and described in the accompanying schedule of findings and questioned costs, we consider the following deficiency to be a material weakness in internal control over financial reporting: 08-01.

#### Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated December 17, 2008.

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

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

*Blackburn, Childers and Steagall, PLLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC

December 17, 2008



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

Honorable Mayor and Board of Aldermen  
City of Kingsport  
Kingsport, Tennessee

Compliance

We have audited the compliance of the City of Kingsport, Tennessee (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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.

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 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs.

In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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

*Blackburn, Childers and Steagall, PLLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC

December 17, 2008

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008

**Section I - Summary of Auditors' Results**  
(As required by OMB Circular A-133)

1. The auditors' report expresses an unqualified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information (the financial statements) of the City of Kingsport, Tennessee (the City). We did not audit the financial statements of the Emergency Communications District (the ECD) of the City, which represents 16 percent, 22 percent, and 13 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the ECD, is based on the report of other auditors.
2. Three significant deficiencies relating to the audit of the statements are reported in the Schedule of Findings and Questioned Costs. Of these significant deficiencies, one is considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the City are reported in this Schedule.
7. The programs tested as major programs were as follows:

| <u>Program</u>                                 | <u>CFDA<br/>Number</u> |
|------------------------------------------------|------------------------|
| Special Education Preschool Grants             | 84.173                 |
| Individuals with Disabilities Education (IDEA) | 84.027                 |
| National School Breakfast Program              | 10.553                 |
| National School Lunch Program                  | 10.555                 |
| Federal Transit Administration                 | 20.205                 |
| Federal Transit Administration                 | 20.207                 |
| Federal Transit Administration                 | 20.507                 |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a low risk auditee.

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2008

**Section II - Findings – Financial Statement Audit**

**Current Year Findings**

**08-01 *Material Weakness: Industrial Development Board of Kingsport, Tennessee (IDBK)***

**Condition:** During the fiscal year 2008 audit, it was noted that the client's practice was to net revenue and expense accounts and not record revenue or expenses related to the sale of property.

**Criteria:** In accordance with generally accepted accounting principles (GAAP), revenues and expenses should be reported at gross. In addition, the accounting records should reflect the complete effects of all transactions.

**Effect:** Multiple material audit adjustments were necessary in order to present the IDBK's financial statements on the full accrual basis and in accordance with GAAP.

**Recommendation:** Due to the increased volume and complexity of transactions encountered during the current fiscal year and their effects on financial reporting within the IDBK's books, we recommend that the IDBK expand their internal controls for financial reporting surrounding the entity's monitoring function. Specifically, we recommend that the IDBK send monthly financials and the supporting general ledger to the City Recorder for review and approval. This compensating control should aid in preventing the accumulation of improper adjustments.

**Management's Comments:** The Board concurs with and agrees to implement the above recommendation to send monthly financials and the supporting general ledger to the City Recorder for review and approval. Due to the increased volume of financial activity and relating accounting transactions to our ledger and the City's ledgers, increased communications, documentation and oversight is welcomed.

**08-02 *Significant Deficiency: Capital Assets Management***

**Condition:** During the fiscal year 2008 audit, we observed that there appears to be a significant lack of communication between management and accounting staff regarding policies and procedures surrounding the accounting for capital assets. In addition, it appears that there are no controls in place which are designed to verify that disposals are removed, that all additions are recorded, or that asset impairments are considered and calculated.

**Criteria:** Communication between management and accounting staff should be such that staff understand their responsibilities and assigned duties and are adequately trained to perform their job functions without significant errors or difficulty. In addition, communication between the Finance Department and various other City departments should be adequate to allow for the timely recording of asset disposals, additions and impairments.

**Effect:** It was noted that internal controls and review procedures were ineffective to the extent that categories of asset additions were sometimes recorded in the wrong general ledger accounts, such as software being recorded as equipment. This control deficiency increases the likelihood that capital assets could be significantly misstated if assets are inaccurately categorized or if disposals, additions or impairments are not recorded.

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**08-02 Significant Deficiency: Capital Assets Management (Continued)**

**Recommendation:** We recommend that management coordinate with accounting staff to obtain additional training for their assigned duties in order to understand all aspects of their specific accounting area. Management should clearly communicate the expectations for each function's processes and verify these expectations with the responsible accounting staff periodically. In order to promote the timely recording of asset additions, disposals and impairments, management should circulate asset listings to the responsible department heads for verification that all assets listed therein are still in service. The department heads should also communicate any new assets not included in the listing to the Finance Department to be added. The City should consider having department heads sign or initial these listings and return them to the Finance Department whether or not changes are required in order to indicate that they have, indeed, reviewed them. Citywide assets should be reviewed periodically for impairment and adjusted accordingly.

**Management's Comments:** We are aware that capital asset management has been given a lower priority over the last few years. This was a result of staff changes, duty reassignments, and concentrating efforts on areas that needed more immediate attention. Although we have relied on City departments to communicate asset disposals to us, we have procedures in place to review checks over \$5,000 to try and capture asset purchases monthly. The Finance Department already has a project planned to use the new internal auditor to assist the accountant in an inventory of fixed assets. This inventory will be used as the starting point for better controls. This joint project will be completed before next fiscal year end.

**08-03 Significant Deficiency: Payroll Processing**

**Condition:** It appears that payroll processing duties are not sufficiently delegated among available personnel and that payroll personnel have electronic access to both payroll and human resources data.

**Criteria:** Payroll processing duties should be segregated to the greatest extent possible among available personnel and access to electronic payroll and human resources data should be regulated through the use of electronic system controls.

**Effect:** Segregation of duties within the payroll function is insufficient as evidenced by the fact that both City and school payroll personnel appear to have access to and are able to edit electronic data related to both the payroll and human resources functions. This control deficiency increases the likelihood that the electronic system could be manipulated either from the human resources or from the payroll aspect.

**Recommendation:** In order to implement effective segregation of duties and communicate individual roles and responsibilities, the City should finalize and approve an accounting policies and procedures manual. We understand that the City has made significant progress in the compilation of accounting duties and processes, though a formal approved manual has yet to be completed. In addition, the City's accounting personnel should collaborate with information services to develop electronic system controls which should aid in the implementation of proper segregation of duties.

**Management's Comments:** Management will work with the Finance Department, Payroll, Human Resources and Information Services to determine the most effective and efficient controls to implement. These controls will be documented in the accounting policies and procedures manual before it is finalized. A project is already being worked on that will increase segregation of duties at the school level. This project will have individual schools completing their own time entry similar to how City departments currently enter their own time.

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Prior Year Findings Implemented

The following prior year findings have been corrected to our satisfaction:

Finding 07-01 – Post-Closure Client Adjusting Journal Entries

Finding 07-02 – Preparation of Government-Wide Adjustments and Financial Statements

Finding 07-03 – Proper Review and Documentation of Client Adjusting Journal Entries

Finding 07-04 – Tracking of Capital and Non-Capital Expenditures

**Section III - Findings and Questioned Costs - Major Federal Award Programs Audit**

Current Year Findings

There were no findings.

Prior Year Findings Implemented

There were no prior year findings.