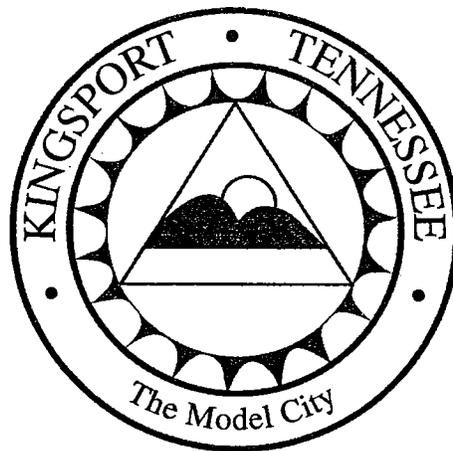


City of Kingsport, Tennessee
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006



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

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CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2006

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CITY OF KINGSPORT, TENNESSEE

December 5, 2006

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, 2006.

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, 2006. 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 45 square miles and serves a population of 44,130. 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 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).

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 15th. 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 28 through 30 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 45 square miles and has an estimated 2006 population of 44,130. It is located in northeast Tennessee and is part of a Metropolitan Statistical Area (MSA) Kingsport – Bristol, TN – Bristol, VA.

Kingsport's economic strength is based on its role as a regional center for commercial and health care services in eastern Tennessee, as well as its significant industrial base. The City's service area includes southwest Virginia, southeast Kentucky as well as the Tri-Cities area. It is home to Eastman Chemical Company, the State's largest industrial employer. Eastman and AFG Industries have their world corporate offices in Kingsport. The City has experienced steady overall tax base and population growth resulting from a combination of annexation and commercial development.

The economic base of the City consists of a balance between large manufacturing industries, support industries, service-oriented business and retail. Economic development activities are supported by the City through annual contributions to the Chamber of Commerce's economic development programs by contracts with partners including: Sullivan County Economic Development Partnership, Kingsport Convention and Visitors Bureau, Chamber of Commerce's Kingsport Office of Small Business and Entrepreneurship, Holston Small Business Development Center, Downtown Kingsport Association, funding for the Kingsport Industrial Development Board (KIDB) and the construction of appropriate water, sewer, roadway and drainage infrastructure to developable commercial and industrial properties within the City. The KIDB was organized to acquire and facilitate development of property for the purpose of maintaining and increasing employment opportunities by inducing industrial and commercial businesses to locate to or remain in the City. Through the acquisition of developable properties by the KIDB and the development of these sites, the City is well positioned for future growth.

The City and the private sector via the Chamber of Commerce forged a new economic development partnership in 2000 resulting in a renewed and invigorated effort to diversify the economic base and to position the community to take advantage of the changing economy. Significant increases in public allocations to economic development have resulted in the creation of a full-time office of economic development and the creation of various economic development initiatives.

An example of a recent economic development initiative occurred in June, 2004 with the adoption of an interlocal cooperation agreement between the cities of Kingsport, Bristol, Bluff City and Sullivan County to form an economic development partnership. The purpose of this partnership is to develop and implement a comprehensive economic development strategic plan for the entities within the county.

Several years ago, the City adopted a tax increment financing mechanism to assist in the redevelopment of an existing shopping center now known as the East Stone Commons District. The value of these improvements is estimated at \$22,000,000. The shopping center opened during 2006 and brought in several retail and restaurant establishments that were new to the Kingsport area.

Long-term financial planning. During the FY2002, FY2003 and FY2004 budget planning processes, the BMA adopted multi-year capital improvement and rate stabilization plans for the City's water and sewer utility operations. The plans include annual rate increases to gradually provide funding for capital projects and to reduce the City's reliance on debt. As the outstanding utility debt matures, the savings realized from the declining annual debt service expenditures will be recaptured and utilized for capital needs.

During the FY2005 budget process, the BMA adopted a multi-year capital improvement plan (CIP) for general government and school related activities. Funding for this plan is derived from two primary sources; (1) new property tax revenue associated with a recent annexation of property owned by Eastman Chemical (approximately \$1,300,000 annually), and (2) captured savings realized from current and projected declining debt service expenditures.

The City of Kingsport has adopted a comprehensive set of financial policies to guide its operations. Two of the primary policies that have enabled the City to develop these CIPs, include the adoption of a General Fund Reserve target of \$11,300,000 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. The other important policy relates to the City's quick payoff of its debt. The City's policy on debt requires that maturities will not exceed 15 years. Based on the current debt amortization schedules, it is projected that the City's debt service expenditures will be reduced by approximately \$8,000,000 by the end of FY2010. The annual savings from the debt service reductions have been included in the funding strategies for the CIP. This rapid repayment of debt has been viewed favourably by the bond rating agencies and has helped the City maintain an A-1 rating despite having a heavy concentration of a few large taxpayers.

Major Initiatives

Within the past two years, Eastman Chemical Company announced the need to replace approximately 2,000 workers that will be retiring in the very near future. It is anticipated that most of the retiring workers will continue to reside in the local area. In addition, the local healthcare industry (two hospitals and Holston Medical Group) expect an increase in employment of approximately 1,500 workers during the same time frame. Therefore, to address the expected impact of these new workers and family members on the local housing market and to address the related expansion needs of the City's school system, the City is pursuing several strategic actions.

The City has evaluated certain unincorporated areas within its urban growth boundary to determine properties best suited to meet future growth needs and provide available land for new housing and commercial construction. It began an aggressive annexation program during 2006 based on this evaluation. In addition, to address current overcrowding concerns in the school system and provide for expected new enrollments, the City's Board of Mayor and Aldermen and Board of Education have approved funding for the development and construction of a new elementary school. It is planned for this new school to be constructed on property located in the newly annexed area. During November 2006, the City authorized the issuance of approximately \$17,000,000 in new debt for this project, with completion scheduled for Fall 2008.

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, 2005. This was the sixth 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.

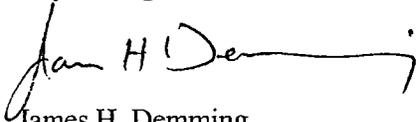
In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2006. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy 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, 2005

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.



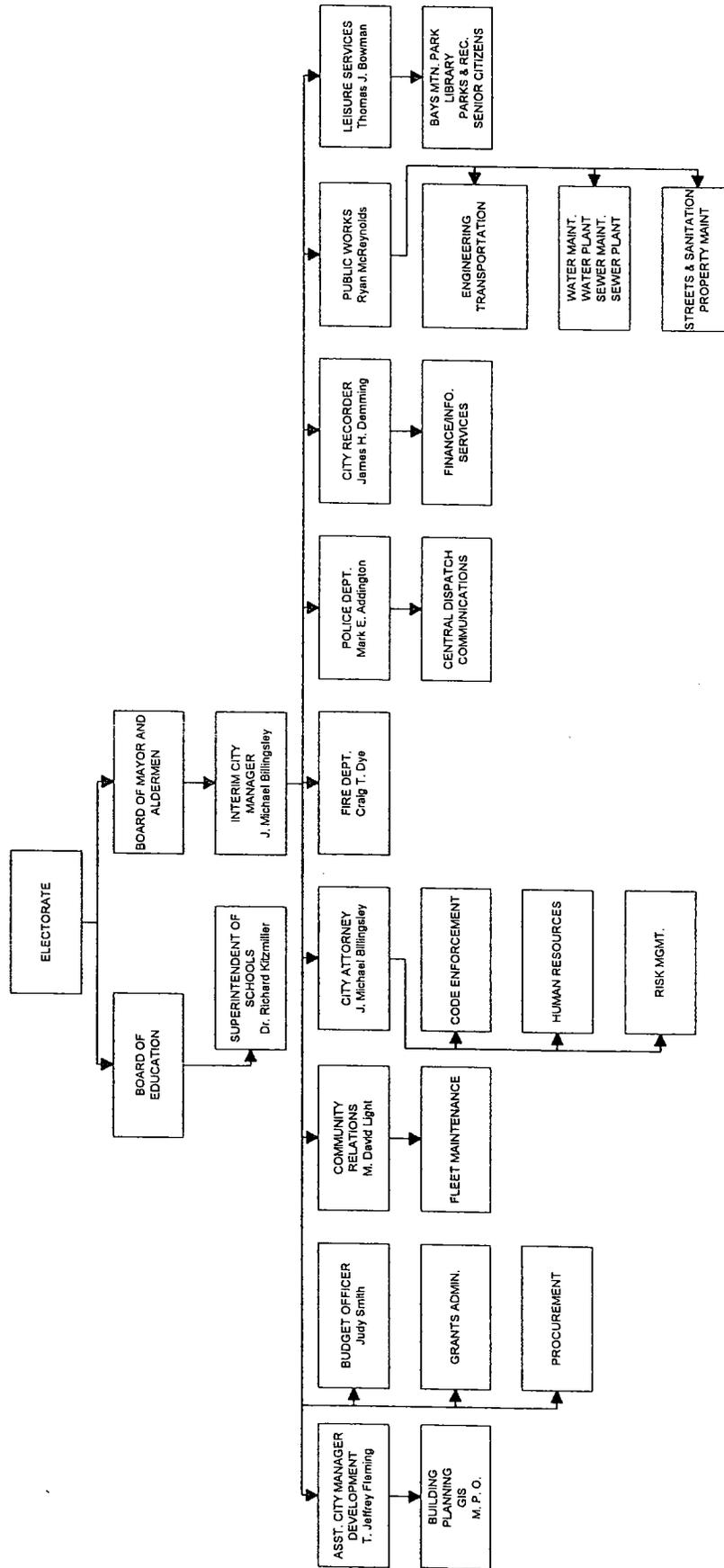
Carla E. Perry

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, 2006

BOARD OF MAYOR AND ALDERMEN

Dennis R. Phillips	Mayor
Larry A. Munsey	Vice Mayor
Valerie Joh	Alderman
Benjamin K. Mallicote	Alderman
Kenneth H. Maness	Alderman
C. Ken Marsh, Jr.	Alderman
Patrick W. Shull	Alderman

CHARTER OFFICERS

J. Michael Billingsley	Interim City Manager
James H. Demming	City Recorder/Chief Financial Officer
J. Michael Billingsley	City Attorney
Mark E. Addington	Police Chief
J. Robert Boatright	City Judge
Dr. Richard Kitzmiller	Superintendent of Schools

DEPARTMENT HEADS

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

CITY OF KINGSPORT, TENNESSEE

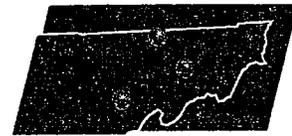
BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2006

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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, 2006, 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 17 percent, 17 percent, and 39 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the 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 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and the general purpose school 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 1, 2006, 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 on pages 12 through 21 is not a required part of the basic financial statements but is 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 nonmajor 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 1, 2006

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CITY OF KINGSFORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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, 2006. 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 \$421,799 (net assets). Of this amount, \$44,776 (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 \$10,545.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$32,275, an increase of \$2,688 in comparison with the prior year. Approximately 75% of this total amount, \$24,296, 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 \$15,420, or 28%, of total general fund expenditures including transfers out.
- The City's total gross debt decreased by \$4,993 (4.4%) during the current fiscal year.

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 Year Ended June 30, 2006
(amounts expressed in thousands)

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 24-32 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 Year Ended June 30, 2006
(amounts expressed in thousands)

Proprietary funds

The City maintains eight (8) different types of 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 33-37 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 38-95 of this report.

Other information

The combining statements referred to earlier in connection with nonmajor governmental funds, budget comparison schedules for funds with legal budgets other than the general fund and other major special revenue 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 96-118 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 \$421,799 at the close of the current 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 Year Ended June 30, 2006
(amounts expressed in thousands)

City of Kingsport's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$100,722	\$ 96,463	\$ 22,191	\$ 23,035	\$ 122,913	\$ 119,498
Capital assets	286,174	289,476	181,933	173,497	468,107	462,973
Total assets	386,896	385,939	204,124	196,532	591,020	582,471
Long-term liabilities outstanding	42,390	44,142	66,867	69,996	109,257	114,138
Other liabilities	56,499	54,091	3,465	2,988	59,964	57,079
Total liabilities	98,889	98,233	70,332	72,984	169,221	171,217
Net assets:						
Invested in capital assets, net of related debt	245,201	236,125	126,885	119,477	372,086	355,602
Restricted	4,099	1,081	838	897	4,937	1,978
Unrestricted	38,707	50,500	6,069	3,174	44,776	53,674
Total net assets	\$288,007	\$287,706	\$133,792	\$123,548	\$421,799	\$411,254

A portion of the City's net assets, \$4,937 or (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$44,776 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 \$10,545. About 3% of this increase (\$301) was from the governmental activities while the remaining 97% of the increase (\$10,244) was from the business-type activities. The net assets from governmental activities increased due to a 4% overall increase in revenue. 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 4.0% and sewer rates increased 5.5% 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 Year Ended June 30, 2006
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2006:

City of Kingsport's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,636	\$ 4,277	\$ 27,112	\$ 26,410	\$ 31,748	\$ 30,687
Operating Grants & Contributions	26,957	27,005			26,957	27,005
Capital Grants & Contributions	1,627	2,738			1,627	2,738
General Revenues:						
Property Taxes	41,609	39,122			41,609	39,122
Sales Taxes	26,154	25,174			26,154	25,174
Other Taxes & Intergovernmental	4,460	3,743			4,460	3,743
Unrestricted Investment Earnings	1,662	1,015	877	351	2,539	1,366
Grants and Contributions Not Restricted to Specific Programs	589	524			589	524
Other	974	974	22	(3)	996	971
Total Revenues	108,668	104,572	28,011	26,758	136,679	131,330
Expenses:						
General Government	\$ 5,605	\$ 4,687	\$	\$	\$ 5,605	\$ 4,687
Public Safety	16,076	14,767			16,076	14,767
Public Works	11,638	8,737			11,638	8,737
Highway Transportation Planning	2,894	2,679			2,894	2,679
Economic and Physical Development	3,280	3,065			3,280	3,065
Culture and Recreation	5,253	4,456			5,253	4,456
Education	57,985	54,274			57,985	54,274
Interest on Long-term Debt	1,737	2,002			1,737	2,002
Water			8,051	7,618	8,051	7,618
Sewer			7,700	7,545	7,700	7,545
Solid Waste Management			3,168	3,304	3,168	3,304
Conference Center			1,392	1,740	1,392	1,740
Golf Course			1,355	1,323	1,355	1,323
Total Expenses	104,468	94,667	21,666	21,530	126,134	116,197

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Increase in net assets before transfers	4,200	9,905	6,345	5,228	10,545	15,133
Transfers	(3,899)	(3,856)	3,899	3,856		
Change in net assets	301	6,049	10,244	9,084	10,545	15,133
Net assets, beginning of period	287,706	281,657	123,548	114,464	411,254	396,121
Net assets, end of period	\$288,007	\$287,706	\$133,792	\$123,548	421,799	\$411,254

Governmental activities

Governmental activities increased the City's net assets by \$301. The City experienced increased various revenues such as earnings on investments of \$647, sales tax revenues of \$980, and property taxes of \$2,487.

Business-type activities

Business-type activities increased the City's net assets by \$10,244.

- Charges for services for business-type activities increased by \$702 (3%) over the previous fiscal year.
- The City budgeted and achieved an overall increase in net income to provide funds for capital expansion and debt repayments as indicated in the Statement of Cash Flows located on pages 36 and 37 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 \$32,275, an increase of \$2,688 in comparison with the prior year. Approximately 75% of this total amount, \$24,296, constitutes unreserved fund balance, which is available for spending at the City's discretion. 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 (\$3,069), 2) liquidate contracts and purchase orders of the prior period (\$3,310) and for 3) a variety of other restricted purposes (\$1,600).

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 \$15,420 while total fund balance reached \$18,652. 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 28% of total general fund expenditures and transfers out, while total fund balance represents 33% of that same amount. During 2006, the fund balance of the City's General Fund increased by \$2,968. Of this, \$2,095 is a result of a reclassification in the presentation of compensated absences which will not be paid from currently available resources.

The general-purpose school fund has a total fund balance of \$3,955, of which most is unreserved. The net increase in fund balance during the current year in the general-purpose school fund was \$572.

The capital project fund has a total fund balance of \$5,612 of which \$1,855 is encumbered at year-end and \$3,757 is unreserved but designated for approved capital projects. The net decrease in this fund balance of \$692 was primarily due to increased construction activity during the year.

The debt service fund has a total fund balance of \$92. This represents an increase of \$59 as compared to the previous fiscal year. Debt service expenditures (principal and interest) totaled \$10,260 for fiscal year 2006. This was approximately \$431 more than the debt service expenditures paid in fiscal year 2005.

Nonmajor (other) governmental funds have a fund balance of \$3,964. The net decrease in fund balance during the current year in nonmajor governmental funds was \$219.

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 \$3,800 and \$5,030 respectively. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget represent a \$654 increase in appropriations and include the following:

\$	261	Funding for FY2005 outstanding purchase orders/encumbrances
	245	Funding for transfer to Eastman Annexation Revenue Fund
	73	Funding for summer concert program
	35	Funding for Riverview area camera system
	22	Funding for boardroom sound system
	13	Funding for fire training equipment
	<u>5</u>	Other miscellaneous
\$	<u>654</u>	

Of this increase, approximately \$331 was to be funded out of miscellaneous growth related increases in various revenue sources or one-time receipts or grant activity. The remaining \$323 was to be budgeted from available fund balance.

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, 2006, amounts to \$468,107 (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 \$29,549.
- Construction continued and/or began on a variety of general governmental facilities including the downtown Broad Street enhancement project, new skate park, renovation of the Dobyys-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 \$38,610.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 12,231	\$ 11,110	\$ 4,961	\$ 4,961	\$ 17,192	\$ 16,071
Buildings and systems	50,933	53,963	141,747	141,431	192,680	195,394
Improvements other than buildings	4,867	5,008	5,382	5,609	10,249	10,617
Machinery and equipment	10,469	11,185	294	324	10,763	11,509
Software	31	5			31	5
Infrastructure	169,033	173,279			169,033	173,279
Construction in progress	38,610	34,926	29,549	21,172	68,159	56,098
Total capital assets	\$286,174	\$289,476	\$181,933	\$173,497	\$468,107	\$462,973

Additional information on the City's capital assets can be found in Note 4.C on pages 56-60 of this report.

Long-term debt

At the end of the current fiscal year, the City had total gross debt outstanding of \$109,206. 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	
	2006	2005	2006	2005	2006	2005
Notes Payable	\$ 3,932	\$ 241	\$ 0	\$ 70	\$ 3,932	\$ 311
General obligation bonds	38,931	44,397	60,513	63,270	99,444	107,667
Loans from other governments			5,830	6,224	5,830	6,224
Total long-term debt	\$ 42,863	\$ 44,638	\$ 66,343	\$ 69,564	\$ 109,206	\$ 114,202

During the current fiscal year, the City's total debt decreased by \$4,993 (4.4%). The City maintains an A1 rating from Moody's Investors Service for its General Obligation debt.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 63-87 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 5.4%, which is an increase of .6% from a year ago. This compares to the state's average unemployment rate of 5.6% as of June 30, 2006.
- Inflationary trends in the region are comparable to national indices.
- 851 building permits with an estimated value of \$79,250 were issued during this fiscal year, compared to 910 building permits with an estimated value of \$68,991 for the previous year.
- Growth in local sales tax collections is expected to be approximately 27% in FY2007.

Short term interest rates on investments for the City's operating funds increased to approximately 5% in fiscal year 2006 as the federal funding rate was increased by the Federal Reserve Board.

All of these factors were considered in preparing the City's budget for the 2007 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$15,420. The City has appropriated \$463 of this amount for spending in the fiscal year 2007 budget. It is intended that use of available fund balance will minimize the need to raise taxes or charges during the fiscal year 2007.

Water, sewer and solid waste rates were increased for the 2007 budget year. The water and sewer rates were increased by an average of 4.5% and 4.5% percent respectively for all customers. 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.

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CITY OF KINGSPORT, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2006

(amounts expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Board	Emergency Communications District
ASSETS:					
Cash in Bank	\$ 1,060	-	1,060		
Cash with Fiscal Agent	-	37	37	200	1,249
Equity in Pooled Cash and Investments	29,640	7,733	37,373	-	-
Long-Term Certificates of Deposit	856	-	856	-	-
Investments	1,902	469	2,371	856	-
Receivables, net	30,839	3,411	34,250	-	-
Due from Other Governments	21,128	736	21,864	29	29
Due from Component Unit	11	26	37	-	15
Internal Balances	3,115	(3,115)	-	-	-
Inventories	462	474	936	-	-
Prepays	125	18	143	-	-
Land Held for Sale or Development	-	-	-	-	20
Restricted Assets:				6,079	-
Cash	4,664	11,479	16,143	-	-
Investments	6,581	340	6,921	170	-
Receivables	-	-	-	521	-
Capital Assets:					
Land	12,231	4,961	17,192	-	-
Buildings and System	90,335	212,338	302,673	-	-
Improvements other than Buildings	10,251	8,238	18,489	76	-
Machinery and Equipment	30,929	3,496	34,425	-	-
Software	223	-	223	-	509
Infrastructure	257,197	-	257,197	-	-
Construction in Progress	38,610	29,549	68,159	-	-
Less: Accumulated Depreciation	(153,602)	(76,649)	(230,251)	(55)	(222)
Other Assets, net	339	583	922	-	-
Total Assets	386,896	204,124	591,020	7,876	1,600
LIABILITIES:					
Accounts Payable and Other Current Liabilities	10,403	1,120	11,523	71	6
Compensated Absences Payable	2,755	456	3,211	-	-
Matured Bonds and Interest Payable	-	37	37	-	-
Accrued Interest Payable	-	680	680	-	-
Due to Primary Government	-	-	-	-	-
Due to Other Governments	305	-	305	37	-
Unearned Revenues	42,433	-	42,433	-	-
Liabilities Payable from Restricted Assets	458	639	1,097	-	-
Arbitrage Rebate Payable	145	533	678	-	-
Noncurrent Liabilities:					
Due Within One Year	8,487	8,741	17,228	-	-
Due in More Than One Year	33,903	58,126	92,029	-	-
Total Liabilities	98,889	70,332	169,221	108	6
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	245,201	126,885	372,086	21	287
Restricted for:					
Debt Service	-	246	246	-	-
Capital Improvements	3,937	592	4,529	-	-
Perpetual Care (nonexpendable)	162	-	162	-	-
Unrestricted	38,707	6,069	44,776	7,747	1,307
Total Net Assets	\$ 288,007	133,792	421,799	7,768	1,594

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006
(amounts expressed in thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Industrial Development Board	Emergency Communications District
					Governmental Activities	Business-Type Activities	Total		
Primary Government:									
Governmental Activities:									
General Government	\$ 5,605	507	216	1,119	(3,763)	-	(3,763)	-	-
Public Safety	16,076	288	302	-	(15,486)	-	(15,486)	-	-
Public Works	11,638	-	-	-	(11,638)	-	(11,638)	-	-
Highway Transportation Planning	2,894	88	1,706	453	(647)	-	(647)	-	-
Economic and Physical Development	3,280	435	683	-	(2,162)	-	(2,162)	-	-
Culture and Recreation	5,253	679	128	-	(4,446)	-	(4,446)	-	-
Education	57,985	2,639	23,922	55	(31,369)	-	(31,369)	-	-
Interest on Long-Term Debt	1,737	-	-	-	(1,737)	-	(1,737)	-	-
Total Governmental Activities	104,468	4,636	26,957	1,627	(71,248)	-	(71,248)	-	-
Business-Type Activities:									
Water	8,051	12,493	-	-	-	4,442	4,442	-	-
Sewer	7,700	12,895	-	-	-	5,195	5,195	-	-
Solid Waste Management	3,168	489	-	-	-	(2,679)	(2,679)	-	-
MeadowView Conference Resort and Convention Center	1,392	253	-	-	-	(1,139)	(1,139)	-	-
Cattails at MeadowView Golf Course	1,355	982	-	-	-	(373)	(373)	-	-
Total Business-Type Activities	21,666	27,112	-	-	-	5,446	5,446	-	-
Total Primary Government	126,134	31,748	26,957	1,627	(71,248)	5,446	(65,802)	-	-
Component Units:									
Industrial Development Board	347	844	-	-	-	-	-	497	-
Emergency Communications District	393	504	-	-	-	-	-	-	111
Total Component Units	740	1,348	-	-	-	-	-	497	111
General Revenues:									
Property Taxes					41,609		41,609		
Sales Taxes					26,154		26,154		
Alcoholic Beverage Taxes					1,368		1,368		
Occupational Licenses and Business Taxes					1,551		1,551		
Hotel/Motel Taxes					791		791		
Income Taxes					750		750		
Grants and Contributions Not Restricted to Specific Programs					589		589		10
Unrestricted Investment Earnings					1,662	877	2,539	32	29
Gain (Loss) on Disposal of Capital Assets					2	-	2	-	-
Miscellaneous					972	22	994	-	-
Transfers					(3,899)	3,899	-	-	-
Total General Revenues and Transfers					71,549	4,798	76,347	32	39
Change in Net Assets					301	10,244	10,545	529	150
Net Assets - Beginning					287,706	123,548	411,254	7,239	1,444
Net Assets - Ending					\$ 288,007	133,792	421,799	7,768	1,594

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2006

(amounts expressed in thousands)

	General Purpose School Fund		Debt Service Fund	Capital Projects Fund	Other Governmental Funds		Total Governmental Funds
	General Fund	Purpose			Other	Governmental	
ASSETS:							
Cash in Bank	\$ 8	-	-	-	1,052	-	1,060
Equity in Pooled Cash and Investments	13,224	7,747	92	1,731	160	-	22,954
Long-Term Certificates of Deposit	-	-	-	-	356	-	356
Investments	-	-	-	-	1,902	-	1,902
Taxes Receivable, net	30,339	-	-	-	-	-	30,339
Accounts Receivable, net	416	61	-	-	-	-	477
Due from Other Governments	4,759	14,379	-	92	1,898	-	21,128
Due from Other Funds	3,321	974	-	-	-	-	4,295
Due from Component Unit	11	-	-	-	-	-	11
Inventories	-	17	-	-	114	-	131
Prepays	7	1	-	-	-	-	8
Cash - Restricted	-	-	-	4,255	-	-	4,255
Investments - Restricted	-	-	-	622	-	-	622
Total Assets	52,085	23,179	92	6,700	5,482		87,538

LIABILITIES AND FUND BALANCES:

Liabilities:

Accounts Payable	232	491	-	630	261	-	1,614
Compensated Absences Payable	224	352	-	-	9	-	585
Other Liabilities	1,924	5,632	-	-	-	-	7,556
Due to Other Governments	258	47	-	-	-	-	305
Due to Other Funds	-	-	-	-	1,180	-	1,180
Deferred Revenue	30,650	12,702	-	-	68	-	43,420
Contracts Payable	-	-	-	458	-	-	458
Arbitrage Rebate Payable	145	-	-	-	-	-	145
Total Liabilities	33,433	19,224	-	1,088	1,518		55,263

Fund Balances:

Reserved for:

Encumbrances	135	294	23	1,855	1,003	-	3,310
Cattails at Meadowview Golf Course Fund	3,069	-	-	-	-	-	3,069
Industrial Park	21	-	-	-	-	-	21
Career Ladder	-	138	-	-	-	-	138
Inventories	-	17	-	-	114	-	131
Prepays	7	1	-	-	-	-	8
Perpetual Care	-	-	-	-	162	-	162
Projects	-	15	-	-	165	-	180
Debt Service	-	833	-	-	-	-	833
Basic Education Plan	-	127	-	-	-	-	127
Unreserved, Reported in:							
General Fund	15,420	-	-	-	-	-	15,420
Debt Service Fund	-	-	69	-	-	-	69
Special Revenue Funds	-	2,530	-	-	2,520	-	5,050
Capital Projects Fund	-	-	-	3,757	-	-	3,757
Total Fund Balances	18,652	3,955	92	5,612	3,964		32,275
Total Liabilities and Fund Balances	\$ 52,085	23,179	92	6,700	5,482		87,538

See accompanying notes to the basic financial statements.

CITY OF KINGSFORT, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2006

(amounts expressed in thousands)

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

Total Fund Balances of Governmental Funds	\$ 32,275
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	280,463
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.	987
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	309
Internal service funds are used by management to charge the costs of fleet maintenance and employee insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	18,458
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(44,485)</u>
Net Assets of Governmental Activities	<u>\$ 288,007</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (amounts expressed in thousands)

<u>REVENUES:</u>	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Taxes	\$ 32,560	18,972	-	-	-	51,532
Licenses and Permits	350	-	-	-	-	350
Intergovernmental	19,223	18,242	-	907	11,632	50,004
Charges for Services	1,100	1,185	-	-	1,615	3,900
Fines and Forfeitures	448	-	-	-	112	560
Investment Earnings	900	-	203	17	68	1,188
Contributions and Donations	13	-	-	212	234	459
Miscellaneous	70	290	-	-	-	360
Total Revenues	54,664	38,689	203	1,136	13,661	108,353

EXPENDITURES:

Current:						
General Government	5,861	-	-	-	379	6,240
Public Safety	14,487	-	-	-	69	14,556
Public Works	5,018	-	-	-	-	5,018
Highway Transportation Planning	-	-	-	-	2,894	2,894
Economic and Physical Development	2,455	-	-	-	613	3,068
Culture and Recreation	3,937	-	-	-	74	4,011
Education	-	45,867	-	-	7,314	53,181
Miscellaneous	722	-	-	-	-	722
Debt Service:						
Principal	-	-	8,525	-	-	8,525
Interest	-	-	1,735	-	-	1,735
Bond Issuance Costs	-	-	100	-	-	100
Miscellaneous	-	-	20	-	-	20
Capital Outlay	195	663	-	9,107	597	10,562
Total Expenditures	32,675	46,530	10,380	9,107	11,940	110,632
Excess (Deficiency) of Revenues Over (Under) Expenditures	21,989	(7,841)	(10,177)	(7,971)	1,721	(2,279)

OTHER FINANCING SOURCES (USES):

Transfer In	2,232	16,574	10,236	623	3,159	32,824
Transfers Out	(23,348)	(8,161)	-	(100)	(5,114)	(36,723)
Issuance of Debt	-	-	-	6,756	15	6,771
Total Other Financing Sources (Uses)	(21,116)	8,413	10,236	7,279	(1,940)	2,872
Net Change in Fund Balances	873	572	59	(692)	(219)	593
Fund Balances, July 1, 2005	15,684	3,383	33	6,304	4,183	29,587
Prior Period Adjustment - Compensated Absences	2,095	-	-	-	-	2,095
Fund Balances, June 30, 2006	\$ 18,652	3,955	92	5,612	3,964	32,275

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 Year Ended June 30, 2006

(amounts expressed in thousands)

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

Net Change in Fund Balances of Governmental Funds	\$ 593
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 depreciation of general fixed assets in the current period exceeded capital outlays.	(2,861)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(161)
Internal service funds are used by management to charge the costs of fleet maintenance and employee insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	978
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.	<u>1,752</u>
Change in Net Assets of Governmental Activities	<u>\$ 301</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 Year Ended June 30, 2006

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
General Property Taxes	\$ 28,428	28,715	29,105	390
Gross Receipts Taxes	3,180	3,221	3,455	234
Licenses and Permits	329	329	350	21
Intergovernmental:				
Federal	-	-	2	2
State	4,166	4,166	4,669	503
County	15,688	15,691	14,362	(1,329)
Local	213	213	190	(23)
Charges for Services	859	860	1,100	240
Fines and Forfeitures	265	265	448	183
Investment Earnings	600	600	900	300
Contributions and Donations	50	51	13	(38)
Miscellaneous	56	70	70	-
Total Revenues	<u>53,834</u>	<u>54,181</u>	<u>54,664</u>	<u>483</u>
<u>EXPENDITURES:</u>				
General Government:				
General Government	44	45	45	-
Board of Mayor and Aldermen	115	100	98	2
Judicial	25	21	21	-
City Attorney	385	411	403	8
City Manager	340	316	300	16
Special Programs	1,413	1,396	1,354	42
Public Information Office	124	110	100	10
Personnel	936	933	791	142
Purchasing	215	193	179	14
Finance Administration	1,518	1,487	1,443	44
Information Services	928	909	900	9
Geographic Information	250	231	227	4
Total General Government	<u>6,293</u>	<u>6,152</u>	<u>5,861</u>	<u>291</u>
Public Safety:				
Police Administration	1,248	1,177	1,171	6
Jail Operations	276	253	249	4
Training	281	309	304	5
Investigations	1,124	1,351	1,346	5
Patrol Division	4,557	4,413	4,394	19
Animal Control	100	109	108	1
Central Dispatch	790	750	746	4
Communications	227	206	204	2
Fire Control and Prevention	5,764	5,974	5,965	9
Total Public Safety	<u>14,367</u>	<u>14,542</u>	<u>14,487</u>	<u>55</u>

(Continued)

CITY OF KINGSPORT, TENNESSEE

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended June 30, 2006

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES (CONTINUED):</u>				
Public Works:				
Administration	367	310	292	18
Street Cleaning	367	376	373	3
Street Maintenance	1,538	1,436	1,430	6
Building Maintenance	1,339	1,420	1,418	2
Grounds Maintenance	786	878	872	6
Parks Maintenance	760	642	633	9
Total Public Works	<u>5,157</u>	<u>5,062</u>	<u>5,018</u>	<u>44</u>
Economic and Physical Development:				
Administration	176	186	177	9
Planning	358	356	351	5
Transportation	832	828	768	60
Engineering	776	728	712	16
Code Enforcement	434	455	447	8
Total Economic and Physical Development	<u>2,576</u>	<u>2,553</u>	<u>2,455</u>	<u>98</u>
Culture and Recreation:				
Administration	276	250	249	1
Parks and Recreation Centers	273	271	269	2
Swimming Pools	109	114	114	-
Athletics	545	609	602	7
Cultural Arts	226	226	224	2
Allandale	180	217	216	1
K - Play	199	205	204	1
Senior Citizens Center	362	345	331	14
Bays Mountain Park	906	871	854	17
Library	919	888	874	14
Total Culture and Recreation	<u>3,995</u>	<u>3,996</u>	<u>3,937</u>	<u>59</u>
Miscellaneous	<u>204</u>	<u>683</u>	<u>722</u>	<u>(39)</u>
Capital Outlay	<u>165</u>	<u>200</u>	<u>195</u>	<u>5</u>
Total Expenditures	<u>32,757</u>	<u>33,188</u>	<u>32,675</u>	<u>513</u>
Excess of Revenues Over Expenditures	<u>21,077</u>	<u>20,993</u>	<u>21,989</u>	<u>996</u>

(Continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	2,273	2,580	2,232	(348)
Transfers Out	(23,350)	(23,573)	(23,348)	225
Total Other Financing Sources (Uses)	<u>(21,077)</u>	<u>(20,993)</u>	<u>(21,116)</u>	<u>(123)</u>
Net Change in Fund Balances	-	-	873	873
Fund Balances, July 1, 2005	15,684	15,684	15,684	-
Prior Period Adjustment - Compensated Absences	-	-	2,095	2,095
Fund Balances, June 30, 2006	<u>\$ 15,684</u>	<u>15,684</u>	<u>18,652</u>	<u>2,968</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended June 30, 2006

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
General Property Taxes	\$ 12,366	12,636	12,664	28
Pick Up Taxes	140	80	82	2
Clerk and Masters Tax	140	160	139	(21)
Business Taxes	70	-	-	-
Local Option Sales Tax	5,950	5,925	6,020	95
Other Statutory Local Taxes	62	62	67	5
Intergovernmental:				
Federal	132	140	137	(3)
State	17,964	18,139	18,050	(89)
County	-	55	55	-
Charges for Services	1,172	1,192	1,185	(7)
Miscellaneous	160	337	290	(47)
Total Revenues	38,156	38,726	38,689	(37)
<u>EXPENDITURES:</u>				
Instruction:				
Regular	25,389	25,520	25,005	515
Special Education	3,490	3,526	3,514	12
Vocational	1,169	1,154	1,114	40
Adult Education	159	177	172	5
Total Instruction	30,207	30,377	29,805	572
Student Support Services:				
Attendance	69	69	63	6
Health Services	334	333	332	1
Other	1,613	1,694	1,685	9
Total Student Support Services	2,016	2,096	2,080	16
Instructional Staff Support Services:				
Regular	2,226	2,252	2,225	27
Special Education	286	400	397	3
Vocational	136	136	135	1
Adult Education	146	145	145	-
Total Instructional Staff Support Services	2,794	2,933	2,902	31
General Administrative Support Services:				
Board of Education	857	861	857	4
Office of the Superintendent	838	837	837	-
Total General Administrative Support Services	1,695	1,698	1,694	4

(Continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended June 30, 2006

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES (CONTINUED):</u>				
School Administrative Support Services	2,230	2,258	2,254	4
Business Administrative Support Services	229	234	233	1
Operations and Maintenance Support Services:				
Operations	3,325	3,338	3,380	(42)
Plant Maintenance	1,634	1,616	1,590	26
Total Operations and Maintenance Support Services	4,959	4,954	4,970	(16)
Student Transportation Support Services	1,245	1,276	1,273	3
Noninstructional Services:				
After School Programs	55	57	57	-
Community Service	606	607	599	8
Total Noninstructional Services	661	664	656	8
Capital Outlay	799	1,027	663	364
Total Expenditures	46,835	47,517	46,530	987
Deficiency of Revenues Under Expenditures	(8,679)	(8,791)	(7,841)	950
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	16,661	17,027	16,574	(453)
Transfers Out	(7,982)	(8,236)	(8,161)	75
Total Other Financing Sources (Uses)	8,679	8,791	8,413	(378)
Net Change in Fund Balances	-	-	572	572
Fund Balances, July 1, 2005	3,383	3,383	3,383	-
Fund Balances, June 30, 2006	<u>\$ 3,383</u>	<u>3,383</u>	<u>3,955</u>	<u>572</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
Current Assets:								
Cash with Fiscal Agent	\$ 37	-	-	-	-	-	37	-
Equity in Pooled Cash and Investments	3,192	4,076	465	-	-	-	7,733	6,686
Long-Term Certificates of Deposit	-	-	-	-	-	-	-	500
Investments	-	-	-	428	41	469	-	-
Receivables, net	1,736	1,549	14	61	51	3,411	23	-
Due from Other Funds	-	-	-	25	1	26	-	-
Due from Other Governments	-	736	-	-	-	736	-	-
Due from Component Unit	11	15	-	-	-	26	-	-
Inventories	371	-	-	-	103	474	331	-
Prepays	18	-	-	-	-	18	117	-
Total Current Assets	5,365	6,376	479	514	196	12,930	7,657	
Noncurrent Assets:								
Restricted Assets:								
Cash	1,668	9,398	328	85	-	11,479	409	-
Investments	140	200	-	-	-	340	5,959	-
Total Restricted Assets	1,808	9,598	328	85	-	11,819	6,368	
Capital Assets:								
Land	640	516	1,308	1,515	982	4,961	15	-
Buildings and System	67,270	122,219	155	21,536	1,158	212,338	-	-
Improvements other than Buildings	-	-	2,102	165	5,971	8,238	-	-
Machinery and Equipment	1,170	1,054	31	867	374	3,496	18,894	-
Construction in Progress	11,395	18,023	122	9	-	29,549	-	-
Less: Accumulated Depreciation	(27,435)	(40,298)	(1,039)	(5,499)	(2,378)	(76,649)	(13,198)	-
Total Capital Assets	53,040	101,514	2,679	18,593	6,107	181,933	5,711	
Other Assets:								
Deposits	-	-	-	-	-	-	-	30
Unamortized Bond Costs	141	391	5	20	26	583	-	-
Total Other Assets	141	391	5	20	26	583	30	
Total Noncurrent Assets	54,989	111,503	3,012	18,698	6,133	194,335	12,109	
Total Assets	60,354	117,879	3,491	19,212	6,329	207,265	19,766	

(Continued)

CITY OF KINGSPORT, TENNESSEE

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2006

(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
LIABILITIES:								
Current Liabilities:								
Accounts Payable	375	308	58	16	29	786	125	
Due to Other Funds	-	-	-	27	3,114	3,141	-	
Compensated Absences Payable	224	129	103	-	-	456	75	
Retainages Payable	268	371	-	-	-	639	-	
Arbitrage Rebate Payable	200	331	2	-	-	533	-	
Matured Bonds Payable	35	-	-	-	-	35	-	
Matured Interest Payable	2	-	-	-	-	2	-	
Accrued Interest Payable	173	447	-	60	-	680	-	
General Obligation Bonds - Current	1,580	4,320	20	1,955	459	8,334	-	
State Revolving Loan - Current	113	294	-	-	-	407	-	
Other Payables	334	-	-	-	-	334	1,108	
Total Current Liabilities	3,304	6,200	183	2,058	3,602	15,347	1,308	
Noncurrent Liabilities:								
General Obligation Bonds Payable (Net of Deferred Refunding Cost, Discounts and Premiums)	13,256	34,241	386	1,995	2,825	52,703	-	
State Revolving Loan Payable	1,451	3,972	-	-	-	5,423	-	
Total Noncurrent Liabilities	14,707	38,213	386	1,995	2,825	58,126	-	
Total Liabilities	18,011	44,413	569	4,053	6,427	73,473	1,308	
NET ASSETS:								
Invested in Capital Assets, Net of Related Debt	38,448	68,285	2,601	14,728	2,823	126,885	5,711	
Restricted for Debt Service	95	151	-	-	-	246	-	
Restricted for Capital Improvements	-	-	-	545	47	592	-	
Unrestricted	3,800	5,030	321	(114)	(2,968)	6,069	12,747	
Total Net Assets	\$ 42,343	73,466	2,922	15,159	(98)	133,792	18,458	

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							
	MeadowView							
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds	
<u>OPERATING REVENUES:</u>								
Charges and Fees	\$ 11,925	12,298	489	253	982	25,947	11,682	
Penalties and Fines	295	167	-	-	-	462	-	
Miscellaneous	273	430	-	-	-	703	-	
Total Operating Revenues	12,493	12,895	489	253	982	27,112	11,682	
<u>OPERATING EXPENSES:</u>								
Operating Costs	5,959	3,642	3,034	578	952	14,165	9,917	
Depreciation	1,624	2,664	130	560	272	5,250	1,263	
Total Operating Expenses	7,583	6,306	3,164	1,138	1,224	19,415	11,180	
Operating Income (Loss)	4,910	6,589	(2,675)	(885)	(242)	7,697	502	
<u>NONOPERATING REVENUES (EXPENSES):</u>								
Investment Earnings	204	642	15	15	1	877	474	
Interest Expense	(443)	(1,291)	(2)	(236)	(126)	(2,098)	-	
Gain on Disposal of Capital Assets	-	-	-	-	-	-	2	
Amortization Expense	(25)	(52)	-	(18)	(5)	(100)	-	
Arbitrage Expense	-	(51)	(2)	-	-	(53)	-	
Other	24	(2)	-	-	-	22	-	
Total Nonoperating Revenues (Expenses)	(240)	(754)	11	(239)	(130)	(1,352)	476	
Income (Loss) Before Transfers	4,670	5,835	(2,664)	(1,124)	(372)	6,345	978	
Transfers In	-	-	2,903	2,545	555	6,003	-	
Transfers Out	(1,153)	(951)	-	-	-	(2,104)	-	
Change in Net Assets	3,517	4,884	239	1,421	183	10,244	978	
Net Assets, July 1, 2005	38,826	68,582	2,683	13,738	(281)	123,548	17,480	
Net Assets, June 30, 2006	\$ 42,343	73,466	2,922	15,159	(98)	133,792	18,458	

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CITY OF KINGSPORT, TENNESSEE
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2006
 (amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	MeadowView							
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
\$	12,443	12,838	481	167	957	26,886	11,665	
	(2,012)	(1,552)	(1,555)	(614)	(469)	(6,202)	(8,803)	
	(3,473)	(2,010)	(1,502)	-	(474)	(7,459)	(1,130)	
	6,958	9,276	(2,576)	(447)	14	13,225	1,732	
	(1,153)	(951)	-	-	-	(2,104)	-	
	-	-	2,903	2,545	555	6,003	-	
	(1,153)	(951)	2,903	2,545	555	3,899	-	
	870	4,100	404	-	-	5,374	-	
	(4,331)	(8,353)	(273)	-	-	(12,957)	(886)	
	(2,064)	(4,270)	-	(1,880)	(436)	(8,650)	-	
	(503)	(1,303)	(5)	(218)	(126)	(2,155)	-	
	-	-	-	-	-	-	12	
	(6,028)	(9,826)	126	(2,098)	(562)	(18,388)	(874)	
	20	-	-	87	16	123	2,957	
	(197)	(643)	-	(115)	(24)	(979)	(3,484)	
	204	642	16	15	1	878	257	
	27	(1)	16	(13)	(7)	22	(270)	
	(196)	(1,502)	469	(13)	-	(1,242)	588	
	5,093	14,976	324	98	-	20,491	6,507	
	\$ 4,897	13,474	793	85	-	19,249	7,095	

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CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Customers and Users
 Payments to Suppliers
 Payments to Employees
 Net Cash Provided (Used) by Operating Activities

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Transfers to Other Funds
 Advances from Other Funds
 Net Cash Provided (Used) by Noncapital Financing Activities

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Proceeds from Capital Debt
 Acquisition and Construction of Capital Assets
 Principal Paid on Capital Debt
 Interest Paid on Capital Debt
 Proceeds from Sales of Capital Assets
 Net Cash Provided (Used) by Capital and Related Financing Activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from Sales and Maturities of Investments
 Purchase of Investments
 Interest Received
 Net Cash Provided (Used) by Investing Activities

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents, July 1, 2005

Cash and Cash Equivalents, June 30, 2006

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	MeadowView							
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
\$	4,910	6,589	(2,675)	(885)	(242)	7,697	502	
	1,624	2,664	130	560	272	5,250	1,263	
	(50)	(65)	(5)	(61)	(23)	(204)	(17)	
	-	-	-	(25)	(1)	(26)	-	
	-	8	-	-	-	8	-	
	48	-	-	-	(22)	26	(27)	
	(15)	-	-	-	-	(15)	1	
	208	72	(35)	(63)	11	193	(32)	
	-	-	-	27	19	46	-	
	(6)	5	9	-	-	8	(4)	
	213	3	-	-	-	216	-	
	26	-	-	-	-	26	48	
\$	<u>6,958</u>	<u>9,276</u>	<u>(2,576)</u>	<u>(447)</u>	<u>14</u>	<u>13,225</u>	<u>1,732</u>	
\$	37	-	-	-	-	37	-	
	3,192	4,076	465	-	-	7,733	6,686	
	1,668	9,398	328	85	-	11,479	409	
\$	<u>4,897</u>	<u>13,474</u>	<u>793</u>	<u>85</u>	<u>-</u>	<u>19,249</u>	<u>7,095</u>	

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	
Gain on Disposal of Capital Assets	
(Increase) Decrease in Assets:	
Receivables	
Due from Other Funds	
Due from Other Governments	
Inventories	
Prepays	
Increase (Decrease) in Liabilities:	
Accounts Payable	
Due to Other Funds	
Compensated Absences Payable	
Retainages Payable	
Other Payables	

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 Assets - Cash	
Cash and Cash Equivalents, June 30, 2006	

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 and six aldermen (Board of Mayor and Aldermen) (BMA). 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 Year Ended June 30, 2006
(amounts expressed in thousands)

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 eight 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 Year Ended June 30, 2006
(amounts expressed in thousands)

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 Year Ended June 30, 2006
(amounts expressed in thousands)

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 Year Ended June 30, 2006
(amounts expressed in thousands)

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 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 *local law enforcement fund* accounts for direct federal grant funds received from the United States Department of Justice that are used for the purchase of equipment utilized in law enforcement.

The *industrial development project fund* accounts for the expenditure of funds appropriated from the Industrial Development Reserve or other sources for the purpose of industrial site acquisitions, capital improvements and lump sum disbursement to the IDBK, for the purposes specified by the BMA.

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The *Eastman annex 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 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. The fund's rental income is used for the maintenance and operation of the estate.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of 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.

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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.

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 invests in time deposits, such as Certificates of Deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. The longest maturity held within the LGIP as of June 30, 2006 was 13 months and 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 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 Year Ended June 30, 2006
(amounts expressed in thousands)

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, 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 Year Ended June 30, 2006
(amounts expressed in thousands)

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 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 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 \$727 and \$1,737, respectively. Of these amounts, \$284 and \$446, 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 Year Ended June 30, 2006
(amounts expressed in thousands)

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. All 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 Year Ended June 30, 2006
(amounts expressed in thousands)

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 \$280,463 difference are as follows:

Governmental funds capital assets	\$ 420,867
Less: accumulated depreciation	<u>(140,404)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 280,463</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 \$309 difference are as follows:

Deferred bond issuance costs	\$ 444
Less: accumulated amortization	<u>(135)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 309</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 \$44,485 difference are as follows:

Bonds payable	\$ 38,458
Notes payable	3,932
Compensated absences	<u>2,095</u>
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 44,485</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 depreciation exceeded capital outlays of the general fixed assets in the current period.” The details of this \$ (2,861) difference are as follows:

Capital outlays	\$ 7,765
Depreciation expense	<u>(10,626)</u>
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>	\$ <u>(2,861)</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 \$ (161) difference are as follows:

Deferred property taxes as of June 30, 2006	\$ 987
Prior years’ property taxes collected during current year	<u>(1,148)</u>
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>	\$ <u>(161)</u>

Another element of that reconciliation states that “the net income of certain activities of internal service funds is reported with governmental activities.” The details of this \$978 difference are as follows:

Investment earnings	\$ 474
Gain on disposals of capital assets	2
Operating expenses	<u>502</u>
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>	\$ <u>978</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 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 \$1,752 difference are as follows:

Principal repayments	\$ 8,523
Issuance of general obligation bonds	<u>(6,771)</u>
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>	\$ <u>1,752</u>

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 15th. 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 year.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED):

A. Budgetary Information (continued)

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, certain special revenue funds (criminal forfeiture, drug, state street aid, regional sales tax, Eastman annex tax, Steadman cemetery, public library commission, Bays Mountain, senior citizen 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, criminal forfeiture, justice assistance grant, federal transit administration, metropolitan planning office, special school projects, and public law 93-380 funds.

B. Excess of expenditures over appropriations

For the year ended June 30, 2006, there were no instances of expenditures exceeding appropriations in any funds.

C. Deficit fund equity

The Community Development fund and Cattails at MeadowView Golf Course fund had deficit fund balances of \$(6) and \$(98), respectively, as of June 30, 2006. The City plans to transfer funds from other funds to cover the expenditures.

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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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. All investments made by the City will be maturing more than two years from the date of issue.

At year end, the City's carrying amount of deposits was \$55,320 and the bank balance was \$57,508. Of the bank balance, \$600 was covered by federal depository insurance with the remaining balance of \$56,908 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 \$1,056 and the bank balance was \$1,056. Of the bank balance, \$100 was covered by federal depository insurance or by collateral held by the entity's agent in the IDBK's name. Of the remaining balance, \$956 was covered by the Securities Investor Protection Corporation, and \$100 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.

The carrying amount of deposits for the ECD, also a discretely presented component unit, was \$1,249 and the bank balance was \$1,125. Of the bank balance, \$500 was covered by federal depository insurance or by collateral held by the entity's agent in the ECD's name. Of the remaining balance, \$625 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 ECD's name.

At year end, the City's carrying amount for investments was \$9,441 with fair value of \$9,441. The balance was invested in State of Tennessee Local Government Investment Pool and related depository accounts. 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, 2006.

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 KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of June 30, 2006 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	Capital Projects	Water	Sewer	Solid Waste Management	MeadowView Resort and Convention Center	Cattails at MeadowView Golf Course	Internal Service Funds	Nonmajor and Other Funds	Total Primary Government	Component Units
Receivables:												
Taxes	\$ 30,888	-	-	-	-	-	-	-	-	-	30,888	-
Accounts	428	84	-	1,857	1,821	57	61	51	23	-	4,382	58
Intergovernmental	<u>4,759</u>	<u>14,379</u>	<u>92</u>	<u>-</u>	<u>736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,898</u>	<u>21,864</u>	<u>15</u>
Gross receivables	36,075	14,463	92	1,857	2,557	57	61	51	23	1,898	57,134	73
Less: allowances for uncollectibles	<u>(561)</u>	<u>(23)</u>	<u>(-)</u>	<u>(121)</u>	<u>(272)</u>	<u>(43)</u>	<u>(-)</u>	<u>(-)</u>	<u>(-)</u>	<u>(-)</u>	<u>(1,020)</u>	<u>(-)</u>
Net total receivables	<u>\$ 35,514</u>	<u>14,440</u>	<u>92</u>	<u>1,736</u>	<u>2,285</u>	<u>14</u>	<u>61</u>	<u>51</u>	<u>23</u>	<u>1,898</u>	<u>56,114</u>	<u>73</u>

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	\$ 30
Uncollectibles related to water sales	1
Uncollectibles related to sewer charges	1
Uncollectibles related to solid waste charges	<u>3</u>
Total uncollectibles of the current fiscal year	<u>\$ 35</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2006
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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)	\$ 29,285	29,285
Delinquent property taxes receivable (general fund)	987	-
Other taxes receivable (general fund)	378	378
Property taxes receivable (general purpose school fund)	12,696	12,696
Grant drawdowns receivable (general purpose school fund)	6	6
Receipts for meals not yet served (school nutrition services)	-	68
	<u>\$ 43,352</u>	<u>42,433</u>
Total deferred / unearned revenue for governmental funds		

Property taxes which are delinquent at year end are earned but not available. The tax year 2006 property taxes are unearned and unavailable, but are recorded as receivable on the levy date, as described in Note 1.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2006, was as follows:

Primary government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 11,110	1,144	(23)	-	12,231
Construction in Progress	34,926	8,795	(5,111)	-	38,610
Total capital assets, not being depreciated	<u>46,036</u>	<u>9,939</u>	<u>(5,134)</u>	<u>-</u>	<u>50,841</u>
Capital assets, being depreciated:					
Buildings	89,271	1,064	-	-	90,335
Improvements other than buildings	9,753	498	-	-	10,251
Equipment	29,782	1,594	(447)	-	30,929
Software	155	68	-	-	223
Infrastructure	256,630	567	-	-	257,197
Total capital assets, being depreciated	<u>385,591</u>	<u>3,791</u>	<u>(447)</u>	<u>-</u>	<u>388,935</u>
Less accumulated depreciation for:					
Buildings	(35,308)	(4,094)	-	-	(39,402)
Improvements other than buildings	(4,745)	(639)	-	-	(5,384)
Equipment	(18,597)	(2,301)	438	-	(20,460)
Software	(150)	(42)	-	-	(192)
Infrastructure	(83,351)	(4,813)	-	-	(88,164)
Total accumulated depreciation	<u>(142,151)</u>	<u>(11,889)</u>	<u>438</u>	<u>-</u>	<u>(153,602)</u>
Total capital assets, being depreciated, net	<u>243,440</u>	<u>(8,098)</u>	<u>(9)</u>	<u>-</u>	<u>235,333</u>
Governmental activities capital assets, net	<u>\$ 289,476</u>	<u>1,841</u>	<u>(5,143)</u>	<u>-</u>	<u>286,174</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business-type activities:					
Capital assets, not being depreciated:					
<i>Water</i>					
Land	\$ 640	-	-	-	640
Construction in Progress	7,772	3,622	-	1	11,395
<i>Sewer</i>					
Land	516	-	-	-	516
Construction in Progress	13,391	7,820	(3,188)	-	18,023
<i>Solid waste management</i>					
Land	1,308	-	-	-	1,308
Construction in Progress	-	121	-	1	122
<i>MeadowView Conference Resort and Convention Center</i>					
Land	1,515	-	-	-	1,515
Construction in Progress	9	-	-	-	9
<i>Cattails at MeadowView Golf Course</i>					
Land	<u>982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>982</u>
Total capital assets, not being depreciated	<u>26,133</u>	<u>11,563</u>	<u>(3,188)</u>	<u>2</u>	<u>34,510</u>
Capital assets, being depreciated:					
<i>Water</i>					
Buildings and system	66,300	969	-	1	67,270
Equipment and machinery	1,248	23	(102)	1	1,170
<i>Sewer</i>					
Buildings and system	118,097	4,122	-	-	122,219
Equipment and machinery	1,007	47	-	-	1,054
<i>Solid waste management</i>					
Buildings and system	155	-	-	-	155
Improvements other than buildings	1,956	147	-	(1)	2,102
Equipment and machinery	26	5	-	-	31
<i>MeadowView Conference Resort and Convention Center</i>					
Buildings	21,536	-	-	-	21,536
Improvements other than buildings	165	-	-	-	165
Equipment	867	-	-	-	867
<i>Cattails at MeadowView Golf Course</i>					
Buildings	1,158	-	-	-	1,158
Improvements other than buildings	5,971	-	-	-	5,971
Equipment	<u>374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>374</u>
Total capital assets, being depreciated	<u>218,860</u>	<u>5,313</u>	<u>(102)</u>	<u>1</u>	<u>224,072</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Less accumulated depreciation for:

<i>Water</i>					
Buildings and system	(24,865)	(1,561)	-	-	(26,426)
Equipment and machinery	(1,044)	(63)	99	(1)	(1,009)
<i>Sewer</i>					
Buildings and system	(36,685)	(2,643)	-	-	(39,328)
Equipment and machinery	(949)	(21)	-	-	(970)
<i>Solid waste management</i>					
Buildings and system	(57)	(4)	-	(1)	(62)
Improvements other than Buildings	(833)	(123)	-	-	(956)
Equipment and machinery	(18)	(3)	-	-	(21)
<i>MeadowView Conference Resort and Convention Center</i>					
Buildings	(4,004)	(538)	-	-	(4,542)
Improvements other than Buildings	(83)	(19)	-	-	(102)
Equipment	(852)	(3)	-	-	(855)
<i>Cattails at MeadowView Golf Course</i>					
Buildings	(204)	(29)	-	-	(233)
Improvements other than Buildings	(1,567)	(231)	-	-	(1,798)
Equipment	(335)	(12)	-	-	(347)
Total accumulated depreciation	<u>(71,496)</u>	<u>(5,250)</u>	<u>99</u>	<u>(2)</u>	<u>(76,649)</u>
Total capital assets, being depreciated, net	<u>147,364</u>	<u>63</u>	<u>(3)</u>	<u>(1)</u>	<u>147,423</u>
Business-type activities capital assets, net	<u>\$ 173,497</u>	<u>11,626</u>	<u>(3,191)</u>	<u>1</u>	<u>181,933</u>

Adjustments were primarily to record assets previously disposed of or which had not been previously recorded.

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

Governmental activities:	
General government	\$ 277
Economic and physical development	171
Public safety	1,226
Public works	5,339
Culture and recreation	1,002
Education	<u>3,874</u>
Total depreciation expense – governmental activities	<u>\$ 11,889</u>

CITY OF KINGSPORT, TENNESSEE
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Business-type activities:	
Water	\$ 1,624
Sewer	2,664
Solid waste management	130
MeadowView Conference Resort and Convention Center	560
Cattails at MeadowView Golf Course	<u>272</u>
Total depreciation expense – business-type activities	<u>\$ 5,250</u>

Construction commitments

The City has active construction projects as of June 30, 2006. The governmental projects of the City are reflected in the capital projects fund and the City has provided funding for the future commitments in the amount of \$3,956 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 \$10,738. 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, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Signs	\$ 56	-	-	56
Improvements other than buildings	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
Total capital assets, being depreciated	<u>76</u>	<u>-</u>	<u>-</u>	<u>76</u>
Less accumulated depreciation for:				
Signs	(31)	(3)	-	(34)
Improvements other than buildings	<u>(21)</u>	<u>-</u>	<u>-</u>	<u>(21)</u>
Total accumulated depreciation	<u>(52)</u>	<u>(3)</u>	<u>-</u>	<u>(55)</u>
Total capital assets being depreciated, net	<u>24</u>	<u>(3)</u>	<u>-</u>	<u>21</u>
IDBK capital assets, net	<u>\$ 24</u>	<u>(3)</u>	<u>-</u>	<u>21</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Activity for the ECD for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated -				
Equipment	\$ 484	25	-	509
Total capital assets, being depreciated	484	25	-	509
Less accumulated depreciation for -				
Equipment	(159)	(63)	-	(222)
Total accumulated depreciation	(159)	(63)	-	(222)
Total capital assets being depreciated, net	325	(38)	-	287
ECD capital assets, net	\$ 325	(38)	-	287

D. Interfund receivables, payables, and transfers

Interfund receivables and payables

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
general (major)	MeadowView Conference Resort and Convention Center (major)	\$ 27
	Cattails at MeadowView Golf Course (major)	3,114
	community development (nonmajor)	74
	federal transit administration (nonmajor)	30
	metropolitan planning office (nonmajor)	43
	state street aid (nonmajor)	23
	regional sales tax revenue (nonmajor)	10
general purpose school (major)	public law 93-380 (nonmajor)	460
	special school project (nonmajor)	319
	school nutrition services (nonmajor)	195
MeadowView Conference Resort and Convention Center	regional sales tax (nonmajor)	25
Cattails at MeadowView Golf Course	regional sales tax (nonmajor)	1
Total		<u>\$ 4,321</u>

CITY OF KINGSPORT, TENNESSEE
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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	\$ 11
Primary government – Sewer Fund	Component unit - IDBK	15
Primary government – Water Fund	Component unit - IDBK	<u>11</u>
Total		\$ <u>37</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, 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 KINGSFORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

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

Interfund transfers:

Transfer out:	Transfer in:										
	General	General Purpose School	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental	Solid Waste Management	MeadowView Conference Resort and Convention Center	Cattails at MeadowView Golf Course	Total Proprietary	Total
General	\$ -	16,027	1,819	36	2,563	20,445	2,903	-	-	2,903	23,348
General Purpose School	51	-	7,842	150	118	8,161	-	-	-	-	8,161
Capital Projects	-	-	100	-	-	100	-	-	-	-	100
Nonmajor Governmental	77	547	475	437	478	2,014	-	2,545	555	3,100	5,114
Total Governmental	128	16,574	10,236	623	3,159	30,720	2,903	2,545	555	6,003	36,723
Water	1,153	-	-	-	-	1,153	-	-	-	-	1,153
Sewer	951	-	-	-	-	951	-	-	-	-	951
Total Proprietary	2,104	-	-	-	-	2,104	-	-	-	-	2,104
Totals	\$ 2,232	16,574	10,236	623	3,159	32,824	2,903	2,545	555	6,003	38,827

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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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, 2006, the following bonds outstanding are considered to be defeased:

<u>Date of Refunding</u>		<u>Amount</u>	<u>Issues Refunded</u>
08/28/02	General Obligation	\$ 7,010	1997
03/15/04	General Obligation	5,915	1999, 2000, 2001
03/01/04 & 03/15/04	Water & Sewer System Revenue	<u>16,855</u>	1997, 1999, 2000, 2001
	Total	<u>\$ 29,780</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 \$414 with a maturity date of November 11, 2011. Annual principal payments are \$34 and the interest is variable. As of June 30, 2006, \$207 is outstanding. The City also issued a loan for Qualified Zone Academy Projects in November 2004 for \$3,525 with a maturity date of November 2020. Annual principal payments are \$220 and the interest rate is variable. As of June 30, 2006, \$3,235 of the 2004 issue had been drawn and an annual payment of \$220 had been made leaving a balance of \$3,015. The City also issued a loan for the Qualified Zone Academy Bonds in December 2005 for \$1,549 with a maturity date of December 2020. Annual principal payments are \$103 and the interest rate is variable. As of June 30, 2006, \$710 of the 2005 issue had been drawn.

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.

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:

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

<u>Debt Service Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2006</u>
1997 Public Improvement	01/01, 07/01	02/01/97	13,450	4.150%-5.200%	\$ 1,195
1998 General Obligation Refunding	03/01, 09/01	11/01/98	14,700	4.000%-5.000%	4,475
1999 General Obligation Refunding and Improvement Bonds	03/01, 09/01	04/01/99	5,975	4.000%-4.500%	1,285
1999 General Obligation Bonds	03/01, 09/01	10/01/99	2,035	4.600%-5.500%	255
2000 General Obligation Bonds	03/01, 09/01	11/21/00	1,630	4.450%-5.100%	215
2001 General Obligation Bonds	04/01, 10/01	11/06/01	2,620	2.300%-4.650%	715
2002A General Obligation Refunding Bonds	01/01, 07/01	08/28/02	12,500	4.000%-4.500%	12,500
2003 General Obligation Bonds	04/01, 10/01	12/01/03	7,900	2.000%-4.200%	6,960
2004 General Obligation Refunding Bonds	03/01, 09/01	03/15/04	5,825	2.200%-5.000%	5,825
2004 General Obligation School Bond	05/01, 11/01	12/06/04	2,850	3.000% - 4.000%	2,680
2005 General Obligation Bonds	06/01, 12/01	12/06/05	2,826	3.750% - 5.000%	<u>2,826</u>
Total General Obligation Bonds (before deferred debt refunding costs and net premiums of \$473)					<u>\$ 38,931</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

General Obligation Public Improvement Bonds issued February 1, 1997, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,195	60	1,255
	<u>\$ 1,195</u>	<u>60</u>	<u>1,255</u>

General Obligation Refunding Bonds issued November 1, 1998, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,810	154	2,964
2008	<u>1,665</u>	<u>42</u>	<u>1,707</u>
	<u>\$ 4,475</u>	<u>196</u>	<u>4,671</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 410	54	464
2008	430	37	467
2009	<u>445</u>	<u>19</u>	<u>464</u>
	<u>\$ 1,285</u>	<u>110</u>	<u>1,395</u>

General Obligation Bonds issued October 1, 1999, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 125	12	137
2008	<u>130</u>	<u>6</u>	<u>136</u>
	<u>\$ 255</u>	<u>18</u>	<u>273</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

General Obligation Bonds issued November 21, 2000, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 105	10	115
2008	<u>110</u>	<u>5</u>	<u>115</u>
	<u>\$ 215</u>	<u>15</u>	<u>230</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 175	29	204
2008	175	22	197
2009	180	14	194
2010	<u>185</u>	<u>7</u>	<u>192</u>
	<u>\$ 715</u>	<u>72</u>	<u>787</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,500	528	3,028
2008	4,500	428	4,928
2009	<u>5,500</u>	<u>247</u>	<u>5,747</u>
	<u>\$ 12,500</u>	<u>1,203</u>	<u>13,703</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 500	246	746
2008	500	231	731
2009	500	219	719
2010	525	203	728
2011	550	187	737
2012	560	169	729
2013	580	150	730
2014	600	129	729
2015	625	107	732
2016	650	83	733
2017	670	57	727
2018	<u>700</u>	<u>29</u>	<u>729</u>
	<u>\$ 6,960</u>	<u>1,810</u>	<u>8,770</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	254	254
2008	-	254	254
2009	245	254	499
2010	730	250	980
2011	950	220	1,170
2012	985	182	1,167
2013	1,040	142	1,182
2014	1,085	90	1,175
2015	565	36	601
2016	<u>225</u>	<u>8</u>	<u>233</u>
	<u>\$ 5,825</u>	<u>1,690</u>	<u>7,515</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 Ending June 30	Principal	Interest	Total
2007	\$ 170	96	266
2008	175	91	266
2009	180	85	265
2010	185	79	264
2011	200	73	273
2012	200	67	267
2013	200	60	260
2014	200	53	253
2015	220	46	266
2016	225	38	263
2017	225	29	254
2018	250	20	270
2019	<u>250</u>	<u>10</u>	<u>260</u>
	<u>\$ 2,680</u>	<u>747</u>	<u>3,427</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 140	109	249
2008	149	103	252
2009	153	98	251
2010	158	92	250
2011	166	86	252
2012	175	80	255
2013	175	74	249
2014	184	67	251
2015	192	58	250
2016	201	48	249
2017	219	38	257
2018	219	32	251
2019	227	25	252
2020	232	18	250
2021	<u>236</u>	<u>9</u>	<u>245</u>
	<u>\$ 2,826</u>	<u>937</u>	<u>3,763</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 8,130	1,552	9,682
2008	7,834	1,219	9,053
2009	7,203	936	8,139
2010	1,783	631	2,414
2011	1,866	566	2,432
Next Five Years	8,887	1,687	10,574
Next Five Years	<u>3,228</u>	<u>267</u>	<u>3,495</u>
	<u>\$ 38,931</u>	<u>6,858</u>	<u>45,789</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:

	<u>Date</u> <u>Issued</u>	<u>Amount</u> <u>Issued</u>	<u>Interest</u> <u>Rate</u>	<u>Outstanding</u> <u>June 30, 2006</u>
<u>Water Fund:</u>				
State Revolving Loan – DWF#98-009	03/25/98	2,000	3.675%	\$ 1,564
<u>Sewer Fund:</u>				
State Revolving Loan – SRF#98-119	02/28/99	2,419	3.550%	1,950
State Revolving Loan – SRF#99-123	06/28/99	2,781	3.550%	<u>2,316</u>
Total				<u>\$ 4,266</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 \$2,000 line to provide for water system improvements, consisting of the replacement of water lines along Sevier Avenue.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 113	56	169
2008	118	51	169
2009	122	47	169
2010	127	42	169
2011	131	38	169
2012	136	33	169
2013	141	28	169
2014	147	22	169
2015	152	17	169
2016	158	11	169
2017	164	5	169
2018	<u>55</u>	<u>1</u>	<u>56</u>
	<u>\$ 1,564</u>	<u>351</u>	<u>1,915</u>

A \$2,419 line to provide for the repair and replacement of sewer lines throughout the Mad Branch sewer shed and along Sevier Avenue.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 140	61	201
2008	134	56	190
2009	138	51	189
2010	143	47	190
2011	148	41	189
2012	154	36	190
2013	159	31	190
2014	165	25	190
2015	170	19	189
2016	176	13	189
2017	183	8	191
2018	<u>240</u>	<u>2</u>	<u>242</u>
	<u>\$ 1,950</u>	<u>390</u>	<u>2,340</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2006
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

A \$2,781 line to provide for sewer improvements.

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 154	72	226
2008	149	67	216
2009	154	62	216
2010	160	57	217
2011	165	51	216
2012	171	45	216
2013	177	39	216
2014	184	32	216
2015	190	25	215
2016	197	19	216
2017	204	12	216
2018	<u>411</u>	<u>4</u>	<u>415</u>
	<u>\$ 2,316</u>	<u>485</u>	<u>2,801</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 407	189	596
2008	401	174	575
2009	414	160	574
2010	430	146	576
2011	444	130	574
Next Five Years	2,477	395	2,872
Next Five Years	<u>1,257</u>	<u>32</u>	<u>1,289</u>
	<u>\$ 5,830</u>	<u>1,226</u>	<u>7,056</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2006</u>
<u>Solid Waste Management Fund</u>					
2005 Series General Obligation Bonds	06/01, 12/01	12/06/05	404	3.500%-5.000%	\$ <u>404</u>
Total Solid Waste Management Fund (before bond premiums of (\$ 2))					\$ <u>404</u>
<u>MeadowView Conference Resort and Convention Center Fund -</u>					
2002 General Obligation Refunding Bond	04/01, 10/01	04/25/02	9,585	3.500%-5.000%	\$ <u>4,000</u>
Total MeadowView Conference Resort and Convention Center Fund (before deferred debt refunding costs \$89 and premiums of (\$ 39))					\$ <u>4,000</u>
<u>Cattails at MeadowView Golf Course Fund:</u>					
1995 Golf Course-TMBF	Monthly	05/22/95	4,750	Variable	\$ 2,115
1998 Golf Course-TMBF	Monthly	1998	1,450	Variable	<u>1,169</u>
Total Cattails at MeadowView Golf Course Fund					\$ <u>3,284</u>
<u>Water Fund:</u>					
1978 Waterworks	01/01, 07/01	04/06/78	450	5.000%	\$ 210
1997 Water System Improvement	01/01, 07/01	02/01/97	1,710	4.000%-5.200%	130

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2006</u>
1998 Water Refunding	03/01, 09/01	11/01/98	2,145	4.000%-4.125%	\$ 330
1999 General Obligation Refunding and Improvement for Water	03/01, 09/01	04/01/99	2,820	4.000%-4.650%	605
1999 Water System Improvement	03/01, 09/01	10/01/99	6,120	4.600%-5.500%	770
2001 Water System Improvement	04/01, 10/01	11/06/01	2,140	2.300%-4.650%	575
2002 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/12/02	2,725	3.000%-4.350%	2,245
2003 Water and Sewer Revenue and Tax Bonds	04/01, 10/01	12/01/03	1,315	2.000%-4.200%	1,155
2004 Water and Sewer Revenue and Tax Refunding Bonds	03/01, 09/01	03/01/04	4,127	2.000%-5.000%	4,127
2004 General Obligation Refunding Bonds	03/01, 09/01	03/15/04	2,200	2.200%-5.000%	2,200
2004 Water and Sewer Revenue and Tax Bonds	05/01, 11/01	12/06/04	1,625	2.750%-4.125%	1,530
2005 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/06/05	870	3.750%-5.000%	<u>870</u>
Total Water Fund (before deferred debt refunding costs of \$518 and net premiums and discounts of (\$607))					<u>\$ 14,747</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2006</u>
<u>Sewer Fund:</u>					
1997 Sewer System Improvement	01/01, 07/01	02/01/97	3,815	4.000%-5.200%	\$ 285
1998 Sewer Refunding	03/01, 09/01	11/01/98	4,880	4.000%-5.000%	1,850
1999 Sewer Refunding	03/01, 09/01	04/01/99	3,155	4.000%-4.650%	675
1999 General Obligation System Improvement for Water	03/01, 09/01	10/01/99	10,245	4.600%-5.500%	1,300
2000 Sewer System Improvement	03/01, 09/01	11/21/00	635	4.450%-5.100%	85
2001 Sewer System Improvement	04/01, 10/01	11/06/01	2,790	2.300%-4.650%	760
2002 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/12/02	5,275	3.000%-4.350%	4,340
2003 Water and Sewer Revenue and Tax Bonds	04/01, 10/01	12/01/03	4,585	2.000%-4.200%	4,040
2004 Water and Sewer Revenue and Tax Refunding Bonds	03/01, 09/01	03/01/04	12,473	2.000%-5.000%	11,733
2004 General Obligation Refunding Bonds	03/01, 09/01	03/15/04	3,010	2.200%-5.000%	3,010
2004 Water and Sewer Revenue and Tax Bonds	12/01, 06/01, 12/06/04		6,275	2.750%-4.125%	5,900
2005 Water and Sewer Revenue and Tax Bonds	06/01, 12/01, 12/06/05		4,100	2.750%-4.125%	<u>4,100</u>
Total Sewer Fund (before deferred debt refunding costs of \$ 903 and net premiums and discounts of (\$1,386))					<u>\$ 38,078</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 20	16	36
2008	21	15	36
2009	22	14	36
2010	23	13	36
2011	24	12	36
2012	25	11	36
2013	25	11	36
2014	26	10	36
2015	27	9	36
2016	29	7	36
2017	31	5	36
2018	31	5	36
2019	33	4	37
2020	33	3	36
2021	<u>34</u>	<u>1</u>	<u>35</u>
	\$ <u>404</u>	<u>136</u>	<u>540</u>

MeadowView Conference Resort and Convention Center Bonds issued April 25, 2002, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 1,955	141	2,096
2008	<u>2,045</u>	<u>51</u>	<u>2,096</u>
	\$ <u>4,000</u>	<u>192</u>	<u>4,192</u>

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

CITY OF KINGSPORT, TENNESSEE
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

The interest rate on the Tennessee Municipal Bond Fund 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 bonds is as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>TMBF Series</u>		<u>Total</u>
	<u>1998</u>	<u>1995</u>	
2007	\$ 80	379	459
2008	85	400	485
2009	89	421	510
2010	94	445	539
2011	99	470	569
2012	105	-	105
2013	110	-	110
2014	117	-	117
2015	123	-	123
2016	130	-	130
2017	<u>137</u>	<u>-</u>	<u>137</u>
	<u>\$ 1,169</u>	<u>2,115</u>	<u>3,284</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15	10	25
2008	15	9	24
2009	20	9	29
2010	20	8	28
2011	20	7	27
2012	20	5	25
2013	20	4	24
2014	25	3	28
2015	25	2	27
2016	<u>30</u>	<u>1</u>	<u>31</u>
	<u>\$ 210</u>	<u>58</u>	<u>268</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Note: The City assumed the operation and all related assets and liabilities of the Fall Branch Utility District on April 16, 1990.

Water System Improvement Bonds issued February 1, 1997, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>130</u>	<u>6</u>	<u>136</u>
	\$ <u>130</u>	<u>6</u>	<u>136</u>

Water Revenue and Tax Refunding Bonds, Series 1998, issued November 1, 1998, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>330</u>	<u>7</u>	<u>337</u>
	\$ <u>330</u>	<u>7</u>	<u>337</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 195	25	220
2008	200	17	217
2009	<u>210</u>	<u>9</u>	<u>219</u>
	\$ <u>605</u>	<u>51</u>	<u>656</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

1999 Water System Improvement Bonds, Series 1999, issued October 1, 1999, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 375	38	413
2008	<u>395</u>	<u>19</u>	<u>414</u>
	<u>\$ 770</u>	<u>57</u>	<u>827</u>

2002 Water System Improvement Bonds, Series 2001, issued November 6, 2001, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 140	23	163
2008	140	17	157
2009	145	12	157
2010	<u>150</u>	<u>6</u>	<u>156</u>
	<u>\$ 575</u>	<u>58</u>	<u>633</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 170	87	257
2008	175	82	257
2009	180	76	256
2010	195	70	265
2011	200	62	262
2012	205	54	259
2013	210	46	256
2014	215	38	253
2015	220	29	249
2016	235	20	255
2017	<u>240</u>	<u>10</u>	<u>250</u>
	<u>\$ 2,245</u>	<u>574</u>	<u>2,819</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 Ending June 30	Principal	Interest	Total
2007	\$ 80	40	120
2008	85	38	123
2009	85	36	121
2010	85	34	119
2011	90	32	122
2012	95	28	123
2013	95	25	120
2014	100	21	121
2015	105	18	123
2016	110	14	124
2017	110	9	119
2018	<u>115</u>	<u>5</u>	<u>120</u>
	<u>\$ 1,155</u>	<u>300</u>	<u>1,455</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ -	202	202
2008	132	202	334
2009	555	200	755
2010	585	172	757
2011	615	143	758
2012	650	112	762
2013	505	80	585
2014	530	54	584
2015	<u>555</u>	<u>28</u>	<u>583</u>
	<u>\$ 4,127</u>	<u>1,193</u>	<u>5,320</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	97	97
2008	-	97	97
2009	-	97	97
2010	215	97	312
2011	385	89	474
2012	395	73	468
2013	405	58	463
2014	430	37	467
2015	180	16	196
2016	<u>190</u>	<u>7</u>	<u>197</u>
	<u>\$ 2,200</u>	<u>668</u>	<u>2,868</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 100	54	154
2008	100	51	151
2009	100	48	148
2010	105	45	150
2011	110	42	152
2012	110	39	149
2013	115	35	150
2014	120	31	151
2015	125	27	152
2016	130	22	152
2017	135	17	152
2018	135	11	146
2019	<u>145</u>	<u>6</u>	<u>151</u>
	<u>\$ 1,530</u>	<u>428</u>	<u>1,958</u>

CITY OF KINGSPORT, TENNESSEE
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For the Year Ended June 30, 2006
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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 Water portion:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 45	33	78
2008	45	32	77
2009	45	30	75
2010	50	28	78
2011	50	26	76
2012	50	25	75
2013	55	23	78
2014	55	21	76
2015	55	18	73
2016	60	15	75
2017	70	12	82
2018	75	10	85
2019	70	8	78
2020	70	5	75
2021	<u>75</u>	<u>3</u>	<u>78</u>
	<u>\$ 870</u>	<u>289</u>	<u>1,159</u>

Sewer System Improvement Bonds issued February 1, 1997, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>285</u>	<u>14</u>	<u>299</u>
	<u>\$ 285</u>	<u>14</u>	<u>299</u>

Sewer Revenue and Tax Refunding Bonds, Series 1998, issued November 1, 1998, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,385	51	1,436
2008	<u>465</u>	<u>10</u>	<u>475</u>
	<u>\$ 1,850</u>	<u>61</u>	<u>1,911</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 215	28	243
2008	225	19	244
2009	<u>235</u>	<u>10</u>	<u>245</u>
	<u>\$ 675</u>	<u>57</u>	<u>732</u>

The Sewer portion of the General Obligation Bonds, Series 1999, issued October 1, 1999, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 635	62	697
2008	<u>665</u>	<u>33</u>	<u>698</u>
	<u>\$ 1,300</u>	<u>95</u>	<u>1,395</u>

The Sewer System Improvement Bonds, Series 2000, issued November 21, 2000, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 40	4	44
2008	<u>45</u>	<u>2</u>	<u>47</u>
	<u>\$ 85</u>	<u>6</u>	<u>91</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 185	30	215
2008	185	23	208
2009	190	16	206
2010	<u>200</u>	<u>8</u>	<u>208</u>
	<u>\$ 760</u>	<u>77</u>	<u>837</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 330	169	499
2008	340	158	498
2009	350	147	497
2010	365	135	500
2011	380	121	501
2012	395	106	501
2013	405	90	495
2014	420	74	494
2015	430	57	487
2016	455	40	495
2017	<u>470</u>	<u>20</u>	<u>490</u>
	<u>\$ 4,340</u>	<u>1,117</u>	<u>5,457</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 280	140	420
2008	285	134	419
2009	295	128	423
2010	315	118	433
2011	310	108	418
2012	320	99	419
2013	335	88	423
2014	350	76	426
2015	360	63	423
2016	390	49	439
2017	390	33	423
2018	<u>410</u>	<u>17</u>	<u>427</u>
	<u>\$ 4,040</u>	<u>1,053</u>	<u>5,093</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2006
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 380	550	930
2008	688	542	1,230
2009	1,395	528	1,923
2010	1,465	459	1,924
2011	1,550	385	1,935
2012	1,625	308	1,933
2013	1,315	227	1,542
2014	1,370	161	1,531
2015	1,445	92	1,537
2016	<u>500</u>	<u>20</u>	<u>520</u>
	<u>\$ 11,733</u>	<u>3,272</u>	<u>15,005</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	132	132
2008	-	133	133
2009	40	132	172
2010	285	132	417
2011	500	120	620
2012	520	100	620
2013	540	80	620
2014	575	52	627
2015	295	24	319
2016	<u>255</u>	<u>9</u>	<u>264</u>
	<u>\$ 3,010</u>	<u>914</u>	<u>3,924</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 380	210	590
2008	400	198	598
2009	400	186	586
2010	395	174	569
2011	415	162	577
2012	430	149	579
2013	445	134	579
2014	460	119	579
2015	475	102	577
2016	495	84	579
2017	515	65	580
2018	535	44	579
2019	<u>555</u>	<u>23</u>	<u>578</u>
	<u>\$ 5,900</u>	<u>1,650</u>	<u>7,550</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 205	158	363
2008	215	150	365
2009	225	142	367
2010	230	134	364
2011	240	125	365
2012	250	117	367
2013	255	107	362
2014	270	98	368
2015	285	84	369
2016	295	70	365
2017	305	55	360
2018	310	46	356
2019	325	36	361
2020	340	27	367
2021	<u>350</u>	<u>14</u>	<u>364</u>
	<u>\$ 4,100</u>	<u>1,363</u>	<u>5,463</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

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 TML bonds totaling \$3,284 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 7,875	2,327	10,202
2008	6,866	2,032	8,898
2009	4,492	1,820	6,312
2010	4,683	1,633	6,316
2011	4,889	1,434	6,323
Next Five Years	22,517	3,956	26,473
Next Five Years	<u>5,907</u>	<u>494</u>	<u>6,401</u>
	<u>\$ 57,229</u>	<u>13,696</u>	<u>70,925</u>

The total on the statement of net assets has been reduced by deferred debt refunding costs of \$1,510 and the net premiums and discounts of (\$2,034).

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental activities:					
General Obligation Debt	\$ 44,397	2,826	8,292	38,931	8,130
Less: deferred amounts for refunding	(999)	-	(58)	(941)	-
Plus: premiums and discounts	<u>505</u>	<u>-</u>	<u>37</u>	<u>468</u>	<u>-</u>
Total Bonds Payable	43,903	2,826	8,271	38,458	8,130
Compensated Absences	2,514	1,931	1,690	2,755	224
Notes Payable-State	<u>241</u>	<u>3,945</u>	<u>254</u>	<u>3,932</u>	<u>357</u>
Totals	<u>\$ 46,658</u>	<u>8,702</u>	<u>10,215</u>	<u>45,145</u>	<u>8,711</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Business-type activities:					
General Obligation Debt	\$ 26,520	404	6,451	20,473	6,404
Water and Sewer Tax Revenue Bonds	36,750	4,970	1,680	40,040	1,930
Less: deferred amounts for refunding	(1,819)	-	(309)	(1,510)	-
Plus: Premiums and discounts	<u>2,253</u>	<u>-</u>	<u>219</u>	<u>2,034</u>	<u>-</u>
Total Bonds Payable	63,704	5,374	8,041	61,037	8,334
Compensated Absences	448	448	440	456	456
State Revolving Notes	6,224	-	394	5,830	407
Consolidated Utility Payable	<u>70</u>	<u>-</u>	<u>70</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>70,446</u>	<u>5,822</u>	<u>8,945</u>	<u>67,323</u>	<u>9,197</u>

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 and completed November 2005 for workers' compensation. 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. The City carries additional coverage for public officials and other employees through U.S. Fidelity and Guarantee Company and property insurance through Travelers, Hartford, 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 three years, which were not covered by insurance.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
 (amounts expressed in thousands)

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 John Deere Health. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. An actuarial study was conducted beginning spring 2006. Hereafter, an actuarial study will be performed annually. 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> <u>June 30, 2006</u>	<u>Year Ended</u> <u>June 30, 2005</u>
Claims Accrued, Beginning	\$ 160	181
Claims Incurred	909	592
Claims Paid	<u>(861)</u>	<u>(613)</u>
Claims Accrued, Ending	\$ <u>208</u>	<u>160</u>

The City's estimate of claims accrued at year end is based on actual claims paid during April, May, and June 2006.

B. Subsequent Events

As of December 2006, the City intends to sell \$22,850 of General Obligation and Public Improvement Bonds and \$1,680 of Water and Sewer System Revenue and Tax Bonds, Series 2006, for the purpose of financing the construction and equipping of a new elementary school, new fire station, certain road improvements, and various water and sewer capital projects listed for fiscal years adopted in the FY2007 Capital Improvement Program (CIP). As of this report date, the issue has passed an initial and a detailed reading to the Board of Mayor and Alderman. The City scheduled the issue to be placed for sale on December 5, 2006, signing on December 19, 2006 and closing on December 20, 2006.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
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5. OTHER INFORMATION (CONTINUED):

C. Contingencies

Primary government

The City has recorded an arbitrage rebate liability in the water fund, sewer fund, solid waste and general fund. The bonds, through 2003, have been independently reviewed and it has been determined that no arbitrage rebate liability exists for those years. At June 30, 2006, the water fund, sewer, and solid waste funds had arbitrage rebate liabilities recorded of \$200, \$331, and \$2, respectively. These arbitrage rebate liabilities are not directly related to any bond issue however, are recorded in anticipation of future liabilities. At June 30, 2006, the general fund has an arbitrage rebate liability of \$145 recorded. This is an estimation of the amount that will be due for the 2004 and 2005 issues.

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.

The City entered into an agreement in 1999 with the State of Tennessee Department of Transportation (TDOT) regarding the construction of the Kingsport State Industrial Access road serving the Kingsport Interstate Technology Park. The access road was officially complete as of February 25, 2005. Therefore, in accordance with the agreement between TDOT and the City, a specified level of business capitol must be present by February 25, 2008. If the City is unable to meet the requirements of the agreement within the three year period, the City will be responsible for repayment of a letter of credit that has been established with a financial institution, that TDOT will be allowed to "draw" on equal to costs incurred for design and construction of the access road up to \$1,600.

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. 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 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 \$20,000. 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 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
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5. OTHER INFORMATION (CONTINUED):

C. Contingencies (continued)

During 2005, the Sullivan County Economic Development Partnership (SCEDP) issued \$1,995 Revenue Bond, Series 2005, of which, the City is contingently liable for \$618. During 2006, SCEDP issued an additional \$505 Revenue Bond, of which the City is contingently liable for \$ 157. 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, 2006, \$2,500 was outstanding on these bonds.

Discretely presented component unit

The IDBK is contingently liable to the City for \$3,417. The liability is contingent upon sales of land in the Northeast Tennessee Business Park as stated in Resolutions No. 91-111 and 90-86. There is no stated maturity date and the City has no collateral in the land.

The IDBK issued \$6,140 Multifamily Housing Revenue Bonds, Series 2003A, and \$100 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, 2006, \$6,060 was outstanding on these bonds.

D. Post-employment health care benefits

The BMA has provided for post-employment health care benefits. All employees (including schools) who retire before the age of 65 receive the same health care benefits at the same cost as current active employees. Currently, the City pays 70% of the lowest premium and the retiree is responsible for the remaining 30%. For employees that retire after attaining the age of 65, the City and Schools purchase a Medicare supplement at no cost to the retiree. All terminated employees, other than retirees, are eligible to continue coverage at their cost under COBRA regulations, which is administered through John Deere Health as part of the City's change to self-insurance at January 1, 2004. As of June 30, 2006, there were approximately 62 retirees. For the year ended June 30, 2006, approximately \$486 was paid for post-retirement benefits by the City. The City funds the plan on a pay-as-you-go basis. The School retirees are covered under the State of Tennessee Local Education Health Insurance Plan with a portion of the premium reimbursed by the State.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
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5. OTHER INFORMATION (CONTINUED):

E. Pension 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, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at www.treasury.state.tn.us.

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, 2006 was 13.46% 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
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5. OTHER INFORMATION (CONTINUED):

E. Pension plan (continued)

Annual pension cost

For the year ending June 30, 2006, the City's annual pension cost of \$4,146 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2003 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 10 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
June 30, 2006	\$4,146	100.00%	-
June 30, 2005	\$4,072	100.00%	-
June 30, 2004	3,336	100.00%	-

Required supplementary information

Schedule of Funding Progress for Kingsport

	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a %</u> <u>of Covered</u> <u>Payroll</u>
July 01, 2005	\$ 104,770	129,058	24,288	81.18%	30,278	80.22%
July 01, 2003	97,199	106,661	9,462	91.13%	27,888	33.93%
July 01, 2001	91,035	101,307	10,272	89.86%	26,519	38.73%

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

E. Pension plan (continued)

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, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at 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, 2006 was 5.50% 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, 2006, 2005, and 2004 were \$1,458, \$1,412, \$833, respectively, equal to the required contributions for each year.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
 (amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

F. Joint Ventures

Tri-Cities Airport

Tri-Cities Airport (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, 2006 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 5,986
Operating Expenses	(5,485)
Depreciation	(2,381)
Amortization	(14)
Other Income	620
Capital Contributions	<u>7,647</u>
Change in Net Assets	6,373
Net Assets, July 1	<u>39,378</u>
Net Assets, June 30	\$ <u>45,751</u>
Total Assets	\$ 57,666
Total Liabilities	(11,915)
Total Net Assets	\$ <u>45,751</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

F. 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	\$ 535
20% interest in capital of Phipps Bend Joint Venture	<u>170</u>
Total Investment	\$ <u>705</u>

G. 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, 2005 and 2004, the taxes assessed on the above mentioned taxpayer accounted for approximately 28% and 28%, respectively, of total property taxes assessed.

H. Prior Period Adjustments

General fund:

Compensated absences	\$ <u>2,095</u>
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The compensated absences in the General fund was decreased in the current year in the amount of \$2,095 in order to reflect the liability for matured compensated absences only and not the total amount of compensated absences accrued, which is reflected in the government-wide financial statements.

CITY OF KINGSPORT, TENNESSEE

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES -</u>				
Investment Earnings	\$ -	-	203	203
Total Revenues	-	-	203	203
<u>EXPENDITURES:</u>				
Principal	8,713	8,545	8,525	20
Interest	1,669	1,735	1,735	-
Bond Issuance Costs	-	86	100	(14)
Miscellaneous	29	24	20	4
Total Expenditures	10,411	10,390	10,380	10
Deficiency of Revenues Under Expenditures	(10,411)	(10,390)	(10,177)	213
<u>OTHER FINANCING SOURCES -</u>				
Transfers In	10,411	10,390	10,236	(154)
Total Other Financing Sources	10,411	10,390	10,236	(154)
Net Change in Fund Balance	-	-	59	59
Fund Balance, July 1, 2005	33	33	33	-
Fund Balance, June 30, 2006	\$ 33	33	92	59

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006
(amounts expressed in thousands)

	Special Revenue Funds						Total Special Revenue Funds	Capital Project	Permanent Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds				
ASSETS:										
Cash in Bank	-	-	4	-	-	1,048	-	-	-	1,052
Equity in Pooled Cash and Investments	-	267	158	20	(306)	13	-	8	-	160
Long-Term Certificates of Deposit	-	-	-	-	-	206	-	150	-	356
Investments	-	-	37	-	1,803	58	-	4	-	1,902
Due from Other Governments	103	12	-	419	530	834	-	-	-	1,898
Inventories	-	-	-	-	-	114	-	-	-	114
Total Assets	103	279	199	439	2,027	2,273	-	162	-	5,482

LIABILITIES AND FUND BALANCES:

Liabilities:										
Accounts Payable	35	44	2	133	-	47	-	-	-	261
Compensated Absences Payable	-	-	-	-	-	9	-	-	-	9
Due to Other Funds	74	-	-	96	36	974	-	-	-	1,180
Deferred Revenue	-	-	-	-	-	68	-	-	-	68
Total Liabilities	109	44	2	229	36	1,098	-	-	-	1,518
Fund Balances:										
Reserved for Encumbrances	298	354	59	236	-	56	-	-	-	1,003
Reserved for Inventories	-	-	-	-	-	114	-	-	-	114
Reserved for Perpetual Care	-	-	-	-	-	-	-	162	-	162
Reserved for Projects	-	-	34	-	131	-	-	-	-	165
Unreserved, Undesignated	(304)	(119)	104	(26)	1,860	1,005	-	-	-	2,520
Total Fund Balances	(6)	235	197	210	1,991	1,175	-	162	-	3,964
Total Liabilities and Fund Balances	\$ 103	279	199	439	2,027	2,273	-	162	-	5,482

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Special Revenue Funds							Total Special Revenue Funds	Capital Project	Permanent Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Industrial Development Project Fund				
REVENUES:											
Federal Government	\$ 659	58	53	453	-	5,134	6,357	-	-	6,357	
State Government	-	-	-	1,590	3,084	601	5,275	-	-	5,275	
Charges for Services	-	-	-	88	67	1,454	1,609	-	6	1,615	
Fines and Forfeitures	-	-	112	-	-	-	112	-	-	112	
Investment Earnings	-	-	4	-	54	10	68	-	-	68	
Contributions and Donations	-	145	-	-	16	73	234	-	-	234	
Total Revenues	659	203	169	2,131	3,221	7,272	13,655	-	6	13,661	
EXPENDITURES:											
General and Administrative	-	364	2	-	-	-	366	13	-	379	
School Food Service	-	-	-	-	-	2,636	2,636	-	-	2,636	
School Federal Projects	-	-	-	-	-	3,405	3,405	-	-	3,405	
Economic and Physical Development	613	-	-	-	-	-	613	-	-	613	
Public Safety	-	-	69	-	-	-	69	-	-	69	
Highway Transportation Planning	-	-	-	2,894	-	-	2,894	-	-	2,894	
Culture and Recreation	-	-	-	-	74	-	74	-	-	74	
Education	-	-	-	-	-	1,273	1,273	-	-	1,273	
Capital Outlay	-	39	130	36	-	392	597	-	-	597	
Total Expenditures	613	403	201	2,930	74	7,706	11,927	13	-	11,940	
Excess (Deficiency) of Revenues Over (Under) Expenditures	46	(200)	(32)	(799)	3,147	(434)	1,728	(13)	6	1,721	
OTHER FINANCING SOURCES (USES):											
Operating Transfers	(54)	392	(41)	618	(3,202)	334	(1,953)	-	(2)	(1,955)	
Bond Issuance	-	15	-	-	-	-	15	-	-	15	
Net Change in Fund Balances	(8)	207	(73)	(181)	(55)	(100)	(210)	(13)	4	(219)	
Fund Balances, July 1, 2005	2	28	270	391	2,046	1,275	4,012	13	158	4,183	
Fund Balances, June 30, 2006	(6)	235	197	210	1,991	1,175	3,802	-	162	3,964	

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY

June 30, 2006

(amounts expressed in thousands)

	<u>Criminal Forfeiture Fund</u>	<u>Drug Fund</u>	<u>Local Law Enforcement Fund</u>	<u>Justice Assistance Grant Fund</u>	<u>Total Public Safety Funds</u>
<u>ASSETS:</u>					
Cash in Bank	-	4	-	-	4
Equity in Pooled Cash and Investments	20	98	-	40	158
Investments	35	-	2	-	37
	<u>55</u>	<u>102</u>	<u>2</u>	<u>40</u>	<u>199</u>
<u>Total Assets</u>					
<u>LIABILITIES AND FUND BALANCES:</u>					
<u>Liabilities -</u>					
Accounts Payable	-	-	2	-	2
	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>
<u>Total Liabilities</u>					
<u>Fund Balances:</u>					
Reserved for Encumbrances	21	-	-	38	59
Reserved for Projects	34	-	-	-	34
Unreserved, Undesignated	-	102	-	2	104
	<u>55</u>	<u>102</u>	<u>-</u>	<u>40</u>	<u>197</u>
<u>Total Fund Balances</u>					
	<u>55</u>	<u>102</u>	<u>2</u>	<u>40</u>	<u>199</u>
<u>Total Liabilities and Fund Balances</u>					

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Criminal Forfeiture Fund	Drug Fund	Local Law Enforcement Fund	Justice Assistance Grant Fund	Total Public Safety Funds
<u>REVENUES:</u>					
Federal Government	\$ 13	-	-	40	53
Fines and Forfeitures	-	112	-	-	112
Investment Earnings	3	-	1	-	4
Total Revenues	<u>16</u>	<u>112</u>	<u>1</u>	<u>40</u>	<u>169</u>
<u>EXPENDITURES:</u>					
General and Administrative	-	2	-	-	2
Public Safety	8	61	-	-	69
Capital Outlay	47	17	66	-	130
Total Expenditures	<u>55</u>	<u>80</u>	<u>66</u>	<u>-</u>	<u>201</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39)	32	(65)	40	(32)
<u>OTHER FINANCING USES -</u>					
Operating Transfers	-	(41)	-	-	(41)
Net Change in Fund Balances	(39)	(9)	(65)	40	(73)
Fund Balance, July 1, 2005	94	111	65	-	270
Fund Balance, June 30, 2006	<u>\$ 55</u>	<u>102</u>	<u>-</u>	<u>40</u>	<u>197</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION

June 30, 2006

(amounts expressed in thousands)

<u>ASSETS:</u>	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
Equity in Pooled Cash and Investments	\$ -	-	20	20
Due from Other Governments	150	54	215	419
Total Assets	<u>150</u>	<u>54</u>	<u>235</u>	<u>439</u>
<u>LIABILITIES AND FUND BALANCES:</u>				
<u>Liabilities:</u>				
Accounts Payable	2	1	130	133
Due to Other Funds	30	43	23	96
Total Liabilities	<u>32</u>	<u>44</u>	<u>153</u>	<u>229</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	234	2	-	236
Unreserved, Undesignated	(116)	8	82	(26)
Total Fund Balances	<u>118</u>	<u>10</u>	<u>82</u>	<u>210</u>
Total Liabilities and Fund Balances	<u>\$ 150</u>	<u>54</u>	<u>235</u>	<u>439</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
<u>REVENUES:</u>				
Federal Government	\$ 453	-	-	453
State Government	149	180	1,261	1,590
Charges for Services	88	-	-	88
Total Revenues	<u>690</u>	<u>180</u>	<u>1,261</u>	<u>2,131</u>
<u>EXPENDITURES:</u>				
Highway Transportation Planning	834	207	1,853	2,894
Capital Outlay	8	1	27	36
Total Expenditures	<u>842</u>	<u>208</u>	<u>1,880</u>	<u>2,930</u>
Deficiency of Revenues Under Expenditures	(152)	(28)	(619)	(799)
<u>OTHER FINANCING SOURCES (USES) -</u>				
Operating Transfers	(22)	43	597	618
Net Change in Fund Balances	(174)	15	(22)	(181)
Fund Balance, July 1, 2005	292	(5)	104	391
Fund Balance, June 30, 2006	<u>\$ 118</u>	<u>10</u>	<u>82</u>	<u>210</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION

June 30, 2006

(amounts expressed in thousands)

	Regional Sales Tax Revenue Fund	Eastman Annex Tax Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
<u>ASSETS:</u>							
Equity in Pooled Cash and Investments	\$ (473)	166	-	-	-	1	(306)
Investments	1,624	-	17	23	116	23	1,803
Due from Other Governments	530	-	-	-	-	-	530
Total Assets	<u>1,681</u>	<u>166</u>	<u>17</u>	<u>23</u>	<u>116</u>	<u>24</u>	<u>2,027</u>
<u>LIABILITIES AND FUND BALANCES:</u>							
<u>Liabilities -</u>							
Due to Other Funds	36	-	-	-	-	-	36
Total Liabilities	<u>36</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36</u>
<u>Fund Balances:</u>							
Reserved for Projects	-	131	-	-	-	-	131
Unreserved, Undesignated	1,645	35	17	23	116	24	1,860
Total Fund Balances	<u>1,645</u>	<u>166</u>	<u>17</u>	<u>23</u>	<u>116</u>	<u>24</u>	<u>1,991</u>
Total Liabilities and Fund Balances	<u>\$ 1,681</u>	<u>166</u>	<u>17</u>	<u>23</u>	<u>116</u>	<u>24</u>	<u>2,027</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION

For the Year Ended June 30, 2006
 (amounts expressed in thousands)

	Regional Sales Tax Revenue Fund	Eastman Annex Tax Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
<u>REVENUES:</u>							
State Government	\$ 3,084	-	-	-	-	-	3,084
Charges for Services	-	-	-	-	-	67	67
Investment Earnings	47	-	1	2	3	1	54
Contributions and Donations	-	-	-	-	15	1	16
Total Revenues	3,131	-	1	2	18	69	3,221
<u>EXPENDITURES -</u>							
Culture and Recreation	-	-	-	-	12	62	74
Total Expenditures	-	-	-	-	12	62	74
Excess of Revenues Over Expenditures	3,131	-	1	2	6	7	3,147
<u>OTHER FINANCING USES -</u>							
Operating Transfers	(3,100)	(102)	-	-	-	-	(3,202)
Net Change in Fund Balances	31	(102)	1	2	6	7	(55)
Fund Balance, July 1, 2005	1,614	268	16	21	110	17	2,046
Fund Balance, June 30, 2006	\$ 1,645	166	17	23	116	24	1,991

CITY OF KINGSPORT, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - EDUCATION

June 30, 2006

(amounts expressed in thousands)

ASSETS:	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
Cash in Bank	\$ 1,048	-	-	-	1,048
Equity in Pooled Cash and Investments	-	-	13	-	13
Long-Term Certificates of Deposit	206	-	-	-	206
Investments	-	-	-	58	58
Due from Other Governments	5	342	487	-	834
Inventories	114	-	-	-	114
Total Assets	1,373	342	500	58	2,273
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	-	14	33	-	47
Compensated Absences Payable	-	9	-	-	9
Due to Other Funds	195	319	460	-	974
Deferred Revenue	68	-	-	-	68
Total Liabilities	263	342	493	-	1,098
Fund Balances:					
Reserved for Encumbrances	-	15	41	-	56
Reserved for Inventories	114	-	-	-	114
Unreserved, Undesignated	996	(15)	(34)	58	1,005
Total Fund Balances	1,110	-	7	58	1,175
Total Liabilities and Fund Balances	\$ 1,373	342	500	58	2,273

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
<u>REVENUES:</u>					
Federal Government	\$ 1,116	496	3,522	-	5,134
State Government	28	573	-	-	601
Charges for Services	1,450	4	-	-	1,454
Investment Earnings	8	-	-	2	10
Contributions and Donations	73	-	-	-	73
Total Revenues	<u>2,675</u>	<u>1,073</u>	<u>3,522</u>	<u>2</u>	<u>7,272</u>
<u>EXPENDITURES:</u>					
School Food Service	2,636	-	-	-	2,636
School Federal Projects	-	-	3,405	-	3,405
Education	-	1,273	-	-	1,273
Capital Outlay	50	134	208	-	392
Total Expenditures	<u>2,686</u>	<u>1,407</u>	<u>3,613</u>	<u>-</u>	<u>7,706</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11)	(334)	(91)	2	(434)
<u>OTHER FINANCING SOURCES -</u>					
Operating Transfers	-	334	-	-	334
Net Change in Fund Balances	(11)	-	(91)	2	(100)
Fund Balance, July 1, 2005	<u>1,121</u>	<u>-</u>	<u>98</u>	<u>56</u>	<u>1,275</u>
Fund Balance, June 30, 2006	<u>\$ 1,110</u>	<u>-</u>	<u>7</u>	<u>58</u>	<u>1,175</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CRIMINAL FORFEITURE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts	Actual	Variance with
	Original	Final	Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Federal Government	\$ -	-	13
Investment Earnings	-	-	3
Contributions and Donations	8	76	(76)
Total Revenues	8	76	(60)
<u>EXPENDITURES:</u>			
Public Safety	8	8	-
Capital Outlay	-	68	21
Total Expenditures	8	76	21
Net Change in Fund Balance	-	-	(39)
Fund Balance, July 1, 2005	94	94	-
Fund Balance, June 30, 2006	\$ 94	94	(39)

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE

DRUG FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fines and Forfeitures	\$ 60	60	112	52
Contributions and Donations	-	91	-	(91)
Total Revenues	60	151	112	(39)
EXPENDITURES:				
General and Administrative	2	2	2	-
Public Safety	58	108	61	47
Capital Outlay	-	-	17	(17)
Total Expenditures	60	110	80	30
Excess of Revenues Over Expenditures	-	41	32	(9)
OTHER FINANCING USES -				
Transfers Out	-	(41)	(41)	-
Total Other Financing Uses	-	(41)	(41)	-
Net Change in Fund Balance	-	-	(9)	(9)
Fund Balance, July 1, 2005	111	111	111	-
Fund Balance, June 30, 2006	\$ 111	111	102	(9)

CITY OF KINGSFORT, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Final Budget -</u>
			<u>Positive</u>
			<u>(Negative)</u>
<u>REVENUES -</u>			
State Government	\$ 1,339	1,339	(78)
Total Revenues	<u>1,339</u>	<u>1,339</u>	<u>(78)</u>
<u>EXPENDITURES:</u>			
Highway Transportation Planning	2,088	2,014	161
Capital Outlay	10	10	(17)
Total Expenditures	<u>2,098</u>	<u>2,024</u>	<u>144</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(759)</u>	<u>(685)</u>	<u>66</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers In	769	827	(88)
Transfers Out	(10)	(142)	-
Total Other Financing Sources (Uses)	<u>759</u>	<u>685</u>	<u>(88)</u>
Net Change in Fund Balance	-	(22)	(22)
Fund Balance, July 1, 2005	<u>104</u>	<u>104</u>	<u>-</u>
Fund Balance, June 30, 2006	<u>\$ 104</u>	<u>104</u>	<u>(22)</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
REGIONAL SALES TAX REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
State Government	\$ 3,000	3,084	84
Investment Earnings	41	47	6
Total Revenues	3,041	3,131	90
<u>OTHER FINANCING USES -</u>			
Transfers Out	(3,041)	(3,100)	(59)
Total Other Financing Uses	(3,041)	(3,100)	(59)
Net Change in Fund Balance	-	31	31
Fund Balance, July 1, 2005	1,614	1,614	-
Fund Balance, June 30, 2006	\$ 1,614	1,645	31

CITY OF KINGSPORT, TENNESSEE
 EASTMAN ANNEX TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
 (amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	\$ 1,591	1,681	1,522	(159)
Transfers Out	(1,591)	(1,681)	(1,624)	57
Total Other Financing Uses	-	-	(102)	(102)
Net Change in Fund Balance	-	-	(102)	(102)
Fund Balance, July 1, 2005	268	268	268	-
Fund Balance, June 30, 2006	\$ 268	268	166	(102)

CITY OF KINGSPORT, TENNESSEE
STEADMAN CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>REVENUES -</u>			
Investment Earnings	\$ -	1	1
 Total Revenues	 -	 1	 1
 Net Change in Fund Balance	 -	 1	 1
 Fund Balance, July 1, 2005	 16	 16	 -
 Fund Balance, June 30, 2006	 <u>\$ 16</u>	 <u>17</u>	 <u>1</u>

CITY OF KINGSPORT, TENNESSEE
 PUBLIC LIBRARY COMMISSION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
 (amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES -</u>			
Investment Earnings	\$ 1	2	1
Total Revenues	1	2	1
<u>EXPENDITURES -</u>			
Culture and Recreation	1	-	1
Total Expenditures	1	-	1
Net Change in Fund Balance	-	2	2
Fund Balance, July 1, 2005	21	21	-
Fund Balance, June 30, 2006	\$ 21	23	2

CITY OF KINGSPORT, TENNESSEE
BAYS MOUNTAIN FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Investment Earnings	\$ 1	3	2
Contributions and Donations	30	15	(15)
Total Revenues	<u>31</u>	<u>18</u>	<u>(13)</u>
<u>EXPENDITURES -</u>			
Culture and Recreation	131	12	119
Total Expenditures	<u>131</u>	<u>12</u>	<u>119</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(100)</u>	<u>6</u>	<u>106</u>
<u>OTHER FINANCING SOURCES -</u>			
Transfers In	100	-	(100)
Total Other Financing Sources	<u>100</u>	<u>-</u>	<u>(100)</u>
Net Change in Fund Balance	-	6	6
Fund Balance, July 1, 2005	110	110	-
Fund Balance, June 30, 2006	<u>\$ 110</u>	<u>116</u>	<u>6</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SENIOR CITIZENS ADVISORY BOARD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Charges for Services	\$ 82	67	(15)
Investment Earnings	-	1	1
Contributions and Donations	2	1	(1)
Total Revenues	84	69	(15)
<u>EXPENDITURES -</u>			
Culture and Recreation	84	62	22
Total Expenditures	84	62	22
Net Change in Fund Balance	-	7	7
Fund Balance, July 1, 2005	17	17	-
Fund Balance, June 30, 2006	\$ 17	24	7

CITY OF KINGSPORT, TENNESSEE
 SCHOOL NUTRITION SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
 (amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Federal Government	\$ 1,115	1,116	1
State Government	32	28	(4)
Charges for Services	1,505	1,450	(55)
Investment Earnings	8	8	-
Contributions and Donations	135	73	(62)
 Total Revenues	 2,795	 2,675	 (120)
<u>EXPENDITURES:</u>			
School Food Service	2,759	2,636	123
Capital Outlay	36	50	(14)
 Total Expenditures	 2,795	 2,686	 109
 Net Change in Fund Balance	 -	 (11)	 (11)
 Fund Balance, July 1, 2005	 1,121	 1,121	 -
 Fund Balance, June 30, 2006	 \$ 1,121	 1,110	 (11)

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
PALMER CENTER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES -</u>			
Investment Earnings	\$ 1	2	1
Total Revenues	1	2	1
<u>EXPENDITURES -</u>			
Capital Outlay	1	-	1
Total Expenditures	1	-	1
Net Change in Fund Balance	-	2	2
Fund Balance, July 1, 2005	56	56	-
Fund Balance, June 30, 2006	\$ 56	58	2

CITY OF KINGSPORT, TENNESSEE
 ALLANDALE TRUST FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2006
 (amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES -</u>				
Charges for Services	\$ 2	2	6	4
Total Revenues	2	2	6	4
<u>EXPENDITURES -</u>				
General and Administrative	2	-	-	-
Total Expenditures	2	-	-	-
Excess of Revenues Over Expenditures	-	2	6	4
<u>OTHER FINANCING USES -</u>				
Transfers Out	-	(2)	(2)	-
Total Other Financing Uses	-	(2)	(2)	-
Net Change in Fund Balance	-	-	4	4
Fund Balance, July 1, 2005	158	158	158	-
Fund Balance, June 30, 2006	\$ 158	158	162	4

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2006
(amounts expressed in thousands)

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Total Internal Service Funds
<u>ASSETS:</u>				
Current Assets:				
Equity in Pooled Cash and Investments	\$ 1,429	2,621	2,636	6,686
Long-Term Certificates of Deposit	-	500	-	500
Accounts Receivable	2	-	21	23
Inventories	331	-	-	331
Prepays	-	117	-	117
Total Current Assets	<u>1,762</u>	<u>3,238</u>	<u>2,657</u>	<u>7,657</u>
Capital Assets:				
Land	15	-	-	15
Machinery and Equipment	18,894	-	-	18,894
Less: Accumulated Depreciation	(13,198)	-	-	(13,198)
Total Capital Assets	<u>5,711</u>	<u>-</u>	<u>-</u>	<u>5,711</u>
Other Assets -				
Deposits	-	30	-	30
Total Other Assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Restricted Assets:				
Cash in Bank	409	-	-	409
Investments	5,959	-	-	5,959
Total Restricted Assets	<u>6,368</u>	<u>-</u>	<u>-</u>	<u>6,368</u>
Total Assets	<u>13,841</u>	<u>3,268</u>	<u>2,657</u>	<u>19,766</u>
<u>LIABILITIES:</u>				
Current Liabilities:				
Accounts Payable	70	55	-	125
Benefits Payable	-	208	900	1,108
Compensated Absences Payable	67	7	1	75
Total Current Liabilities	<u>137</u>	<u>270</u>	<u>901</u>	<u>1,308</u>
Total Liabilities	<u>137</u>	<u>270</u>	<u>901</u>	<u>1,308</u>
<u>NET ASSETS:</u>				
Invested in Capital Assets	5,711	-	-	5,711
Unrestricted	7,993	2,998	1,756	12,747
Total Net Assets	<u>\$ 13,704</u>	<u>2,998</u>	<u>1,756</u>	<u>18,458</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

	<u>Fleet Operations & Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
<u>OPERATING REVENUE -</u>				
Charges for Sales and Services	\$ 4,581	1,939	5,162	11,682
Total Operating Revenue	<u>4,581</u>	<u>1,939</u>	<u>5,162</u>	<u>11,682</u>
<u>OPERATING EXPENSES:</u>				
Personnel Services and Benefits	983	144	47	1,174
Materials and Supplies	2,165	2	1	2,168
Contractual Services	84	54	251	389
Insurance	1	360	225	586
Insurance Claims	-	1,115	4,433	5,548
Depreciation	1,263	-	-	1,263
Miscellaneous	52	-	-	52
Total Operating Expenses	<u>4,548</u>	<u>1,675</u>	<u>4,957</u>	<u>11,180</u>
Operating Income	33	264	205	502
<u>NONOPERATING REVENUES:</u>				
Gain on Disposals of Capital Assets	2	-	-	2
Investment Earnings	257	115	102	474
Change in Net Assets	292	379	307	978
Net Assets, July 1, 2005	<u>13,412</u>	<u>2,619</u>	<u>1,449</u>	<u>17,480</u>
Net Assets, June 30, 2006	<u>\$ 13,704</u>	<u>2,998</u>	<u>1,756</u>	<u>18,458</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

(amounts expressed in thousands)

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Total Internal Service Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from Customers and Users	\$ 4,582	1,940	5,143	11,665
Payments to Suppliers	(2,300)	(1,594)	(4,909)	(8,803)
Payments to Employees	(984)	(99)	(47)	(1,130)
Net Cash Provided by Operating Activities	<u>1,298</u>	<u>247</u>	<u>187</u>	<u>1,732</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Purchases of Capital Assets	(886)	-	-	(886)
Proceeds from Sales of Capital Assets	12	-	-	12
Net Cash Used by Capital and Related Financing Activities	<u>(874)</u>	<u>-</u>	<u>-</u>	<u>(874)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Proceeds from Sales and Maturities of Investments	2,740	115	102	2,957
Purchase of Investments	(3,334)	(150)	-	(3,484)
Interest Received	257	-	-	257
Net Cash Provided (Used) by Investing Activities	<u>(337)</u>	<u>(35)</u>	<u>102</u>	<u>(270)</u>
Net Increase in Cash and Cash Equivalents	87	212	289	588
Cash and Cash Equivalents, July 1, 2005	<u>1,751</u>	<u>2,409</u>	<u>2,347</u>	<u>6,507</u>
Cash and Cash Equivalents, June 30, 2006	<u>\$ 1,838</u>	<u>2,621</u>	<u>2,636</u>	<u>7,095</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Operating Income	\$ 33	264	205	502
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	1,263	-	-	1,263
Gain on Disposal of Capital Assets	(2)	-	-	(2)
(Increase) Decrease in Assets:				
Accounts Receivable	1	-	(18)	(17)
Inventories	(27)	-	-	(27)
Prepays	-	1	-	1
Increase (Decrease) in Liabilities:				
Accounts Payable	31	(63)	-	(32)
Benefits Payable	-	48	-	48
Compensated Absences Payable	(1)	(3)	-	(4)
Net Cash Provided by Operating Activities	<u>\$ 1,298</u>	<u>247</u>	<u>187</u>	<u>1,732</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:</u>				
Equity in Pooled Cash and Investments	\$ 1,429	2,621	2,636	6,686
Restricted Assets - Cash in Bank	409	-	-	409
Cash and Cash Equivalents, June 30, 2006	<u>\$ 1,838</u>	<u>2,621</u>	<u>2,636</u>	<u>7,095</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006
(amounts expressed in thousands)

	<u>Industrial Development Board</u>	<u>Emergency Communications District</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from Customers and Users	\$ 842	513
Payments to Suppliers	(516)	(371)
Net Cash Provided by Operating Activities	<u>326</u>	<u>142</u>
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>		
Purchases of Capital Assets	-	(25)
Grants	-	10
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>(15)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sales and Maturities of Investments	590	-
Purchases of Investments	(1,122)	-
Interest Received	31	29
Net Cash Provided (Used) by Investing Activities	<u>(501)</u>	<u>29</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(175)	156
Cash and Cash Equivalents, July 1, 2005	<u>375</u>	<u>1,093</u>
Cash and Cash Equivalents, June 30, 2006	<u>\$ 200</u>	<u>1,249</u>
<u>RECONCILIATION OF OPERATING INCOME TO</u>		
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income	\$ 497	111
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4	63
(Increase) Decrease in Assets:		
Accounts Receivable	(16)	1
Due from Other Governments	14	8
Land Held for Sale or Development	(239)	-
Prepaid Items	-	(1)
Increase (Decrease) in Liabilities:		
Accounts Payable	63	(40)
Other Payables	3	-
Net Cash Provided by Operating Activities	<u>\$ 326</u>	<u>142</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE

June 30, 2006 and 2005

(amounts expressed in thousands)

	2006	2005
<u>Governmental Funds Capital Assets:</u>		
Land	\$ 12,216	11,095
Buildings	90,335	89,271
Improvements other than Buildings	10,251	9,753
Equipment	12,035	11,342
Software	223	155
Infrastructure	257,197	256,630
Construction in Progress	38,610	34,926
Total Governmental Funds Capital Assets	420,867	413,172
 <u>Investments in Governmental Funds Capital Assets by Source:</u>		
General Obligation Bonds	320,663	319,894
Contributions from Municipalities	577	31
Federal Grants	4,724	3,458
State Grants	286	263
County Grants	64	64
Federal Revenue Sharing	261	261
General Fund Revenue	14,722	13,971
Gifts	7,854	7,715
Forfeitures	9	-
Special Revenue Funds	29,321	28,828
Operating Revenue	3,664	3,649
Capital Lease Purchase	111	111
Notes Payable	1	1
Construction in Progress	38,610	34,926
Total Governmental Funds Capital Assets	\$ 420,867	413,172

¹ 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 Auditors' Report.

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

June 30, 2006

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements			Software	Infrastructure	Construction in Progress	Total
			Buildings	Equipment	other than Buildings				
<u>General Government:</u>									
General Government	\$ 4,149	1,663	292	98	-	26	-	2,243	8,471
City Manager	-	-	21	-	-	-	-	-	21
Finance	-	-	-	36	-	-	-	-	36
Information Services	-	-	-	1,371	-	-	-	-	1,371
Geographic Information	-	-	-	113	-	9	-	-	122
Total General Government	4,149	1,663	313	1,618	-	35	-	2,243	10,021
<u>Economic and Physical Development:</u>									
Development Services	-	651	46	35	-	-	-	34	766
Transportation	-	638	41	1,277	-	27	-	246	2,229
Engineering	-	-	-	39	-	-	-	-	39
Total Economic and Physical Development	-	1,289	87	1,351	-	27	-	280	3,034
<u>Public Safety:</u>									
Police	91	4,411	59	731	-	6	-	27	5,325
Fire	456	2,139	207	639	-	-	-	362	3,803
Communication	-	67	-	66	-	-	-	-	133
Central Dispatch	-	-	78	2,169	-	-	-	-	2,247
Total Public Safety	547	6,617	344	3,605	-	6	-	389	11,508

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

June 30, 2006

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements other than				Infrastructure	Construction in Progress	Total
			Buildings	Equipment	Software	Buildings			
<u>Public Works:</u>									
General and Administrative	-	315	5	33	-	342	-	695	
Sanitation	-	-	-	14	-	-	-	14	
Streets	-	-	760	188	-	2,162	4,579	7,689	
Maintenance	-	-	-	58	-	-	40	98	
Bridges System	-	-	-	-	-	6,206	665	6,871	
Highways System	-	-	-	-	-	244,065	1	244,066	
Total Public Works	-	315	765	293	-	252,775	5,285	259,433	
<u>Culture and Recreation:</u>									
Senior Citizens	-	3,872	-	7	-	-	-	3,879	
Recreation	4,611	7,564	2,076	433	-	-	7,705	22,389	
Bays Mountain	504	862	316	156	-	-	149	1,987	
Allandale	502	345	160	264	-	-	-	1,271	
Library	133	3,621	-	121	-	4,422	9	8,306	
Total Culture and Recreation	5,750	16,264	2,552	981	-	4,422	7,863	37,832	
<u>Education</u>	<u>1,770</u>	<u>64,187</u>	<u>6,190</u>	<u>4,187</u>	<u>-</u>	<u>-</u>	<u>22,550</u>	<u>99,039</u>	
Total Governmental Funds Capital Assets	\$ 12,216	90,335	10,251	12,035	223	257,197	38,610	420,867	

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 Year Ended June 30, 2006

(amounts expressed in thousands)

Function and Activity	Governmental Funds Capital Assets July 1, 2005	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2006
<u>General Government:</u>					
General Government	\$ 6,092	2,495	(116)	-	8,471
City Manager	21	-	-	-	21
Finance	36	-	-	-	36
Information Services	1,371	-	-	-	1,371
Geographic Information	113	9	-	-	122
Total General Government	<u>7,633</u>	<u>2,504</u>	<u>(116)</u>	<u>-</u>	<u>10,021</u>
<u>Economic and Physical Development:</u>					
Development Services	760	6	-	-	766
Transportation	2,186	43	-	-	2,229
Engineering	39	-	-	-	39
Total Economic and Physical Development	<u>2,985</u>	<u>49</u>	<u>-</u>	<u>-</u>	<u>3,034</u>
<u>Public Safety:</u>					
Police	5,142	198	(14)	(1)	5,325
Fire	3,510	607	(314)	-	3,803
Communication	134	-	-	(1)	133
Central Dispatch	2,246	-	-	1	2,247
Total Public Safety	<u>11,032</u>	<u>805</u>	<u>(328)</u>	<u>(1)</u>	<u>11,508</u>
<u>Public Works:</u>					
General and Administrative	695	-	-	-	695
Sanitation	14	-	-	-	14
Streets	7,566	1,451	(1,328)	-	7,689
Maintenance	58	137	(97)	-	98
Bridges System	7,200	449	(778)	-	6,871
Highways System	244,066	-	-	-	244,066
Total Public Works	<u>259,599</u>	<u>2,037</u>	<u>(2,203)</u>	<u>-</u>	<u>259,433</u>
<u>Culture and Recreation:</u>					
Senior Citizens	3,879	-	-	-	3,879
Recreation	22,180	326	(117)	-	22,389
Bays Mountain	1,855	132	-	-	1,987
Allandale	1,271	-	-	-	1,271
Library	8,280	25	-	1	8,306
Total Culture and Recreation	<u>37,465</u>	<u>483</u>	<u>(117)</u>	<u>1</u>	<u>37,832</u>
<u>Education</u>	<u>94,458</u>	<u>6,966</u>	<u>(2,385)</u>	<u>-</u>	<u>99,039</u>
Total Governmental Funds Capital Assets	<u>\$ 413,172</u>	<u>12,844</u>	<u>(5,149)</u>	<u>-</u>	<u>420,867</u>

¹ 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 KINGSPORT, TENNESSEE
ENTERPRISE FUNDS
SCHEDULE OF OPERATING COSTS

For the Year Ended June 30, 2006
(amounts expressed in thousands)

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds
General and Administrative:						
Personnel Services	\$ 576	149	-	-	-	725
Supplies	29	2	-	-	-	31
Contractual Services	103	387	-	-	27	517
Accounting and Finance	113	39	6	13	41	212
Insurance	17	7	-	6	7	37
Subsidies and Contributions	33	12	-	241	-	286
Base Management Fee	-	-	-	91	29	120
Taxes and Permits	-	-	-	18	-	18
Other	267	-	-	1	7	275
Total General and Administrative	1,138	596	6	370	111	2,221
Operations:						
Personnel Services	712	694	-	-	-	1,406
Supplies	341	249	-	-	-	590
Contractual Services	542	458	181	208	113	1,502
Distribution System Maintenance	2,386	-	-	-	-	2,386
Collection System Maintenance	-	1,644	-	-	-	1,644
Environmental Services	-	1	-	-	-	1
Reading, Service and Maintenance of Meters	840	-	-	-	-	840
Landfill Operations and Services	-	-	552	-	-	552
Waste Collection Services	-	-	513	-	-	513
Organic Refuse Services	-	-	1,468	-	-	1,468
Recycling Services	-	-	314	-	-	314
Golf Pro Shop	-	-	-	-	355	355
Golf Grounds	-	-	-	-	287	287
Food and Beverage	-	-	-	-	57	57
Utilities	-	-	-	-	29	29
Total Operations	4,821	3,046	3,028	208	841	11,944
Total Operating Costs	\$ 5,959	3,642	3,034	578	952	14,165

See Independent Auditors' Report.

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2006
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expenditures	Balance June 30, 2006
SCHOOL NUTRITION SERVICES FUND:						
Pass-Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ -	866	871	(5) *
10.553	School Breakfast Program	U.S. Department of Agriculture	-	245	245	-
Pass-Through Tennessee Department of Agriculture:						
10.550	Commodity Supplemental Feeding	U.S. Department of Agriculture	119	119	161	77 ***
Total School Nutrition Services Fund			119	1,230	1,277	72
PUBLIC LAW 93-380 FUND:						
Pass-Through Tennessee Department of Education:						
84.010	Title I, Project 04-21	U.S. Department of Education	(157)	157	-	-
84.010	Title I, Project 05-01	U.S. Department of Education	-	26	26	-
84.010	Title I, Project 05-21	U.S. Department of Education	-	42	42	-
84.010	Title I, Project 06-01	U.S. Department of Education	-	1,356	1,457	(101) *
84.027	IDEA Part B, 04-21	U.S. Department of Education	(208)	208	-	-
84.027	IDEA Part B, 05-01	U.S. Department of Education	96	43	139	-
84.027	IDEA Part B, 05-21	U.S. Department of Education	-	284	284	-
84.027	IDEA Part B, 06-01	U.S. Department of Education	-	825	987	(162) *
84.048	Carl Perkins, 2005	U.S. Department of Education	(63)	74	11	-
84.048	Carl Perkins, 2006	U.S. Department of Education	-	123	174	(51) *
84.173	Pre-School, 06-01	U.S. Department of Education	-	45	45	-
84.298	Title V, 2004	U.S. Department of Education	(4)	4	-	-
84.298	Title V, 2005	U.S. Department of Education	(19)	27	15	(7) *
84.298	Title V, 2006	U.S. Department of Education	-	-	6	(6) *
84.365	Title III, 2005	U.S. Department of Education	(6)	8	2	-
84.365	Title III, 2006	U.S. Department of Education	-	-	10	(10) *
84.367	Title II A, 05-01	U.S. Department of Education	(74)	94	20	-
84.367	Title II, 05-21	U.S. Department of Education	-	60	105	(45) *
84.367	Title II, 06-01	U.S. Department of Education	-	150	255	(105) *
84.367	Title II D, 05-01	U.S. Department of Education	(19)	19	-	-
84.367	Title II D, 05-21	U.S. Department of Education	-	18	18	-
84.367	Title II D, 06-01	U.S. Department of Education	-	17	17	-
84.366	Title IV, 04-21	U.S. Department of Education	(1)	1	-	-
84.366	Title IV, 05-01	U.S. Department of Education	(2)	2	-	-
Total Public Law 93-380 Fund			(457)	3,583	3,613	(487)

* Receivable ** Unused Revenue *** Inventory on Hand

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2006
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expenditures	Balance June 30, 2006
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
84.287	Community of Learners	U.S. Department of Education	(132)	305	235	(62) *
Pass-Through Tennessee Department of Education:						
84.196	Education for Homeless Children & Youth	U.S. Department of Education	(16)	45	38	(9) *
84.184	Community Services	U.S. Department of Education	(10)	15	5	-
84.184	Safe Schools	U.S. Department of Education	(30)	41	32	(21) *
64.116	Vocational Rehabilitation	U.S. Department of Education	(20)	20	-	-
84.938	Hurricane Relief	U.S. Department of Education	-	74	74	-
84.173	Pre-Kindergarten VO Dobbins 06	U.S. Department of Education	-	8	57	(49) *
83.318	Education for Tennessee Grant 06	U.S. Department of Education	-	-	31	(31) *
84.360	Dropout Prevention Program	U.S. Department of Education	(6)	6	2	(2) *
84.349	Early Childhood Program	U.S. Department of Education	(43)	43	135	(135) *
84.349	Family Resource	U.S. Department of Education	(8)	8	51	(51) *
93.556	Families First	U.S. Department of Health and Human Services	(4)	24	25	(5) *
84.215	Smaller Learning Communities	U.S. Department of Education	(2)	4	2	-
84.318	Ed Tech - Title II	U.S. Department of Education	(67)	174	148	(41) *
Total Special School Projects Fund			(338)	767	835	(406)

SPECIAL REVENUE GENERAL PROJECTS FUND:

Pass-through Tennessee Department of Transportation:						
20.507	East Kingsport Comprehensive Transportation	U.S. Department of Transportation	-	17	17	-
Pass-through Tennessee Department of State, Office of Secretary of State:						
19.599	Public Library Services	U.S. Department of State	-	34	34	-
Pass-through Tennessee Department of State, Office of Library and Archives:						
19.599	Public Library Services / Z-06-024665	U.S. Department of State	-	6	6	-
Total Special Revenue General Projects Fund			-	57	57	-
<u>COMMUNITY DEVELOPMENT FUND:</u>						
Direct Programs:						
14.218	Community Development Block Grants	U.S. Department of Housing and Urban Development	(52)	580	616	(88) *
Total Community Development Fund			(52)	580	616	(88)

* Receivable ** Unused Revenue *** Inventory on Hand
 (Continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expend- itures	Balance June 30, 2006
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-90-X177	U.S. Department of Transportation	-	27	27	-
20.507	FTA Capital/Operating/Planning TN-90-X188	U.S. Department of Transportation	-	39	39	-
20.507	FTA Capital/Operating/Planning TN-90-X195	U.S. Department of Transportation	-	28	28	-
20.507	FTA Capital/Operating/Planning TN-90-X201	U.S. Department of Transportation	(110)	110	-	-
20.507	FTA Capital/Operating/Planning TN-90-X207	U.S. Department of Transportation	-	28	28	-
20.507	FTA Capital/Operating/Planning TN-90-X218	U.S. Department of Transportation	(94)	241	156	(9) *
20.507	FTA Capital/Operating/Planning TN-90-X235	U.S. Department of Transportation	-	76	175	(99) *
Total Federal Transit Administration Fund			(204)	549	453	(108)
<u>CAPITAL PROJECTS FUND:</u>						
Direct Programs:						
83.554	Federal Emergency Management Agency / EMW-2004-FG-18706	U.S. Department of Homeland Security	-	325	325	-
Pass-Through Tennessee Department of Transportation:						
20.219	Surface Transportation Program	U.S. Department of Transportation	(108)	176	68	-
20.219	Surface Transportation Program	U.S. Department of Transportation	-	149	149	-
20.219	Surface Transportation Program	U.S. Department of Transportation	-	252	252	-
Total Capital Projects Fund			(108)	902	794	-
<u>GENERAL FUND:</u>						
Direct Programs:						
16.710	Patrol Division Safety Supplies	U.S. Department of Justice	-	2	2	-
Pass-Through First Tennessee Department of Health and Human Services:						
93.044	Senior Center - KINGS-2005-HOT-11 Title III Part B	U.S. Department of Health and Human Services	-	24	24	-
Pass-Through Southern Arts Federation:						
45.024	Meet the Composer	National Endowment for the Arts	-	1	1	-
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(37)/Z-00-95857	Federal Highway Administration	(32)	32	-	-
Total General Fund			(32)	59	27	-

* Receivable ** Unused Revenue *** Inventory on Hand
(Continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2006
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expend- itures	Balance June 30, 2006
<u>SEWER FUND:</u>						
Pass-Through Tennessee Department of Agriculture:						
66.460	Mad Branch Watershed Development	Environmental Protection Agency	-	17	17	-
Total Sewer Fund						
<u>SCHOOL FUND:</u>						
Pass-Through Tennessee Department of Education:						
84.002	Adult Basic Education	U.S. Department of Education	(35)	85	85	(35) *
Total School Fund						
<u>LOCAL LAW ENFORCEMENT FUND:</u>						
Direct Programs:						
16.592	Local Law Enforcement Block Grant Program	U.S. Department of Justice	27	1	28	-
Total Local Law Enforcement Fund						
<u>JUSTICE ASSISTANCE GRANT FUND:</u>						
Direct Programs:						
16.579	Justice Assistance Grant/2005-DJ-BX-0359	U.S. Department of Justice	-	40	-	40 **
Total Justice Assistance Grant Fund						
<u>METROPOLITAN PLANNING OFFICE FUND:</u>						
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(176)	Federal Highway Administration	(17)	17	-	-
Pass-Through Tennessee Department of Transportation (Continued):						
20.205	FHWA Project No. SPR-PL-1-(188)	Federal Highway Administration	(27)	34	7	-
20.205	FHWA Project No. SPR-PL-1-(195)	Federal Highway Administration	-	105	107	(2) *
20.207	FTA Capital/Operating/Planning Section 8	U.S. Department of Transportation	(1)	33	32	-
Pass-through Virginia Department of Transportation:						
20.205	FHWA Project VA	Federal Highway Administration	-	5	5	-
20.207	FTA Capital/Operating/Planning VA	U.S. Department of Transportation	2	-	2	-
Total Metropolitan Planning Office Fund						
			(43)	194	153	(2)

* Receivable ** Unused Revenue *** Inventory on Hand
 (Continued)

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expend- itures	Balance June 30, 2006
			<u>\$ (1,123)</u>	<u>8,064</u>	<u>7,955</u>	<u>(1,014)</u>
Total Federal Awards						

NOTE A: BASIS OF PRESENTATION

The accompanying schedule 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.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2006
 (amounts expressed in thousands)

State Grant Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2005	Cash Receipts	Expenditures	Balance June 30, 2006
SPECIAL SCHOOL PROJECTS FUND:						
GG-04-10442	One Room Drop in School 05	Tennessee Department of Education	\$ (14)	14	-	-
GC-05-11308	One-Room Drop-In School 06	Tennessee Department of Education	-	56	100	(44) *
GG-04-10384	Truancy Intervention Program 2004	Tennessee Department of Children's Services	(28)	28	-	-
GG-0511388-00	Truancy Intervention Program 2005	Tennessee Department of Children's Services	-	2	2	-
GG-0612006-00	Truancy Intervention Program 2006	Tennessee Department of Children's Services	-	53	69	(16) *
019-06-1-013 / Z-05-027714-00	LEAPS Program	Tennessee Department of Education	-	54	81	(27) *
Total Special School Projects Fund			(42)	207	252	(87)
FEDERAL TRANSIT ADMINISTRATION FUND:						
GG-01-08930	Project TN-90-X177 Capital	Tennessee Department of Transportation	(14)	24	10	-
GG-01-08944	Project TN-90-X177 Capital/Operating	Tennessee Department of Transportation	-	1	1	-
GG-02-09442	Project TN-90-X188	Tennessee Department of Transportation	-	18	18	-
Z-03-013837	Project TN-90-X195 Capital/Operating	Tennessee Department of Transportation	-	14	14	-
GG-04-10503-00	Project TN-90-X207 Capital/Operating	Tennessee Department of Transportation	(205)	219	14	(5) *
GG-901-11375	Project TN-90-X218 Operating	Tennessee Department of Transportation	(27)	51	29	-
GG-05-11382-00	Project TN-90-X218 Capital/Operating-	Tennessee Department of Transportation	(151)	163	12	-
83UROPS3-003	Project TN-90-X235 Capital/Operating	Tennessee Department of Transportation	-	15	52	(37) *
GG-03-09744-00	Project 82-901-9642-04 Capital	Tennessee Department of Transportation	-	1	1	-
Total Federal Transit Administration Fund			(397)	506	151	(42)
COMMUNITY DEVELOPMENT FUND:						
Z-01-98335	Emergency Shelter Grant	Tennessee Department of Human Services	(13)	42	43	(14) *
Total Community Development Fund			(13)	42	43	(14)
GENERAL FUND:						
N/A	KINGS-2000-OTH-11	First Tennessee Department District Area Agency on Aging	(27)	27	-	-
Total General Fund			(27)	27	-	-
SEWER FUND:						
N/A	Pass-Through First Tennessee Development District:	Tennessee Department of Economic and Community Development	-	104	216	(112) *
Total Sewer Fund			-	104	216	(112)
CAPITAL PROJECTS FUND:						
N/A	Z-05-023556-00 Ridgfield Park Trail / Chippendale Neighborhood Links	Tennessee Department of Environment and Conservation	-	11	11	-
N/A	GG-05-11550-00 Bays Mountain Land Acquisition	Tennessee Department of Environment and Conservation	-	100	96	4 **
N/A	Z-05-021092-00 Broad Street Enhancement	Tennessee Department of Agriculture	-	1	1	-
Total Capital Projects Fund			-	112	108	4
Total State Awards			(479)	998	770	(231)

* Receivable ** Unused Revenue

See Independent Auditors' Report.

CITY OF KINGSFORT, TENNESSEE
NET ASSETS BY COMPONENT
FOR THE FISCAL YEARS NOTED
 (accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental Activities:					
Invested in Capital Assets, Net of Related Debt	\$ 234,544	\$ 235,345	\$ 236,295	\$ 236,125	\$ 245,201
Restricted	8,981	6,876	6,694	1,081	4,099
Unrestricted	37,305	39,600	38,668	50,500	38,707
Total Governmental Activities Net Assets	\$ 280,830	\$ 281,821	\$ 281,657	\$ 287,706	\$ 288,007
Business-Type Activities:					
Invested in Capital Assets, Net of Related Debt	\$ 98,946	\$ 103,253	\$ 113,859	\$ 119,477	\$ 126,885
Restricted	1,046	1,068	562	897	838
Unrestricted	2,627	3,939	43	3,174	6,069
Total Business-Type Activities Net Assets	\$ 102,619	\$ 108,260	\$ 114,464	\$ 123,548	\$ 133,792
Primary Government:					
Invested in Capital Assets, Net of Related Debt	\$ 333,490	\$ 338,598	\$ 350,154	\$ 355,602	\$ 372,086
Restricted	10,027	7,944	7,256	1,978	4,937
Unrestricted	39,932	43,539	38,711	53,674	44,776
Total Primary Government Net Assets	\$ 383,449	\$ 390,081	\$ 396,121	\$ 411,254	\$ 421,799

Source: City of Kingsport Finance Department

CITY OF KINGSFORT, TENNESSEE
CHANGES IN NET ASSETS
FOR THE FISCAL YEARS NOTED
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses:					
<u>Governmental Activities:</u>					
General Government	\$ 5,530	\$ 5,295	\$ 6,571	\$ 4,687	\$ 5,605
Public Safety	12,631	13,395	13,918	14,767	16,076
Public Works	9,279	9,225	10,151	8,737	11,638
Highway Transportation Planning	2,034	2,366	2,693	2,679	2,894
Economic and Physical Development	3,128	3,066	2,829	3,065	3,280
Culture and Recreation	4,096	4,469	4,294	4,456	5,253
Education	47,840	50,950	52,939	54,274	57,985
Interest on Long-Term Debt	2,713	2,329	2,228	2,002	1,737
Other	234	314	475	-	-
Total Governmental Activities Expenses	<u>87,485</u>	<u>91,409</u>	<u>96,098</u>	<u>94,667</u>	<u>104,468</u>
<u>Business-Type Activities:</u>					
Water	8,216	7,503	7,483	7,618	8,051
Sewer	8,015	6,824	7,631	7,545	7,700
Solid Waste Management	2,794	2,915	3,078	3,304	3,168
MeadowView Conference Center	2,117	1,701	2,321	1,740	1,392
Cattails at MeadowView Golf Course	1,351	1,246	1,255	1,323	1,355
Total Business-Type Activities Expenses	<u>22,493</u>	<u>20,189</u>	<u>21,768</u>	<u>21,530</u>	<u>21,666</u>
Total Primary Government Expenses	<u>\$ 109,978</u>	<u>\$ 111,598</u>	<u>\$ 117,866</u>	<u>\$ 116,197</u>	<u>\$ 126,134</u>
Program Revenues:					
<u>Governmental Activities:</u>					
Charges for Services:					
General Government	\$ 1,564	\$ 406	\$ 322	\$ 368	\$ 507
Public Safety	140	274	216	287	288

(Continued)

CITY OF KINGSFORT, TENNESSEE
CHANGES IN NET ASSETS
FOR THE FISCAL YEARS NOTED
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Program Revenues (Continued)					
<u>Governmental Activities (Continued):</u>					
Charges for Services (Continued):					
Highway Transportation Planning	51	49	98	95	88
Economic and Physical Development	247	241	321	308	435
Culture and Recreation	563	519	495	571	679
Education	2,584	2,600	2,571	2,648	2,639
Operating Grants and Contributions	22,877	24,420	25,195	27,005	26,957
Capital Grants and Contributions	821	1,629	940	2,738	1,627
Total Governmental Activities Program Revenues	28,847	30,138	30,158	34,020	33,220
<u>Business-Type Activities:</u>					
Charges for Services:					
Water	10,157	10,708	11,198	11,904	12,493
Sewer	10,349	10,429	11,120	12,709	12,895
Solid Waste Management	391	383	441	580	489
MeadowView Conference Center	239	248	248	267	253
Cattails at MeadowView Golf Course	1,132	973	958	950	982
Operating Grants and Contributions	-	-	-	-	-
Capital Grants and Contributions	201	-	-	-	-
Total Business-Type Activities Program Revenues	22,469	22,741	23,965	26,410	27,112
Total Primary Government Program Revenues	\$ 51,316	\$ 52,879	\$ 54,123	\$ 60,430	\$ 60,332
Net (Expense) Revenue					
Governmental Activities	\$ (58,638)	\$ (61,271)	\$ (65,940)	\$ (60,647)	\$ (71,248)
Business-Type Activities	(24)	2,552	2,197	4,880	5,446
Total Primary Government Net (Expense) Revenue	\$ (58,662)	\$ (58,719)	\$ (63,743)	\$ (55,767)	\$ (65,802)

(Continued)

CITY OF KINGSFORT, TENNESSEE
CHANGES IN NET ASSETS
FOR THE FISCAL YEARS NOTED
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets					
<u>Governmental Activities:</u>					
Taxes:					
Property Taxes	\$ 35,254	\$ 36,399	\$ 38,532	\$ 39,122	\$ 41,609
Sales Taxes	23,874	24,133	24,394	25,174	26,154
Other Taxes	4,115	4,013	3,826	3,743	4,460
Grants and Contributions Not Restricted	986	565	581	524	589
Unrestricted Investment Earnings	1,118	673	598	1,015	1,662
Gain (Loss) on Disposal of Capital Assets	20	4	13	30	2
Miscellaneous	621	933	1,589	944	972
Transfers	(5,067)	(2,987)	(3,757)	(3,856)	(3,899)
Total Governmental Activities	60,921	63,733	65,776	66,696	71,549
<u>Business-Type Activities:</u>					
Unrestricted Investment Earnings	442	295	239	351	877
Gain (Loss) on Disposal of Capital Assets	(6)	6	4	(8)	-
Miscellaneous	-	-	7	5	22
Transfers	5,067	2,987	3,757	3,856	3,899
Total Business-Type Activities	5,503	3,288	4,007	4,204	4,798
Total Primary Government	\$ 66,424	\$ 67,021	\$ 69,783	\$ 70,900	\$ 76,347
Change in Net Assets					
Governmental Activities	\$ 2,283	\$ 2,462	\$ (164)	\$ 6,049	\$ 301
Business-Type Activities	5,479	5,840	6,204	9,084	10,244
Total Primary Government	\$ 7,762	\$ 8,302	\$ 6,040	\$ 15,133	\$ 10,545

Source: City of Kingsport Finance Department

Note: All changes in net assets are exclusive of any prior period adjustments.

CITY OF KINGSPORT, TENNESSEE
 GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 FOR THE FISCAL YEARS NOTED
 (accrual basis of accounting)
 (amounts expressed in thousands)

Fiscal Year	Property Tax	Local Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax		Hotel/Motel Tax	Total
					Beverage Tax	Hotel/Motel Tax		
2002	\$ 35,254	\$ 23,874	\$ 664	\$ 1,427	\$ 1,307	\$ 717	\$ 63,243	
2003	36,399	24,133	659	1,272	1,318	764	64,545	
2004	38,532	24,394	379	1,416	1,296	735	66,752	
2005	39,122	25,174	468	1,219	1,313	743	68,039	
2006	41,609	26,154	750	1,551	1,368	791	72,223	

Source: City of Kingsport Finance Department

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund:										
Reserved	\$ 3,709	\$ 3,755	\$ 4,042	\$ 4,190	\$ 2,916	\$ 2,910	\$ 3,378	\$ 3,950	\$ 3,607	\$ 3,232
Unreserved	2,905	4,717	8,869	11,147	13,836	14,627	14,920	12,720	12,078	15,420
Total General Fund	6,614	8,472	12,911	15,337	16,752	17,537	18,298	16,670	15,685	18,652
All Other Governmental Funds:										
Reserved	1,037	1,002	797	852	563	753	5,602	4,713	7,797	4,747
Unreserved, reported in:										
Debt Service	231	-	5,511	113	-	15	-	71	33	69
Special Revenue Funds	507	2,601	3,931	4,815	4,991	6,447	5,732	5,956	5,385	5,050
Capital Project Funds	10,736	6,974	12,035	16,977	9,641	8,777	6,689	6,532	688	3,757
Total all Other Governmental Funds	\$ 12,511	\$ 10,577	\$ 22,274	\$ 22,757	\$ 15,195	\$ 15,992	\$ 18,023	\$ 17,272	\$ 13,903	\$ 13,623

Source: City of Kingsport Finance Department

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CITY OF KINGSFORT, TENNESSEE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues:										
Taxes	23,167	38,812	42,899	40,843	42,567	43,644	45,098	46,524	48,415	51,532
Licenses and Permits	255	230	267	209	207	401	264	324	350	350
Intergovernmental	49,908	37,891	40,124	40,435	43,518	44,025	46,018	46,457	49,907	50,004
Charges for Services	3,213	4,814	5,136	5,506	4,800	4,643	3,503	3,561	3,669	3,900
Fines and Forfeitures	377	428	431	394	542	506	421	297	443	560
Contributions	125	464	256	132	26	73	319	272	579	459
Investment Earnings	1,037	1,021	1,030	2,202	1,997	761	488	395	731	1,188
Miscellaneous	262	281	285	542	368	274	276	327	332	360
Total Revenues	78,344	83,941	90,428	90,263	94,025	94,327	96,387	98,157	104,426	108,353
Expenditures:										
General Government	3,701	4,051	4,801	5,110	5,200	5,326	5,526	5,657	5,898	6,240
Public Safety	9,993	10,344	11,061	11,079	11,331	12,196	12,634	13,085	13,890	14,556
Public Works	4,034	6,893	6,629	7,074	6,841	4,448	4,299	5,207	4,814	5,018
Transportation	1,459	1,831	1,942	2,091	2,106	2,034	2,366	2,693	2,679	2,894
Development	2,022	2,036	2,181	2,243	3,567	2,977	2,816	2,556	2,948	3,068
Recreation	2,863	2,767	2,895	2,962	3,197	3,190	3,274	3,022	3,726	4,011
Education	37,030	37,312	39,193	40,959	42,788	44,589	46,818	48,581	51,437	53,181
Miscellaneous	260	639	-	-	249	220	309	348	516	722
Capital Outlay	19,262	9,548	5,572	6,868	14,951	7,368	7,502	10,048	11,933	10,562
Debt Service:										
Principal	11,638	4,602	5,624	5,219	6,081	6,628	19,770	11,060	7,847	8,525
Interest	4,368	3,793	3,333	2,839	2,898	2,713	2,299	2,170	1,982	1,735
Bond Issuance Costs	-	-	-	-	18	34	123	211	43	100
Arbitrage Rebate	-	-	-	257	-	-	-	-	-	-
Other Charges	-	8	5	37	8	14	5	30	15	20
Total Expenditures	96,630	83,824	83,236	86,738	99,235	91,737	107,741	104,668	107,728	110,632
Excess of revenues over (under) expenditures	(18,286)	117	7,192	3,525	(5,210)	2,590	(11,354)	(6,511)	(3,302)	(2,279)

(Continued)

CITY OF KINGSFORT, TENNESSEE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Other Financing Sources (Uses):										
Transfers In	19,027	18,376	16,258	23,161	25,305	24,826	29,658	28,792	30,494	32,824
Transfers Out	(21,866)	(21,238)	(18,568)	(26,360)	(28,149)	(29,997)	(32,681)	(32,606)	(34,396)	(36,723)
Bond Proceeds	13,450	-	10,349	2,035	1,909	2,620	17,155	13,725	2,850	6,771
State Loan Proceeds	-	-	380	414	-	-	-	-	-	-
Bond Anticipation Notes	-	-	400	-	-	-	-	-	-	-
Bond Premiums	-	-	-	-	-	-	-	561	-	-
Refunding Bond Proceeds	-	-	26,002	-	-	-	-	-	-	-
Payments to Refunded Bond Escrow Agent	-	-	(26,152)	-	-	-	-	(6,340)	-	-
Bond Proceeds From Other Governments	-	27	-	181	-	-	-	-	-	-
Total Other Financing Sources (Uses)	10,611	(2,835)	8,669	(569)	(935)	(2,551)	14,132	4,132	(1,052)	2,872
Net Change in Fund Balances	\$ (7,675)	\$ (2,718)	\$ 15,861	\$ 2,956	\$ (6,145)	\$ 39	\$ 2,778	\$ (2,379)	\$ (4,354)	\$ 593
Debt Service as a Percentage of Noncapital Expenditures	20.7%	11.3%	11.5%	10.5%	10.7%	11.1%	22.1%	14.2%	10.3%	10.4%

Source: City of Kingsport Finance Department

Note: All net changes in fund balances are exclusive of any prior period adjustments.

**CITY OF KINGSFORT, TENNESSEE
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
FOR THE FISCAL YEARS NOTED
(modified accrual basis of accounting)
(amounts expressed in thousands)**

Fiscal Year	Property Tax	Local Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel / Motel Tax	Total
2002	\$ 34,911	\$ 23,874	\$ 664	\$ 1,427	\$ 1,307	\$ 717	\$ 62,900
2003	36,117	24,133	659	1,272	1,318	764	64,263
2004	37,775	24,394	379	1,416	1,296	735	65,995
2005	39,290	25,174	468	1,219	1,313	743	68,207
2006	41,770	26,154	750	1,551	1,368	791	72,384

Source: City of Kingsport Finance Department

Note: 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.

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

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	Industrial & Commercial Property						
1997	1996	\$ 259,183	\$ 255,338	\$ 250,874	\$ 33,761	\$ 799,156	2.51	\$ 2,565,118	31.15%	
1998	1997	282,277	310,683	304,776	35,707	933,443	2.30	3,028,070	30.83%	
1999	1998	291,108	320,709	308,430	37,274	957,521	2.39	3,105,281	30.84%	
2000	1999	291,131	328,680	289,112	33,217	942,140	2.39	3,155,975	29.85%	
2001	2000	298,842	336,219	280,452	35,563	951,076	2.39	3,177,912	29.93%	
2002	2001	349,530	379,776	307,946	39,512	1,076,764	2.22	3,489,324	30.86%	
2003	2002	353,059	382,723	306,104	44,088	1,085,974	2.29	3,512,115	30.92%	
2004	2003	381,104	386,620	337,980	43,993	1,149,697	2.29	3,705,828	31.02%	
2005	2004	389,563	393,083	332,088	46,710	1,161,444	2.29	3,736,184	31.09%	
2006	2005	437,679	417,640	360,312	48,476	1,264,107	2.26	4,053,938	31.18%	

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 Ended June 30	City Direct Rates	Overlapping Rates	
		Sullivan County	Hawkins County
1997	2.51	2.86	2.97
1998	2.30	2.58	2.97
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	2.67	2.52

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**
(amounts expressed in thousands)

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Eastman Chemical Company	\$ 357,500	1	28.3%	\$ 261,540	1	32.7%
Weyerhaeuser Company	20,320	2	1.6%			0.0%
Willamette Industries			0.0%	12,209	4	1.5%
Kingsport Power Company	16,377	3	1.3%	12,736	2	1.6%
Quebecor World, Inc.	13,894	4	1.1%	8,945	6	1.1%
Fort Henry Mall	13,262	5	1.0%	9,130	5	1.1%
United Telephone / Sprint	12,989	6	1.0%	12,567	3	1.6%
Welmont Health System	11,782	7	0.9%			0.0%
Wal Mart Properties/Real Estate	9,669	8	0.8%			0.0%
Mountain State Health / HCA	9,623	9	0.8%	8,616	7	1.1%
AFG Industries, Inc.	7,088	10	0.6%	4,229	8	0.5%
First American Bank			0.0%	1,912	9	0.2%
BC / Executive Park Realty			0.0%	1,608	10	0.2%
Totals	\$ 472,504		37.4%	\$ 333,492		41.7%

Total Taxable Assessed Value:
 FYE 2006 (Tax Year 2005) \$ 1,264,107
 FYE 1997 (Tax Year 1996) \$ 799,156

Source: City of Kingsport Finance Department

**CITY OF KINGSFORT, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

Fiscal Year Ended June 30	Tax Levy for Fiscal Year		Subsequent Adjustments to Levy	Collected within the Fiscal Year of the Levy			Total Collections to Date			Uncollected Delinquent Taxes
	\$			Adjusted Tax Levy	Amount	Percentage of Adjusted Levy	Collections in Subsequent Years	Amount	Percentage of Adjusted Levy	
1997	\$ 19,991		\$ 19,987	\$ 19,530	97.71%	\$	\$ 19,972	99.92%	\$ 15	
1998	21,469	(54)	21,415	21,037	98.23%	442	21,401	99.93%	14	
1999	22,914	(17)	22,897	22,327	97.51%	551	22,878	99.92%	19	
2000	22,523	18	22,541	21,896	97.14%	615	22,511	99.87%	30	
2001	22,824	7	22,831	22,121	96.89%	643	22,764	99.71%	67	
2002	23,911	(13)	23,898	23,043	96.42%	742	23,785	99.53%	113	
2003	24,869	63	24,932	24,105	96.68%	733	24,838	99.62%	94	
2004	26,332	1	26,333	25,316	96.14%	879	26,195	99.48%	138	
2005	26,617	(18)	26,599	25,794	96.97%	471	26,265	98.74%	334	
2006	28,739	-	28,739	27,986	97.38%	-	27,986	97.38%	753	

Source: City of Kingsport Finance Department

CITY OF KINGSFORT, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

Fiscal Year Ended June 30	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Notes Payable	General Obligation Bonds	Revenue Bonds	Notes Payable	Total Primary Government			
1997	\$ 67,555	\$ 623	\$ 64,463	\$ 544	\$ 930	\$ 134,115	0.01%	\$	3
1998	63,129	560	60,977	402	4,077	129,145	0.01%		3
1999	65,891	380	61,263	378	7,351	135,263	0.01%		3
2000	62,770	730	71,014	354	7,709	142,577	0.01%		3
2001	58,416	911	64,017	330	8,625	132,299	0.01%		3
2002	54,766	554	61,743	300	11,419	128,782	0.01%		3
2003	48,434	4,450	61,394	270	13,046	127,594	0.01%		3
2004	49,288	346	63,890	240	7,920	121,684	0.01%		3
2005	44,395	241	63,045	225	6,293	114,199	0.01%		3
2006	38,931	3,932	60,303	210	5,829	109,205	0.01%		2

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.

CITY OF KINGSPORT, TENNESSEE
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Net General Obligation Bonds	Percentage of		Per Capita
				Estimated	Actual	
				Property	Taxable Value of	
1997	\$ 71,193	\$ -	\$ 71,193	2.78%	\$	2
1998	63,129	-	63,129	2.08%		2
1999	65,891	5,511	60,380	1.94%		1
2000	62,770	113	62,657	1.99%		1
2001	58,416	-	58,416	1.84%		1
2002	54,766	15	54,751	1.57%		1
2003	48,434	-	48,434	1.38%		1
2004	49,288	71	49,217	1.33%		1
2005	44,395	33	44,362	1.19%		1
2006	38,931	92	38,839	0.96%		1

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.

CITY OF KINGSPORT, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2006
(amounts expressed in thousands)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt Repaid with Property Taxes:			
Net Direct Debt:			
City of Kingsport	\$ 43,335 *	100.00%	\$ 43,335
Total Direct Debt	43,335	100.00%	43,335
Overlapping Debt:			
Sullivan County	25,475	42.47%	10,820
Hawkins County	12,000	6.17%	740
Subtotal, Overlapping Debt	37,475	48.64%	11,560
Total Direct and Overlapping Debt	\$ 80,810		\$ 54,895

* Includes Conference Center General Obligation Bonded Debt

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.

CITY OF KINGSFORT, TENNESSEE
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt Limit	\$ 159,831	\$ 186,689	\$ 191,504	\$ 188,428	\$ 190,215	\$ 215,353	\$ 217,195	\$ 229,939	\$ 232,289	\$ 252,821
Total Net Debt Applicable to Limit	89,705	79,364	65,891	62,770	58,416	65,906	62,796	56,978	50,275	43,335
Legal Debt Margin	\$ 70,126	\$ 107,325	\$ 125,613	\$ 125,658	\$ 131,799	\$ 149,447	\$ 154,399	\$ 172,961	\$ 182,014	\$ 209,486
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	56.12%	42.51%	34.41%	33.31%	30.71%	30.60%	28.91%	24.78%	21.64%	17.14%

Legal Debt Margin Calculation for Fiscal Year 2006

Total Taxable Assessed Value	\$ 1,264,107
Debt Limit (20% of Taxable Assessed Value)	252,821
Debt Applicable to Limit:	
General Obligation Debt	38,931
Add: Conference Center General Obligation Debt	4,000
Add: Solid Waste General Obligation Debt	404
Total Net Debt Applicable to Limit	<u>43,335</u>
Legal Debt Margin	<u>\$ 209,486</u>

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 KINGSFORT, TENNESSEE
PLEGGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

Fiscal Year	Operating Revenue	Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
(1)							
Less:							
1997	\$ 17,007	\$ 7,724	\$ 9,283	\$ 4,544	\$ 2,245	\$ 6,789	1.37
1998	17,264	8,105	9,159	4,791	2,253	7,044	1.30
1999	18,204	8,759	9,445	4,801	2,038	6,839	1.38
2000	18,162	8,832	9,330	5,068	2,407	7,475	1.25
2001	19,500	9,803	9,697	5,996	2,867	8,863	1.09
2002	20,506	9,674	10,832	5,754	1,954	7,708	1.41
2003	21,137	8,770	12,367	6,669	1,588	8,257	1.50
2004	22,318	9,321	12,997	6,851	1,775	8,626	1.51
2005	24,613	9,144	15,469	8,173	1,732	9,905	1.56
2006	25,388	9,601	15,787	6,334	1,734	8,068	1.96
<u>Water and Sewer Revenue Bonds:</u>							

(1) Total operating expenses exclusive of depreciation.

Source: City of Kingsport Finance Department

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

Fiscal Year Ended June 30	Population	Personal Income	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
1997	41,338	\$ 920,638,598	\$ 22,271	*	*	6,106	4.0%
1998	41,414	950,285,644	22,946	*	*	6,286	4.1%
1999	41,454	982,791,432	23,708	38.5	*	6,322	4.2%
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%

* Information was not available.

Source: City of Kingsport Finance Department

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

Employer	2006			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	2.8%	1,922	3	2.7%
Kingsport City Schools	1,040	3	1.5%	962	5	1.4%
Wal-Mart	900	4	1.3%	N/A	-	-
Mountain States Health	845	5	1.2%	N/A	-	-
City of Kingsport	761	6	1.1%	700	6	1.0%
Holston Medical Group	730	7	1.0%	N/A	-	-
AFG Industries	600	8	0.9%	1,230	4	1.7%
BAE SYSTEMS Ordnance Systems, Inc.	428	9	0.6%	N/A	-	-
Weyerhaeuser Company	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>15,674</u>		<u>22.3%</u>	<u>16,960</u>		<u>24.0%</u>

Total Sullivan County Employment:

FYE 2006 70,420
 FYE 2000 70,530

Sources:

- Kingsport Economic Development Board
- Tennessee Department of Economic Security

*Principal Employer information is not available prior to FYE 2000

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
General Government	80	81	79	80	81
Public Safety	234	233	235	237	237
Public Works	103	105	105	109	106
Development	49	49	46	47	47
Recreation	53	53	54	56	57
Education	913	924	945	961	970
Water	78	78	78	80	80
Sewer	46	46	45	40	40
Solid Waste	37	36	36	36	35
	<u>1,593</u>	<u>1,605</u>	<u>1,623</u>	<u>1,646</u>	<u>1,653</u>

Sources:

- City of Kingsport Finance Department
- Kingsport City School System

**CITY OF KINGSPORT, TENNESSEE
OPERATING INDICATORS BY FUNCTION
FOR THE FISCAL YEARS NOTED**

Function	Fiscal Year	
	2005	2006
Public Safety:		
Student Transportation:		
Miles	361,607	369,438
Average Daily Ridership	1,784	1,864
Police:		
Physical Arrests	3,605	3,251
Parking Citations	4,990	3,509
Traffic Citations	10,163	12,484
Calls for Service	41,206	44,236
Fire:		
Calls for Service	5,775	5,752
Inspections	2,507	2,873
Fire Loss	\$ 4,063,555	\$ 2,402,520
Public Works:		
Potholes Repaired	701	735
Streets Swept (linear miles)	4,320	4,500
Traffic Signal Maintenance Calls	607	630
Leaves Collected (Tons)	1,649	1,703
Parks and Recreation:		
Civic Auditorium Rentals	857	825
Civic Auditorium Attendance	55,573	53,000
Pool Attendance	29,516	29,500
Participation in athletic events	175,379	176,000
Renaissance Center Rentals	2,073	2,000
Renaissance Center Attendance	192,270	190,000
Allandale Rentals	305	315
Allandale Visitors	33,023	33,000
K - Play Games Played	1,200	1,300
K - Play Attendance	83,000	86,000
Senior Center:		
Active Members	1,876	2,000
Average Daily Attendance	159	175
Bays Mountain Park:		
Total Programs	1,400	1,400
Total Attendance	157,420	151,000
Water:		
Average Daily Consumption in Gallons	14.8 mgd	15.2 mgd
Maximum Daily Capacity in Gallons	28.0 mgd	28.0 mgd
Water Taps	584	588
Sewer:		
Average Daily Treatment in Gallons	9.0 mgd	9.2 mgd
Maximum Daily Plant Capacity in Gallons	17.0 mgd	17.0 mgd
Sewer Taps	481	402
Solid Waste:		
Landfill Material Accepted (Tons)	11,753	12,135
Household Refuse Collected (Tons)	16,125	16,374
Recyclables Collected (Tons)	2,128	2,167
Golf Course:		
Rounds of Golf	25,900	26,925

Source: Various City Departments

**CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE FISCAL YEARS NOTED**

Function	Fiscal Year	
	2005	2006
Public Safety:		
Student Transportation:		
Buses	35	35
Police:		
Stations	1	1
Patrol Units	104	104
Motorcycle Units	1	1
Fire:		
Stations	6	6
Fire Trucks/Rescue Units	14	14
Public Works:		
Streets (Miles)	436	436
Street Lights	9,600	9,600
Traffic Signals	102	101
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	3,461	3,461
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	750
Fire Hydrants	1,917	1,960
Sanitary Sewers (Miles)	495	525
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, 2006
(amounts expressed in thousands)

Water Rates:

		<u>Inside City</u>	
First	1,000 gallons	\$ 3.25	per 1000 gal
Next	13,000 gallons	\$ 2.62	per 1000 gal
Next	35,000 gallons	\$ 2.02	per 1000 gal
Over	50,000 gallons	\$ 1.38	per 1000 gal
		<u>Outside City</u>	
First	1,000 gallons	\$ 13.51	per 1000 gal
Next	9,000 gallons	\$ 5.86	per 1000 gal
Next	10,000 gallons	\$ 5.31	per 1000 gal
Next	70,000 gallons	\$ 4.92	per 1000 gal
Next	100,000 gallons	\$ 4.03	per 1000 gal
Over	190,000 gallons	\$ 3.78	per 1000 gal

Sewer Rates:

		<u>Inside City</u>	
Minimum charge		\$ 12.26	2,000 gal
Additional gallons		\$ 6.13	per 1000 gal
		<u>Outside City</u>	
Minimum charge		\$ 14.32	2,000 gal
Additional gallons		\$ 7.16	per 1000 gal

Number of Customers:

	<u>Inside City</u>	<u>Outside City</u>
Water	19,147	14,402
Sewer	18,511	1,772

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE
TOP TEN WATER CUSTOMERS
FOR YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY06 Water Sales</u>
Eastman Chemical Company	764,454	\$ 1,079	9.40%
Weyerhaeuser Company	95,314	145	1.26%
Magneti Marelli North America	77,301	112	0.98%
Wellmont Health System	67,359	96	0.84%
Quebecor World Inc.	59,602	85	0.74%
Royal Ordnance of North America, Inc.	44,497	62	0.54%
Pet Dairy, Inc.	42,730	60	0.52%
Kingsport Housing Authority	34,888	56	0.49%
AFG Industries, Inc.	25,965	49	0.43%
Autumn Chase Apts, LLC	17,705	25	0.22%
	<u>1,229,815</u>	<u>\$ 1,769</u>	<u>15.40%</u>

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE
TOP TEN SEWER CUSTOMERS
FOR YEAR ENDED JUNE 30, 2006
(amounts expressed in thousands)**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY06 Sewer User Fees</u>
Eastman Chemical Company	219,278	\$ 1,345	11.89%
Magneti Marelli North America	76,739	470	4.15%
Wellmont Health Systems	45,977	282	2.49%
Kingsport Housing Authority	34,888	215	1.90%
Pet Dairy, Inc.	24,424	150	1.33%
Autumn Chase Apts, LLC	17,705	109	0.96%
Quebecor World, Inc.	16,949	109	0.96%
Weyerhaeuser Company	13,829	85	0.75%
Model City Apts	11,590	71	0.63%
Cabana Apartments, Inc.	10,993	67	0.59%
	<u>472,372</u>	<u>\$ 2,903</u>	<u>25.66%</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, 2006
(amounts expressed in thousands)

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
J. Michael Bilingsley	Interim City Manager/City Attorney	102	-
James H. Demming	City Recorder/Chief Financial Officer	94	385
Keith E. Smith	City Treasurer	73	200
Richard Kitzmiller	Director of Schools	115	-
Mark E. Addington	Chief of Police	90	-
Dennis R. Phillips	Mayor	3	-
Larry Munsey	Vice-Mayor	2	-
Patrick W. Shull	Alderman	2	-
C. Ken Marsh, Jr.	Alderman	2	-
Benjamin K. Malicote	Alderman	2	-
Valerie Joh	Alderman	2	-
Kenneth H. Maness	Alderman	2	-

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TN
SCHEDULE OF INSURANCE IN FORCE
June 30, 2006
(amounts expressed in thousands)

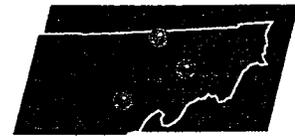
Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premiums
<u>Comprehensive General Liability</u> TML Risk Management Pool	TML-21300	7/1/05 - 6/30/06	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000 3,000 replacement 3,000	\$ 157
Midwest Employers Reinsurance Corp.	EWC 005902 (reinsurance agreement)	1/1/06 - 1/1/07	Worker's Compensation	Statutory	78
<u>Government Crime</u> St. Paul / U.S. Fidelity & Guarantee Co.	104703171	1/1/06 - 1/1/07	Employee Blanket Dishonesty (City)	250	1
St. Paul / U.S. Fidelity & Guarantee Co.	406CH3614	7/1/06 - 7/1/07	Employee Blanket Dishonesty (Schools)	250	1
<u>Unemployment Compensation</u>	Self-insured				
<u>Property and Casualty</u> Continental Casualty Ins. Co	RMP271010211	12/31/05 - 12/31/06	Buildings and Contents	108,938	119
Travelers Insurance Co.	1-660-710X3600-660	2/13/06 - 2/13/07	Justice Center Commercial/ Gen Property	5,928	9
Hartford Insurance Co.	20MSCYQ7488	5/26/06 - 5/26/07	Grand Piano - Allandale		1
<u>Boiler and Machinery</u> The Cincinnati Insurance Co.	BEP2646328	1/1/06 - 1/1/07	Boilers	100	4
<u>Public Officials Bond</u> St. Paul / U.S. Fidelity & Guarantee Co. RLI	400MQ3028 RSB2003698	8/1/05 - 8/1/06 4/30/06 - 4/30/07	Bond - Treasurer (K. Smith) Bond - Treasurer (K. Smith) (State of Tennessee Schools)	200 1,044	1 5
St. Paul / U.S. Fidelity & Guarantee Co.	400NS5672	3/15/06 - 3/15/07	Bond - Recorder (J. Demming)	385	2
St. Paul / U.S. Fidelity & Guarantee Co.	400KF0756	10/1/05 - 10/1/06	Bond - City Manager (R. Griffin)	5	-
St. Paul / U.S. Fidelity & Guarantee Co. Western Surety Co.	400MQ1787 58368775	1/1/05 - 1/1/06 4/4/06 - 4/4/07	Bond - City Judge (J.R. Boatwright) Blanket Notary Errors and Omissions	1 25	- 1

CITY OF KINGSPORT, TN
SCHEDULE OF INSURANCE IN FORCE
June 30, 2006
(amounts expressed in thousands)

Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premiums
(Continued)					
<u>Other</u> Contractor's Equipment Hartford Insurance Company	20MSG8203	10/4/05 - 10/4/07	Contractor's Equipment Damage	1,024	8
Stadium General Liability/ Hunter Wright Property - D.B. High School Indiana Insurance Company	CBP9566738	3/8/06 - 3/8/07	General Liability/ Scoreboard/ Public Address System	2,000	1
Total Premium					<u>\$ 388</u>

Source: City of Kingsport

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American Institute of Certified Public Accountants

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 (the "financial statements") of the City of Kingsport, Tennessee (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 1, 2006. We did not audit the basic financial statements of the Emergency Communications District (the "ECD"), a discretely presented component unit, which represents 17 percent, 17 percent, and 39 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, 2006. Those basic financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the City's 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

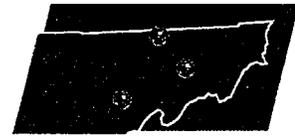
Johnson City	801B Sunset Drive, P.O. Box 3745, Johnson City, TN 37602-3745	(423) 282-4511	Fax (423) 283-4532
Kingsport	440 E. Sullivan Street, Kingsport, TN 37660	(423) 246-1725	Fax (423) 245-2839
Greeneville	1140 Tusculum Boulevard, Greeneville, TN 37745-4039	(423) 638-8516	Fax (423) 638-3361

We noted certain other matters that we reported to management of the City in a separate letter dated December 1, 2006.

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, P.C.
BLACKBURN, CHILDERS & STEAGALL, PLC

December 1, 2006



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, 2006. 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, 2006.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 1, 2006

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

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 17 percent, 17 percent, and 39 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. No reportable conditions or material weaknesses are reported in the 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*.
3. No instances of noncompliance, material to the financial statements of the City, were disclosed during the audit.
4. No reportable conditions disclosed during the audit of the major federal award programs were reported in the 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.
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. There were no audit findings relative to the major federal award programs for the City.
7. The programs tested as major programs were as follows:

<u>Program</u>	<u>CFDA Number</u>
National School Lunch Program	10.555
Community Development Block Grants	14.218
Surface Transportation Program	20.219
FTA	20.507
Homeland Security	83.554
Special Education - IDEA	84.027

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, 2006

Section II - Financial Statement Findings

Current Year Findings –

There are no current year findings.

Prior Year Findings Implemented –

There were no prior year findings.

Section III - Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings and questioned costs in regard to the major federal award programs audit.

