

City of Kingsport Tennessee

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2011



City of Kingsport, Tennessee
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2011



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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS

	Page
I. INTRODUCTORY SECTION (UNAUDITED)	
Letter of Transmittal	1
GFOA Certificate of Achievement	7
Organizational Chart	8
History and Organization	9
List of Principal Officials	10
II. FINANCIAL SECTION	
Independent Auditors' Report	11
A. MANAGEMENT'S DISCUSSION AND ANALYSIS	13
B. BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	24
Statement of Activities	25
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	26
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	28
Statement of Revenues, Expenditures, and Changes in Fund Balances	29
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund	
Balances of Governmental Funds to the Statement of Activities	31
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Budget and Actual - General Fund	32
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Budget and Actual - General Purpose School Fund	35
Proprietary Fund Financial Statements	
Statement of Net Assets	37
Statement of Revenues, Expenses, and Changes in Fund Net Assets	39
Statement of Cash Flows	40
Notes to the Financial Statements	42
Required Supplementary Information	
Schedule of Funding Progress - Defined Benefit Pension Plan	130
Schedule of Funding Progress - Post Employment Healthcare Plans	131
C. COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES	
Major Governmental Funds	
Schedule of Revenues, Expenditures, and Changes in Fund Balances -	
Budget and Actual - Debt Service Fund	132

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS

	Page
Nonmajor Governmental Funds	
Combining Balance Sheet	133
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	134
Combining Balance Sheet - Nonmajor Governmental Funds - Public Safety	135
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Public Safety	136
Combining Balance Sheet - Nonmajor Governmental Funds - Transportation	137
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Transportation	138
Combining Balance Sheet - Nonmajor Governmental Funds - Culture and Recreation	139
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Culture and Recreation	140
Combining Balance Sheet - Nonmajor Governmental Funds - Education	141
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Education	142
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Criminal Forfeiture Fund	143
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Drug Fund	144
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - State Street Aid Fund	145
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Regional Sales Tax Revenue Fund	146
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Visitors Enhancement Fund	147
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Steadman Cemetery Fund	148
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Public Library Commission Fund	149
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Bays Mountain Park Fund	150
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Senior Citizens Advisory Board Fund	151
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - School Nutrition Services Fund	152
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Palmer Center Fund	153
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Allandale Trust Fund	154

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS

	Page
Internal Service Funds	
Combining Statement of Net Assets	155
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	156
Combining Statement of Cash Flows	157
Discretely Presented Component Units	
Statement of Cash Flows	158
 D. SUPPLEMENTAL INFORMATION	
Capital Assets Used in the Operation of Governmental Funds	
Comparative Schedules by Source	159
Schedule by Function and Activity	160
Schedule of Changes by Function and Activity	162
Other	
Schedule of Operating Costs - Enterprise Funds	163
Schedule of Expenditures of Federal Awards	164
Schedule of Expenditures of State Awards	169
 III. STATISTICAL SECTION (UNAUDITED)	
Net Assets by Component	171
Changes in Net Assets	172
Governmental Activities Tax Revenues by Source	174
Fund Balances of Governmental Funds	175
Changes in Fund Balances of Governmental Funds	176
General Government Tax Revenues by Source	178
Assessed Value and Estimated Actual Value of Taxable Property	179
Property Tax Rates - Direct and Overlapping Governments	180
Principal Property Taxpayers	181
Property Tax Levies and Collections	182
Local Option Sales Tax Collections	183
Ratios of Outstanding Debt by Type	184
Ratios of General Bonded Debt Outstanding	185
Direct and Overlapping Governmental Activities Debt	186
Legal Debt Margin Information	187
Pledged-Revenue Coverage	188
Demographic and Economic Statistics	189
Principal Employers	190
Full-Time Equivalent City Government Employees by Function	191
Operating Indicators by Function	192
Capital Asset Statistics by Function	193
Utility Rate Structure and Number of Customers	194
Schedule of Unaccounted for Water	195
Top Ten Water Customers	196

**CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011**

TABLE OF CONTENTS

	Page
Top Ten Sewer Customers	197
Schedule of Bonds Payable - Future Requirements	198
Salaries and Surety Bonds of Principal Officials	199
Schedule of Insurance in Force	200
 IV. COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	201
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	203
Schedule of Findings and Questioned Costs	205



CITY OF KINGSPORT, TENNESSEE

December 19, 2011

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, 2011.

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, 2011. 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 50 square miles and serves a population of 49,275. Its established urban growth boundary encompasses 107 square miles which provides potential areas for the City to expand its corporate limits in the future. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Aldermen.

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

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

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

The annual budget serves as the foundation for the City of Kingsport's financial planning and control. All departments of the City of Kingsport are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the BMA for review by May 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 32 through 34 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 Approximately 173,700 persons reside within a 5 mile radius of the City limits. Kingsport is the largest City in the Kingsport - Bristol, TN – Bristol, VA Metropolitan Statistical Area which has a population of 309,544 (per 2010 U.S. Census). On a regional basis, there are approximately

401,000 persons living within a radius of 25 miles, 863,000 persons living within a radius of 50 miles and 1,305,000 persons living within a radius of 75 miles.

Despite the sluggish national economy, economic recovery is clearly strengthening in Kingsport in 2011, with one area economist noting the community had now regained all jobs lost in the recession. At the same time, the City continues to post strong sales tax growth and continued diversification of the local economy in 2011, while enjoying the benefits of a strong manufacturing core.

Eastman Chemical Company, a FORTUNE 500 company which employs approximately 6,500 employees and about 3,000 contractors in Kingsport, is the second largest private employer in Tennessee, largest regional employer and largest taxpayer in the City.

Eastman, which has had a major presence in Kingsport since 1920, is the world's largest supplier of polyester plastics for packaging, a leading supplier of coatings raw materials, specialty chemicals and plastics, as well as fine chemicals for pharmaceutical, agricultural chemicals, and other markets. In addition, Eastman manufactures cellulose esters used in LCD screens as well as Bisphenol - free (BPA) plastics for the food industry in Kingsport. Eastman has added three new product lines in Kingsport over the last few years.

In 2011, Eastman Chemical Co. announced to investors that it doubled earnings in the first quarter, planned to increase capital spending in Kingsport in the second quarter, while sales revenue increased 20 percent in the third quarter of 2011.

Meanwhile, BAE Systems, contracted operator of Holston Army Ammunition Plant on the City's western border, continues to employ more than 540 persons at this facility engaged in the production of high explosives for the U.S. Military. In addition, the Army & BAE are undertaking a \$140 million modernization of the facility.

And AGC Flat Glass continues as Tennessee and the nation's leading producer of solar glass with more than 320 employees in Kingsport, all of whom are engaged in solar glass production. Although temporary layoffs will idle more than 150 workers in early 2012, with the company attributing the decision to the flooding of the U.S. market with Chinese solar products, it is critical to note that the International Trade Commission has agreed in late November to investigate allegations of unfair trade practices and could impose steep tariffs on Chinese solar imports.

Overall, Kingsport exhibits a solid employment base, resulting in East Tennessee State University's economist noting in October 2011 that Kingsport led the region with 832 new jobs created in the third quarter, and that "virtually all the jobs lost in the recession have now been recovered."

Job growth and confidence in the local economy are further reflected in the sales tax performance of Kingsport. Sales tax collections were \$340,000 above budget through the first five months of the fiscal year.

On average, sales tax collections increased 10 percent a month from July through November, with collections increasing significantly in 11 of the last 12 months.

Clearly, sales tax growth is a measure of the City's focused effort over the last decade to diversify Kingsport's economy through development of the commercial retail sector, and signifies confidence in the local economy. As evidence, it is worth noting that three new car dealerships, one used car dealership and 17 new Kingsport restaurant options have opened in the last 12 months. New dining options feature local, regional and national concepts, including three new downtown concepts.

Notably, while Eastman Chemical Company represented 40 percent of all property tax revenue for the City some 20 years ago, today that ratio is in the range of 25 percent, with the change largely due to the growth of commercial, medical, retail and residential properties in the community signalling continuing economic expansion and diversification.

In particular, the medical sector has been an important source of job growth in the City. Kingsport is home to the largest hospital in the Wellmont Health System, as well as the system's corporate headquarters, and the second largest hospital in the Mountain States Health Alliance system.

In all, the medical sector has created 9,000 new jobs in Kingsport over the last decade. Underpinning that growth is the largest private medical practice in the region, Holston Medical Group with more than 800 doctors and staff, as well as the largest specialty practice, Cardiovascular Associates, with 30 physicians offering a full spectrum of cardiology treatment options, cardiac research and heart disease prevention programming.

While diversification is important, Kingsport also continues to build its industrial development job sector. Through October 19, 2011, NETWORKS Sullivan County Partnership, which conducts industrial recruitment for Kingsport, Sullivan County, Bristol and Bluff City, has posted 965 new jobs from new and existing business as well as \$38.93 million in new capital investment county-wide.

Kingsport accounted for nearly 50 percent of the NETWORKS job total, with a major new employer, C&F Group of Galway, Ireland, announcing a \$12.5 million investment that will create 450 new jobs over the next four years.

In the third quarter, Kingsport's unemployment rate was 8.17 percent, lowest in the Tri-Cities and well below the state rate of 9.6 percent. Sullivan County has remained among the top 5 lowest unemployment rates in Tennessee throughout 2011.

In residential space, Kingsport home prices were 19th in the country for housing price appreciation through the third quarter of 2011, according to the Federal Housing Finance Agency, while foreclosures continued a five year trend well below regional and national averages, with Kingsport posting a .05 percent foreclosure rate compared to Tennessee's .09 percent rate and the national .18 percent rate.

And, community-wide giving to charitable causes remained strong, with the United Way of Greater Kingsport exceeding its goal by raising \$3.6 million to support 41 programs and United Way initiatives in the community.

Long-term Financial Planning As a part of the City's annual budget process, the BMA re-evaluates the adopted multi-year Capital Improvement Plan (CIP) for utility, general government and school related activities to address needed improvements to existing City facilities, roads and infrastructure. During FY2010, as a result of this review and the availability of the new Build America Bonds program, the City accelerated funding for a number of projects originally planned for future years. During FY2011, the majority of capital spending was related to the projects that were authorized and funded in the previous year. The CIP currently includes plans for several significant projects scheduled over the next few years. These include improvements to the City's Library and Justice Center facilities (\$12M), improvements to local road systems (\$7M), improvements to the Water Treatment Plant (\$19M), and improvements and expansion of the Wastewater System (\$30M). These projects will be funded mostly by the issuance of new debt. Even with this significant amount of new debt, the total outstanding debt is expected to be within the parameters of the adopted debt limits as specified in the BMA's debt management policy.

The City of Kingsport has adopted a comprehensive set of financial policies to guide its operations. One of the primary policies that 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, is the adoption of a General Fund Reserve target of \$11,400,000 with a further restriction that the City will not fund any recurring operating expenditures with the use of one-time revenues. Funding for the water and sewer CIP consists of gradual annual rate increases and savings realized from declining annual debt service expenditures. This strategy is utilized to provide an annual funding source for non major capital expenditures and to reserve issuance of new debt obligations for large major capital projects.

Major Initiatives

The City of Kingsport continues a strong focus on Higher Education, moving towards the creation of the Kingsport Higher Education Commission to focus on leasing City-owned higher education building and recruitment of new education programs. Currently, the city-sponsored downtown Academic Village consists of the Center for Higher Education, the Regional Center for Health Professions, the Regional Center for Advanced Manufacturing and the new Pal Barger Center for Automotive Programs, which is set to open early in 2012. These programs are a partnership between the City, State of Tennessee, Northeast State Community College, King College, Lincoln Memorial University and the University of Tennessee.

Kingsport's efforts in Higher Education have been honored by Harvard University, the National League of Cities and the Tennessee Municipal League.

The latest data from the U.S. Census Bureau indicates a 36.6 percent increase in the population with an associate degree and a 34.1 percent jump in population with graduate and higher level degrees from 2005 to 2008. A full 24 percent of the population holds a bachelors degree, graduate degree or higher.

Meanwhile, Kingsport continues to invest in the MeadowView business district, opening a \$16 million expansion of the Conference Center at the Marriott MeadowView Conference, Resort & Convention Center in 2011. The new facility offers 33,000 square feet of unique conference space, board rooms, and a new, divisible, ballroom to add to an already strong wedding book of business. And, a new agreement will add private label wines, a unique wine-themed meeting room and an on-site winery to the facility.

In addition, construction is set to begin early in 2012 on a new 50-meter indoor aquatic center in the MeadowView area, along with an outdoor water park area as well. The facility is designed to meet the community's immediate needs as well as serve as a new tourist attraction for the region. The 50-meter pool is the only such facility within a 120 mile radius. The project is collocated with a YMCA fitness facility.

Also in the tourism arena, Bays Mountain Park and Planetarium attracted more than 200,000 visitors in 2011, a record year for the park, which is the 15th largest municipal park in the country, consisting of more than 3,500 acres.

Downtown redevelopment continued to be a strong focus for the City in 2011. In addition to higher education efforts being located downtown, the Kingsport Board of Education and Kingsport Chamber of Commerce are expected to move into new facilities on the former Quebecor site in 2012.

Meanwhile, Food City opened its newest grocery store, and first downtown location, earlier in 2011 on the Quebecor site, and, on the same property, Mountain Region Family Medicine, a multi-physician practice group, is set to consolidate a number of regional offices into a new medical office building early in 2012. The practice will generate 70,000 trips a year to the downtown area. The book plant site was donated to the City in 2007.

Kingsport continues to operate an aggressive resident recruitment program and website, www.MoveToKingsport.com. An analysis by the Buxton Group, a national leader in consumer analytics, finds that in-migrants to Kingsport are generally younger, better-educated, wealthier and more diverse than the average existing resident.

Kingsport also embarked on the first steps in creating a Border Region Retail Tourist District under a new Tennessee law written and initiated by the City. The legislation allows the City to recapture 59 percent of all state sales taxes within a 950 acre special district designed to incent and attract super-regional retailers to Tennessee and the Kingsport market. Kingsport's Retail Tourism District will be located at the intersection of I-26 and I-81, providing new opportunities to expand the tax base and continue diversifying the local economy.

Awards and Acknowledgements

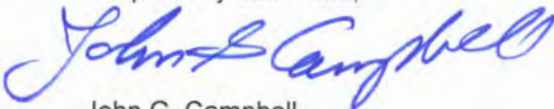
Awards The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kingsport for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the eleventh 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.

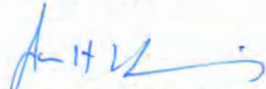
In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2010. The annual budget document dated July 1, 2011 has been submitted to the GFOA for review and it is anticipated that it will also receive this award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

Acknowledgment The preparation of this 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 all staff members and other personnel from various departments, agencies, and authorities that assisted in its preparation, especially Comptroller Lisa Winkle for all of the hard work and numerous hours she put in to ensure the timely completion of this report. We would also 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, 2010

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.

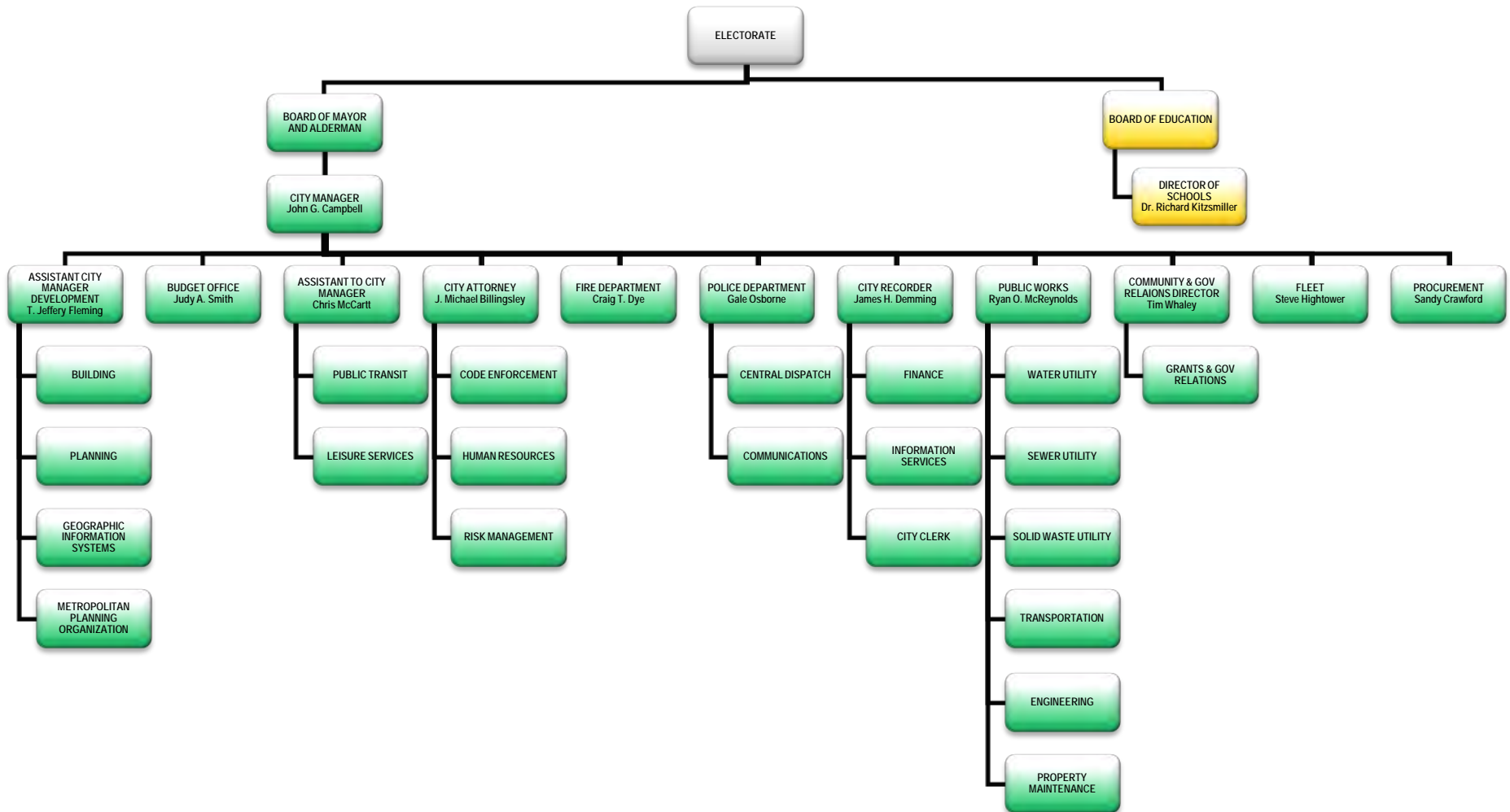


Linda C. Danison

President

Jeffrey R. Emer

Executive Director



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, 2011

BOARD OF MAYOR AND ALDERMEN

Dennis R. Phillips	Mayor
Benjamin K. Mallicote	Vice Mayor
Valerie Joh	Alderman
C. Ken Marsh, Jr.	Alderman
Larry A. Munsey	Alderman
Tom C. Parham	Alderman
Jantry Shupe	Alderman

CHARTER OFFICERS

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

DEPARTMENT HEADS

Christopher W. McCartt	Assistant to the City Manager
Craig T. Dye	Fire Chief
Ryan O. McReynolds	Public Works Director
T. Jeffrey Fleming	Assistant City Manager for Development
Judy A. Smith	Budget Officer

CITY OF KINGSPORT, TENNESSEE

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2011

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 fiscal year ended June 30, 2011, 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 21 percent, 26 percent, and 11 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 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 the 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and general purpose school fund for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, and budgetary comparison information for the debt service fund on pages 13 through 23, pages 130 through 131, and page 132, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual fund financial statements and schedules, supplemental information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual fund financial statements and schedules and the supplemental information, including the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC

December 16, 2011

THIS PAGE INTENTIONALLY LEFT BLANK



A. MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(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, 2011. 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 6 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$438,294 (net assets). Of this amount, \$26,609 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$6,357. This can be attributed to OPEB, depreciation, and project expenses that did not meet capitalization requirements.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$54,317, a decrease of \$14,722 which is primarily a result of prior year bond proceeds being spent in the City's capital project fund. Approximately 22% of this total fund balance, \$12,099, is unassigned and therefore available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$12,099 or approximately 18% of total general fund expenditures including transfers out.
- The City's total gross debt decreased by \$5,832 (3%) during the current fiscal year. The City had no bond issues during the current fiscal year. The \$1,173 governmental activities decrease represents principal payments in excess of new governmental debt. New governmental debt consisted primarily of \$2,000 in draws from a \$5,000 loan from the State of Tennessee for energy improvements to school facilities and \$1,200 proceeds from State School Construction Bonds. The \$4,659 business-type activities decrease represents principal payments in excess of new business type debt. The only new business type debt for the current fiscal year consisted of continuing draws from a Tennessee State Revolving Loan that is being used primarily for improvements to the City's sewer treatment plant facility.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(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 24 and 25 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 city-wide 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-three (23) individual governmental funds. Nineteen (19) 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 26-36 of this report.

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

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)**

Proprietary funds

The City maintains nine (9) 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 37-41 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 42-129 of this report.

Other information

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 132-157 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 \$438,294 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (94%) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)**

City of Kingsport's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 131,152	\$ 145,860	\$ 31,865	\$ 47,753	\$ 163,017	\$ 193,613
Capital Assets	329,180	323,808	248,395	231,959	577,575	555,767
Total Assets	460,332	469,668	280,260	279,712	740,592	749,380
Long-term Liabilities Outstanding	138,537	134,528	92,938	97,258	231,475	231,786
Other Liabilities	66,121	65,770	4,702	7,173	70,823	72,943
Total Liabilities	204,658	200,298	97,640	104,431	302,298	304,729
Net Assets:						
Invested in Capital Assets, net of Related Debt	246,177	262,313	163,891	157,978	410,068	420,291
Restricted	185	185	1,432	882	1,617	1,067
Unrestricted	9,312	6,872	17,297	16,421	26,609	23,293
Total Net Assets	\$ 255,674	\$ 269,370	\$ 182,620	\$ 175,281	\$ 438,294	\$ 444,651

A portion of the City's net assets, \$1,617 (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$26,609 may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year, the government's net assets decreased by \$6,357. Net assets for governmental activities decreased by \$13,696 while net assets for business-type activities increased by \$7,339.

The \$13,696 current year decrease in net assets for governmental activities was primarily a result of recording the annual OPEB liability of \$4,973 in accordance with GASB 45, as well as recording of \$12,946 in depreciation expense on general fixed assets in accordance with GASB 34. There was also approximately \$6,999 of project expenses in the current fiscal year that did not meet capitalization requirements. These expenses were somewhat offset by capital asset donations totaling \$6,167.

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 2% for customers inside the City limits while customers outside the City remained at the same rates. Sewer rates increased 6% for outside customers while customers inside the City remained at the same rates. These rate increases are part of a continuing rate stabilization plan to provide funding for capital improvements and expansion.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2011

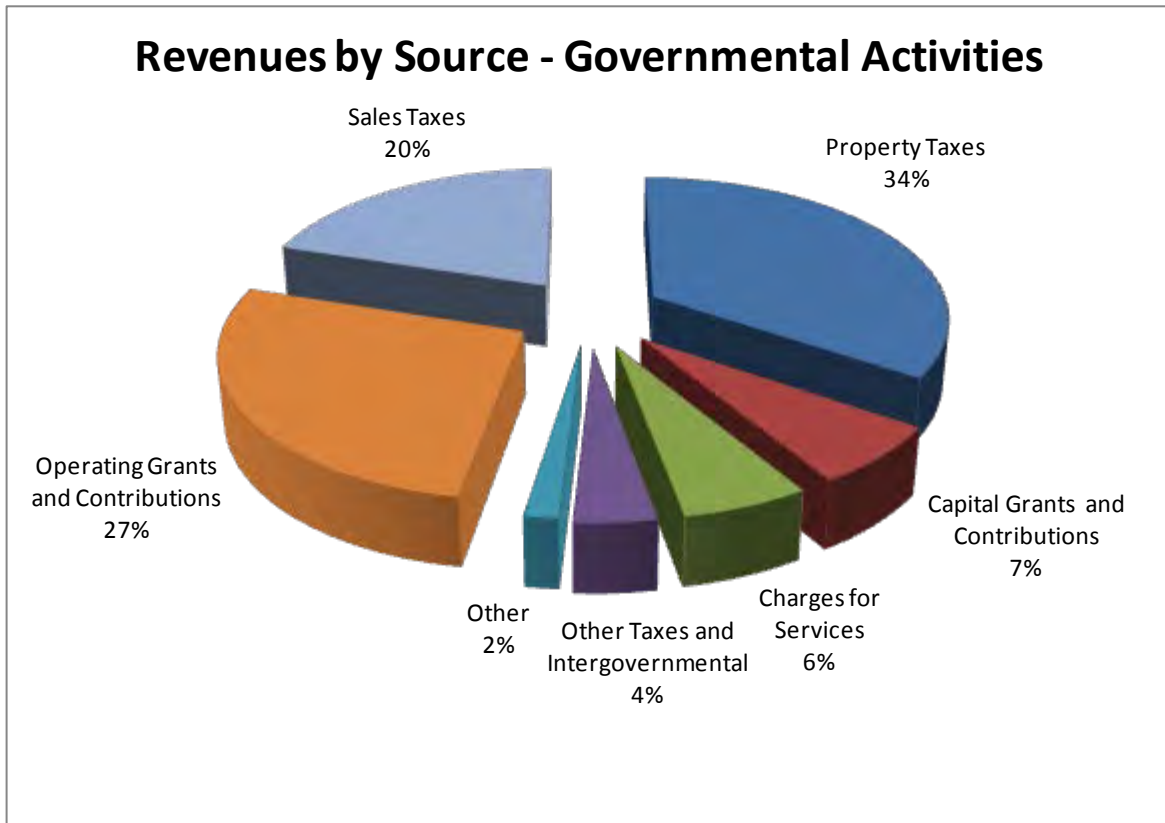
City of Kingsport's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$ 8,081	\$ 7,066	\$ 26,732	\$ 27,138	\$ 34,813	\$ 34,204
Operating Grants and Contributions	37,442	34,318	230	0	37,672	34,318
Capital Grants and Contributions	9,218	7,349	655	1,297	9,873	8,646
General Revenues						
Property Taxes	47,145	45,939	0	0	47,145	45,939
Sales Taxes	27,515	26,305	0	0	27,515	26,305
Other Taxes and Intergovernmental	5,235	5,017	0	0	5,235	5,017
Unrestricted Investment Earnings	421	786	147	409	568	1,195
Grants and Contributions Not Restricted to Specific Programs	987	1,041	0	0	987	1,041
Other	755	(128)	0	0	755	(128)
Total Revenues	136,799	127,693	27,764	28,844	164,563	156,537
Expenses:						
General Government	14,877	11,201	0	0	14,877	11,201
Public Safety	20,186	19,485	0	0	20,186	19,485
Public Works	15,325	14,690	0	0	15,325	14,690
Highway Transportation Planning	3,847	5,768	0	0	3,847	5,768
Economic and Physical Development	4,792	4,235	0	0	4,792	4,235
Culture and Recreation	6,591	6,145	0	0	6,591	6,145
Education	75,901	71,107	0	0	75,901	71,107
Interest on Long-term Debt	4,718	4,069	0	0	4,718	4,069
Water	0	0	9,630	9,068	9,630	9,068
Sewer	0	0	8,228	8,083	8,228	8,083
Solid Waste Management	0	0	4,010	3,615	4,010	3,615
MeadowView Conference Resort and Convention Center	0	0	1,598	1,987	1,598	1,987
Cattails at MeadowView Golf Course	0	0	1,384	1,586	1,384	1,586
Total Expenses	146,237	136,700	24,850	24,339	171,087	161,039
Increase (Decrease) in Net Assets before Transfers	(9,438)	(9,007)	2,914	4,505	(6,524)	(4,502)
Transfers	(4,425)	(3,875)	4,425	3,875	0	0
Change in Net Assets	(13,863)	(12,882)	7,339	8,380	(6,524)	(4,502)
Net Assets, beginning of period	269,370	277,472	175,281	166,901	444,651	444,373
Prior Period Adjustment - Seized Cash	167	0	0	0	167	0
Prior Period Adjustment - Capital Assets	0	4,780	0	0	0	4,780
Net Assets, end of period	\$ 255,674	\$ 269,370	\$ 182,620	\$ 175,281	\$ 438,294	\$ 444,651

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)**

Governmental Activities

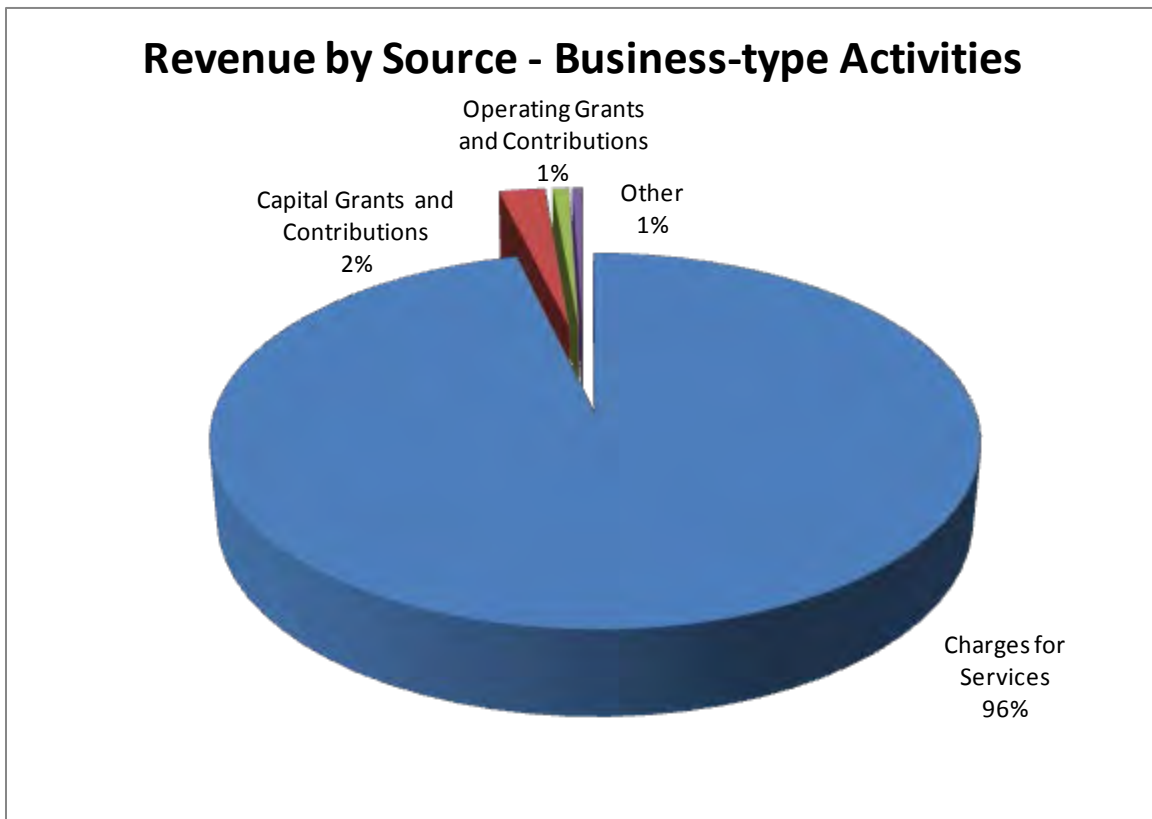
Governmental activities reduced the City's net assets by \$13,696. The City's governmental revenues totaling \$136,799 was more than the prior year by \$9,106.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)**

Business-type activities

Business-type activities increased the City's net assets by \$7,339. The City's business-type revenues totaling \$27,764 was less than the prior year by \$1,080. This reduction is primarily due to City annexations which result in utility customers being charged at the lower inside utility rates.



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 \$54,317 a decrease of \$14,722 in comparison with the prior year. Approximately 22% of this total amount, \$12,099, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance consists of \$380 nonspendable primarily attributed to inventories and a perpetual care trust, \$29,899 restricted primarily for capital projects, \$195 committed for specific school projects, and \$11,744 assigned primarily to the City's various governmental funds most significantly for education, capital projects, and debt service.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)**

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$12,099 while total fund balance was \$13,584. Of the total fund balance \$45 is considered nonspendable while \$1,440 is considered assigned. The majority of the assigned fund balance represents fund balance allocations for fiscal year 2012. As a matter of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out.

Unassigned fund balance represents approximately 18% of total general fund expenditures and transfers out, while total fund balance represents 20% of that same amount. During fiscal year 2011, the fund balance of the City's General Fund decreased by \$1,231. This decrease is less than the fund balance appropriations approved by the City's Board of Mayor and Aldermen totaling \$2,042.

The general purpose school fund has a total fund balance of \$4,170, of which most is assigned. The net increase in fund balance during the current year in the general purpose school fund was \$788.

The capital project fund has a total fund balance of \$31,947. Of this amount, \$29,825 represents unspent bond proceeds restricted for capital projects. The remainder of \$2,122 is assigned to the capital project fund. The net decrease in this fund balance of \$12,773 was primarily due to the spending in the current fiscal year of bond proceeds received during the prior fiscal year.

The debt service fund has a total fund balance of \$169. This represents a decrease of \$326 as compared to the previous fiscal year. This decrease is primarily a result of budgeted use of prior year's investment earnings to fund current year's interest expense. In addition, the fund experienced a decrease in investment earnings on bond proceeds. Debt service expenditures (principal and interest) totaled \$10,201 for fiscal year 2011. This was \$2,302 more than the debt service expenditures paid in fiscal year 2010. This increase is primarily attributed to debt service payments for General Obligation Bonds Series 2009A, 2009B, 2009D, and 2009E that were issued during fiscal years 2009 and 2010.

Nonmajor (other) governmental funds have a fund balance of \$4,446. The net decrease in fund balance during the current year in nonmajor governmental funds was \$1,349. This decrease is primarily due to the completion of various projects during the year that had been pre-funded in prior years.

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 fiscal year amounted to \$9,243 and \$9,371 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 Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)**

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget represent a \$292 increase and are detailed as follows:

\$	(1,372)	Reduce appropriations fund-wide in accordance with available revenues
	725	Appropriate interfund loan for purchase of new voice over internet phone system
	700	Appropriate revenue from sale of land to transfer to capital projects
	100	Appropriate fund balance for school central office project
	82	Appropriate animal shelter revenue to cover related expenditures
	53	Provide funding for prior year encumbrances
	4	Other miscellaneous
<hr/>		
\$	292	
<hr/>		

The decrease in appropriations was primarily related to the recognition of expected shortfalls in various local and state shared revenue sources. These included approximately \$225 in building permits; \$232 in investment earnings; \$332 in local property taxes; and \$517 in state shared revenues.

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, 2011, amounts to \$577,575 (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:

- The most significant business-type construction projects during fiscal year 2011 were continuing renovations and improvements at the sewer treatment plant and the building expansion project at MeadowView Conference Center. Business-type construction in progress at the close of the fiscal year was \$71,593.
- Construction continued and/or began on a variety of general governmental facilities including the V. O. Dobbins Building renovation, Riverview Community Center and various road improvement projects. The Aquatics Center project with an estimated cost of \$15,000 continued in the design phase during FY2011. The construction contract for the Aquatic Center has been awarded subsequent to year end and construction will begin in FY2012. In addition a new parking garage project with an estimated cost of \$4,600 was started and substantially completed during FY2011.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(amounts expressed in thousands)**

Additional information on the City's capital assets can be found in Note 4.C on pages 64-68 of this report.

City of Kingsport's Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 23,337	\$ 19,595	\$ 5,436	\$ 5,259	\$ 28,773	\$ 24,854
Buildings and Systems	80,445	61,864	166,039	158,252	246,484	220,116
Improvements other than Buildings	5,309	6,105	4,350	4,660	9,659	10,765
Machinery and Equipment	10,794	8,992	938	841	11,732	9,833
Software	212	107	39	52	251	159
Infrastructure	155,889	159,183	0	0	155,889	159,183
Construction in Progress	53,194	67,962	71,593	62,895	124,787	130,857
Total Capital Assets	<u>\$ 329,180</u>	<u>\$ 323,808</u>	<u>\$ 248,395</u>	<u>\$ 231,959</u>	<u>\$ 577,575</u>	<u>\$ 555,767</u>

Long-term debt

At the end of the current fiscal year, the City had total gross debt outstanding of \$206,630. 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	
	2011	2010	2011	2010	2011	2010
Notes Payable	\$ 1,228	\$ 1,356	\$ 0	\$ 0	\$ 1,228	\$ 1,356
General Obligation Bonds	107,173	111,819	66,373	73,130	173,546	184,949
Loans from Other Governments	7,568	3,967	24,288	22,190	31,856	26,157
Total Long-term Debt	<u>\$ 115,969</u>	<u>\$ 117,142</u>	<u>\$ 90,661</u>	<u>\$ 95,320</u>	<u>\$ 206,630</u>	<u>\$ 212,462</u>

During the current fiscal year, the City's total gross debt decreased by \$5,832 (3%). The \$1,173 governmental activities decrease is a result of principal payments exceeding new debt. New governmental debt consisted primarily of state loans for education projects. The \$4,659 business-type activities decrease was also a result of principal payments exceeding new debt. New business-type debt for FY2011 consisted of continuing draws from Tennessee State Revolving Loans being used primarily for improvements to the City's sewer treatment plant. The City currently has a rating of AA- from Standard & Poor's Rating Services and a rating of Aa2 from Moody's Investors Service. Both ratings were reaffirmed in November 2011 in conjunction with a December 2011 bond sale.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2011
(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 outstanding general obligation debt is less than the City's debt limitation.

Subsequent to year end, the City issued General Obligation improvement Bonds Series 2011 totaling \$16,140. Of this total \$11,300 will be used for general improvement projects, \$4,035 will be used for sewer improvement projects and \$805 will be used for water improvement projects.

Additional information on the City's long-term debt can be found in Note 4.E on pages 71-113 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 7.6%, which is a decrease of 1.2% from a year ago. This compares to the state's average unemployment rate of 9.6 %.
- Inflationary trends in the region are comparable to national indices.
- 531 building permits with an estimated value of \$65,621 were issued during this fiscal year, compared to 581 building permits with an estimated value of \$56,285 for the previous year.

Short term interest rates on investments for the City's operating funds decreased to approximately 0.14% in fiscal year 2011 as the federal funds target rate continued to be held to approximately .25% by the Federal Reserve Board. The City has been able to obtain 0.47% to 0.57% rates with one year commitments.

All of these factors were considered in preparing the City's budget for the 2012 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund decreased to \$12,099. The City has assigned fund balance of \$1,420 to cover fiscal year 2012 budgeted allocations as well as encumbrances remaining from FY2011.

Water rates were not increased for the 2012 budget year. However sewer rates increased 5% for outside customers while customers inside the City remained at the same rates.

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.



B. BASIC FINANCIAL STATEMENTS

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
ASSETS:					
Cash	\$ 1,718,270	\$ 0	\$ 1,718,270	\$ 232,626	\$ 2,271,274
Cash with Fiscal Agent	0	36,762	36,762	0	0
Equity in Pooled Cash and Investments	29,938,969	16,372,081	46,311,050	0	0
Long Term Certificates of Deposit	370,509	0	370,509	0	0
Investments	190,001	0	190,001	0	0
Accounts Receivable, Net	35,708,476	3,693,929	39,402,405	11,493	41,079
Accrued Interest Receivable	45,474	8,718	54,192	0	41,364
Due from Other Governments	24,916,549	2,078,722	26,995,271	0	19,475
Due from Primary Government	0	0	0	2,034,201	0
Due from Component Units	10,592	25,511	36,103	0	0
Internal Balances	1,060,010	(1,060,010)	0	0	0
Inventories	573,383	663,724	1,237,107	0	0
Prepays	215,748	40,561	256,309	7,935	15,799
Land Held for Sale or Development	0	0	0	5,852,168	0
Restricted Assets:					
Cash	29,749,569	7,414,078	37,163,647	144,160	0
Long Term Certificates of Deposit	2,000,000	56,000	2,056,000	0	0
Investments	2,990,131	1,688,045	4,678,176	349,781	0
Receivables	0	0	0	622,078	0
Capital Assets:					
Land	23,337,215	5,436,315	28,773,530	0	0
Buildings and Systems	141,206,894	264,544,443	405,751,337	0	0
Improvements Other Than Buildings	15,314,742	8,712,301	24,027,043	75,725	0
Machinery and Equipment	36,305,176	3,750,854	40,056,030	0	718,202
Software	466,846	66,400	533,246	0	0
Infrastructure	270,400,418	0	270,400,418	0	0
Construction in Progress	53,193,591	71,593,090	124,786,681	0	0
Less: Accumulated Depreciation	(211,044,802)	(105,708,471)	(316,753,273)	(71,809)	(619,243)
Other Assets, Net	1,663,591	846,754	2,510,345	0	0
Total Assets	460,331,352	280,259,807	740,591,159	9,258,358	2,487,950
LIABILITIES:					
Accounts Payable and Other Current Liabilities	13,910,728	2,683,997	16,594,725	953,120	4,940
Due to Primary Government	0	0	0	36,103	0
Due to Other Governments	37,344	90,273	127,617	0	0
Due to Component Units	314,201	0	314,201	0	0
Compensated Absences Payable	3,023,391	519,117	3,542,508	0	0
Arbitrage Rebate Payable	0	159,272	159,272	0	0
Matured Bonds and Interest Payable	0	36,762	36,762	0	0
Accrued Interest Payable	1,566,911	681,715	2,248,626	41,102	0
Unearned Revenue	47,268,484	0	47,268,484	12,200	0
Liabilities Payable from Restricted Assets	0	530,327	530,327	0	0
Noncurrent Liabilities:					
Due Within One Year	6,488,971	7,481,577	13,970,548	526,643	0
Due in More Than One Year	111,589,946	83,821,041	195,410,987	547,628	0
OPEB Liability	20,457,743	1,585,150	22,042,893	0	0
Post Closure Liability	0	50,723	50,723	0	0
Total Liabilities	204,657,719	97,639,954	302,297,673	2,116,796	4,940
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	246,176,930	163,891,065	410,067,995	3,916	98,959
Restricted for Debt Service	0	1,155,942	1,155,942	0	0
Restricted for Capital Improvements	31,971	276,184	308,155	0	0
Restricted for Perpetual Care (Nonexpendable)	152,691	0	152,691	0	0
Restricted for Façade Program	0	0	0	16,247	0
Unrestricted	9,312,041	17,296,662	26,608,703	7,121,399	2,384,051
Total Net Assets	\$ 255,673,633	\$ 182,619,853	\$ 438,293,486	\$ 7,141,562	\$ 2,483,010

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
Primary Government:									
Governmental Activities:									
General Government	\$ 14,877,308	\$ 1,596,808	\$ 781,165	\$ 8,419,699	\$ (4,079,636)	\$ 0	\$ (4,079,636)		
Public Safety	20,186,463	1,820,625	509,635	0	(17,856,203)	0	(17,856,203)		
Public Works	15,325,189	0	0	0	(15,325,189)	0	(15,325,189)		
Highways and Transportation	3,846,573	110,713	2,500,060	798,271	(437,529)	0	(437,529)		
Economic and Physical Development	4,792,022	1,079,506	682,779	0	(3,029,737)	0	(3,029,737)		
Culture and Recreation	6,590,859	987,328	119,650	0	(5,483,881)	0	(5,483,881)		
Education	75,900,414	2,485,634	32,849,046	0	(40,565,734)	0	(40,565,734)		
Interest on Long Term Debt	4,718,229	0	0	0	(4,718,229)	0	(4,718,229)		
Total Governmental Activities	146,237,057	8,080,614	37,442,335	9,217,970	(91,496,138)	0	(91,496,138)		
Business - Type Activities:									
Water	9,630,478	12,383,505	81,352	18,525	0	2,852,904	2,852,904		
Sewer	8,227,535	12,276,442	122,055	636,649	0	4,807,611	4,807,611		
Solid Waste Management	4,009,722	829,411	6,111	0	0	(3,174,200)	(3,174,200)		
MeadowView Conference Resort and Convention Center	1,597,797	303,648	20,458	0	0	(1,273,691)	(1,273,691)		
Cattails at MeadowView Golf Course	1,384,281	938,658	0	0	0	(445,623)	(445,623)		
Total Business - Type Activities	24,849,813	26,731,664	229,976	655,174	0	2,767,001	2,767,001		
Total Primary Government	\$ 171,086,870	\$ 34,812,278	\$ 37,672,311	\$ 9,873,144	(91,496,138)	2,767,001	(88,729,137)		
Component Units:									
Industrial Development Board	\$ 5,768,495	\$ 4,932,795	\$ 655,000	\$ 273,594				\$ 92,894	\$ 0
Emergency Communications District	467,413	665,698	0	0				0	198,285
Total Component Units	\$ 6,235,908	\$ 5,598,493	\$ 655,000	\$ 273,594				92,894	198,285
General Revenues:									
Property Taxes					47,144,856	0	47,144,856	0	0
Sales Taxes					27,514,740	0	27,514,740	0	0
Alcoholic Beverage Taxes					1,617,478	0	1,617,478	0	0
Occupational Licenses and Business Taxes					1,681,523	0	1,681,523	0	0
Hotel / Motel Taxes					1,380,588	0	1,380,588	0	0
Income Taxes					555,283	0	555,283	0	0
Grants and Contributions Not Restricted to Specific Programs					986,665	0	986,665	0	34,000
Unrestricted Investment Earnings					421,579	146,328	567,907	46,234	40,482
Miscellaneous					755,400	0	755,400	0	0
Transfers					(4,425,338)	4,425,338	0	0	0
Total General Revenues and Transfers					77,632,774	4,571,666	82,204,440	46,234	74,482
Change in Net Assets					(13,863,364)	7,338,667	(6,524,697)	139,128	272,767
Net Assets - Beginning					269,369,401	175,281,186	444,650,587	7,002,434	2,210,243
Prior Period Adjustment for Seized Cash					167,596	0	167,596	0	0
Net Assets - Ending					\$ 255,673,633	\$ 182,619,853	\$ 438,293,486	\$ 7,141,562	\$ 2,483,010

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash	\$ 6,552	\$ 0	\$ 0	\$ 0	\$ 1,711,718	\$ 1,718,270
Equity in Pooled Cash and Investments	11,249,000	5,953,124	74,440	3,503,786	1,403,524	22,183,874
Long-Term Certificates of Deposit	0	0	0	0	370,509	370,509
Investments	0	0	0	0	190,001	190,001
Taxes Receivable, net	33,774,843	0	0	0	0	33,774,843
Accounts Receivable, net	941,201	86,635	0	160,405	36,347	1,224,588
Accrued Interest Receivable	0	0	6,393	16	23,769	30,178
Due from Other Governments	4,545,346	17,645,819	0	70,790	2,654,594	24,916,549
Due from Other Funds	1,335,268	646,267	0	0	21,211	2,002,746
Due from Component Units	10,592	0	0	0	0	10,592
Inventories	2,901	9,462	0	0	148,066	160,429
Prepays	41,670	1,370	0	0	0	43,040
Cash - Restricted	0	0	10,082	29,739,487	0	29,749,569
Investments - Restricted	0	0	78,365	1,256,122	16,971	1,351,458
Total Assets	\$ 51,907,373	\$ 24,342,677	\$ 169,280	\$ 34,730,606	\$ 6,576,710	\$ 117,726,646
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 687,807	\$ 528,295	\$ 0	\$ 1,915,196	\$ 694,318	\$ 3,825,616
Compensated Absences Payable	981	24,630	0	0	0	25,611
Due to Other Governments	3,889	0	0	0	32,965	36,854
Due to Other Funds	0	0	0	198,480	1,320,788	1,519,268
Due to Component Units	20,019	0	0	294,182	0	314,201
Contracts Payable	0	0	0	325,741	0	325,741
Other Liabilities	2,763,929	4,900,905	0	0	1,208	7,666,042
Advances from Other Funds	1,048,981	0	0	0	0	1,048,981
Deferred Revenue	33,797,373	14,718,635	0	50,061	80,985	48,647,054
Total Liabilities	38,322,979	20,172,465	0	2,783,660	2,130,264	63,409,368

(continued)

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:						
Nonspendable:						
Inventory	2,901	9,462	0	0	148,066	160,429
Prepays	41,670	1,370	0	0	0	43,040
Allandale Trust Principal	0	0	0	0	152,691	152,691
Allandale Long Term Interest Receivable	0	0	0	0	23,769	23,769
Restricted for:						
Unspent Federal Forfeitures	0	0	0	0	16,971	16,971
Unspent Bond Proceeds	0	0	0	29,825,294	0	29,825,294
Unspent State Career Ladder	0	56,568	0	0	0	56,568
Committed to:						
School Textbooks	0	180,000	0	0	0	180,000
DB Track Maintenance Project	0	15,000	0	0	0	15,000
Assigned to:						
Fund Balance Allocations	1,419,523	0	0	0	0	1,419,523
Future Industrial Park	20,927	0	0	0	0	20,927
Education	0	3,907,812	0	0	2,063,418	5,971,230
Debt Service	0	0	169,280	0	0	169,280
Capital Projects	0	0	0	2,121,652	0	2,121,652
Community Development	0	0	0	0	18,095	18,095
Other Projects	0	0	0	0	124,229	124,229
Public Safety	0	0	0	0	700,394	700,394
Transportation	0	0	0	0	623,701	623,701
Culture and Recreation	0	0	0	0	553,512	553,512
Allandale	0	0	0	0	21,600	21,600
Unassigned	12,099,373	0	0	0	0	12,099,373
Total Fund Balances	<u>13,584,394</u>	<u>4,170,212</u>	<u>169,280</u>	<u>31,946,946</u>	<u>4,446,446</u>	<u>54,317,278</u>
Total Liabilities and Fund Balances	<u>\$ 51,907,373</u>	<u>\$ 24,342,677</u>	<u>\$ 169,280</u>	<u>\$ 34,730,606</u>	<u>\$ 6,576,710</u>	<u>\$ 117,726,646</u>

See accompanying notes to the basic financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2011

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

Total Fund Balance of Governmental Funds	\$ 54,317,278
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	322,552,344
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.	1,378,570
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,506,091
Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, employee health insurance, and retiree's health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	18,922,633
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(143,003,283)</u>
Net Assets of Governmental Activities	<u><u>\$ 255,673,633</u></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 Fiscal Year Ended June 30, 2011

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:						
Taxes	\$ 36,735,841	\$ 21,471,302	\$ 0	\$ 0	\$ 3,528,955	\$ 61,736,098
Licenses and Permits	339,843	0	0	0	0	339,843
Intergovernmental	20,241,878	23,769,742	301,391	302,665	13,003,036	57,618,712
Charges for Services	2,345,903	1,199,416	0	0	1,514,526	5,059,845
Fines and Forfeitures	1,243,032	0	0	0	232,882	1,475,914
Investment Earnings	68,235	0	203,502	1,597	12,288	285,622
Contributions and Donations	32,407	0	0	194,264	317,637	544,308
Miscellaneous	794,771	292,769	0	0	0	1,087,540
Total Revenues	<u>61,801,910</u>	<u>46,733,229</u>	<u>504,893</u>	<u>498,526</u>	<u>18,609,324</u>	<u>128,147,882</u>
EXPENDITURES:						
Current:						
General Government	8,182,493	0	0	0	754,963	8,937,456
Public Safety	18,350,902	0	0	0	251,473	18,602,375
Public Works	6,292,395	0	0	0	0	6,292,395
Economic and Physical Development	3,577,098	0	0	0	681,453	4,258,551
Transportation	0	0	0	0	4,404,721	4,404,721
Culture and Recreation	4,884,922	0	0	0	318,090	5,203,012
Education	0	54,335,425	0	0	9,609,430	63,944,855
Miscellaneous	1,179,584	0	0	0	0	1,179,584
Debt Service:						
Principal	0	0	5,271,066	0	0	5,271,066
Interest	0	0	4,930,280	0	0	4,930,280
Bond Issuance Costs	0	0	0	20,479	0	20,479
Other Costs	0	0	33,061	0	0	33,061
Capital Outlay	<u>710,173</u>	<u>177,200</u>	<u>0</u>	<u>18,755,206</u>	<u>577,228</u>	<u>20,219,807</u>
Total Expenditures	<u>43,177,567</u>	<u>54,512,625</u>	<u>10,234,407</u>	<u>18,775,685</u>	<u>16,597,358</u>	<u>143,297,642</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>18,624,343</u>	<u>(7,779,396)</u>	<u>(9,729,514)</u>	<u>(18,277,159)</u>	<u>2,011,966</u>	<u>(15,149,760)</u>
OTHER FINANCING SOURCES (USES):						
Transfers In	3,513,680	12,920,445	9,404,458	1,828,318	1,547,532	29,214,433
Transfers Out	(23,368,942)	(4,352,654)	(741)	(420,941)	(4,908,052)	(33,051,330)
Issuance of Debt	0	0	0	4,097,044	0	4,097,044
Premiums on Debt Issued	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(19,855,262)</u>	<u>8,567,791</u>	<u>9,403,717</u>	<u>5,504,421</u>	<u>(3,360,520)</u>	<u>260,147</u>
Net Change in Fund Balances	(1,230,919)	788,395	(325,797)	(12,772,738)	(1,348,554)	(14,889,613)
Fund Balances, July 1, 2010	14,729,151	3,381,817	495,077	44,719,684	5,713,566	69,039,295
Restatement For Fund Closing Due to GASB 54	86,162	0	0	0	(86,162)	0
Prior Period Adjustment for Seized Cash	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167,596</u>	<u>167,596</u>
Fund Balances, June 30, 2011	<u>\$ 13,584,394</u>	<u>\$ 4,170,212</u>	<u>\$ 169,280</u>	<u>\$ 31,946,946</u>	<u>\$ 4,446,446</u>	<u>\$ 54,317,278</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

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

Net Change in Fund Balance of Governmental Funds	\$ (14,889,613)
--	-----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation of general fixed assets.	7,273,792
---	-----------

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is a decrease to net assets.	(1,422,671)
---	-------------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	14,068
--	--------

Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, employee health insurance, and retiree health insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(1,014,934)
---	-------------

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds:	
Decrease in Compensated Absences	61,404
Increase in OPEB Liability	(4,973,055)
Decrease in Accrued Interest	201,729

The issuance of long term debt (e.g. bonds) provide current financial resources to governmental funds, while the repayment of the principal of long term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.	885,916
---	---------

Change in Net Assets of Governmental Activities	<u><u>\$ (13,863,364)</u></u>
---	-------------------------------

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Taxes:				
General Property	\$ 32,633,700	\$ 32,301,443	\$ 32,370,676	\$ 69,233
Gross Receipts	4,390,400	4,325,027	4,365,165	40,138
Licenses and Permits	563,900	339,188	339,843	655
Intergovernmental:				
Federal	0	15,784	43,638	27,854
State	5,211,700	4,694,794	4,700,459	5,665
County	14,979,000	15,190,529	15,214,239	23,710
Local	394,700	283,541	283,542	1
Charges for Services	1,948,300	2,312,620	2,345,903	33,283
Fines and Forfeitures	1,233,400	1,242,745	1,243,032	287
Investment Earnings	300,000	68,235	68,235	0
Contributions and Donations	50,000	32,407	32,407	0
Miscellaneous	502,300	794,686	794,771	85
Total Revenues	<u>62,207,400</u>	<u>61,600,999</u>	<u>61,801,910</u>	<u>200,911</u>
EXPENDITURES:				
General Government:				
Board of Mayor and Aldermen	166,940	145,467	138,433	7,034
Judicial	31,000	26,640	25,957	683
City Attorney	462,700	423,275	411,787	11,488
City Manager	441,700	437,375	424,473	12,902
Deputy City Manager	99,900	1,769	0	1,769
Assistant to City Manager	98,700	68,870	65,679	3,191
Budget Office	173,600	153,903	141,966	11,937
Special Programs	2,423,900	2,593,731	2,593,019	712
Public Information Office	182,300	162,513	157,111	5,402
Personnel	1,113,400	1,013,986	1,008,406	5,580
Purchasing	234,000	230,293	222,050	8,243
Finance Administration	1,638,300	1,567,136	1,555,319	11,817
Records Administration	91,500	76,571	69,310	7,261
Information Services	981,750	984,978	967,843	17,135
Geographic Information	317,100	332,016	325,341	6,675
Grant Office	74,160	78,989	75,799	3,190
Total General Government	<u>8,530,950</u>	<u>8,297,512</u>	<u>8,182,493</u>	<u>115,019</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public Safety:				
Police Administration	1,630,300	1,564,480	1,545,886	18,594
Jail Operations	340,700	340,215	334,729	5,486
Training	272,500	281,267	276,380	4,887
Traffic School	8,200	7,933	6,970	963
Investigations	1,494,500	1,740,492	1,721,884	18,608
Patrol Division	5,504,600	5,249,001	5,209,827	39,174
Animal Control	125,600	297,566	295,493	2,073
Central Dispatch	1,023,800	1,022,528	1,009,548	12,980
Communications	263,900	253,609	248,629	4,980
Fire Control and Prevention	7,748,800	7,724,331	7,701,556	22,775
Total Public Safety	<u>18,412,900</u>	<u>18,481,422</u>	<u>18,350,902</u>	<u>130,520</u>
Public Works:				
Administration	155,600	159,182	157,567	1,615
Streets and Sanitation Administration	275,500	274,846	270,032	4,814
Street Cleaning	452,700	353,375	348,082	5,293
Street Maintenance	1,847,600	1,897,304	1,889,734	7,570
Building Maintenance	1,627,800	1,549,567	1,541,174	8,393
Grounds Maintenance	1,098,300	1,091,452	1,086,346	5,106
Park Maintenance	537,800	543,161	535,257	7,904
Landscaping	549,700	472,137	464,203	7,934
Total Public Works	<u>6,545,000</u>	<u>6,341,024</u>	<u>6,292,395</u>	<u>48,629</u>
Economic and Physical Development:				
Administration	362,100	369,846	364,657	5,189
Planning	426,700	423,718	418,599	5,119
Transportation	1,075,700	1,070,482	1,063,870	6,612
Charter Bus Service	11,000	10,800	9,202	1,598
Engineering	1,170,600	1,163,209	1,150,989	12,220
Code Enforcement	574,400	576,988	569,781	7,207
Total Economic and Physical Development	<u>3,620,500</u>	<u>3,615,043</u>	<u>3,577,098</u>	<u>37,945</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Culture and Recreation:				
Administration	349,900	323,703	316,084	7,619
Adult Education	5,000	3,913	3,311	602
Parks and Recreation Centers	595,700	515,813	497,494	18,319
Lynn View	161,900	65,189	60,265	4,924
Swimming Pools	148,100	152,516	146,844	5,672
Athletics	725,200	709,937	702,250	7,687
Cultural Arts	278,100	288,582	283,396	5,186
Allandale	204,400	201,059	195,607	5,452
Senior Citizens Center	526,500	507,228	497,784	9,444
Bays Mountain Park	1,078,300	1,044,638	1,032,240	12,398
Library	1,203,900	1,164,062	1,149,647	14,415
Total Culture and Recreation	5,277,000	4,976,640	4,884,922	91,718
Miscellaneous	474,178	1,186,348	1,179,584	6,764
Capital Outlay	138,900	721,536	710,173	11,363
Total Expenditures	42,999,428	43,619,525	43,177,567	441,958
Excess of Revenues Over Expenditures	19,207,972	17,981,474	18,624,343	642,869
Other Financing Sources (Uses):				
Transfers In	3,531,200	3,511,976	3,513,680	1,704
Transfers Out	(23,863,572)	(23,535,835)	(23,368,942)	166,893
Net Other Financing Sources (Uses)	(20,332,372)	(20,023,859)	(19,855,262)	168,597
Net Change in Fund Balances	(1,124,400)	(2,042,385)	(1,230,919)	811,466
Fund Balances, July 1, 2010	1,124,400	2,042,385	14,729,151	12,686,766
Restatement For Fund Closing Due to GASB 54	0	0	86,162	86,162
Fund Balances, June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,584,394</u>	<u>\$ 13,584,394</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 Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
County Taxes:				
Property Taxes	\$ 14,916,000	\$ 14,717,000	\$ 14,755,275	\$ 38,275
Gross Receipts Taxes	6,412,000	6,547,000	6,673,582	126,582
Other Taxes	62,000	62,000	42,445	(19,555)
Intergovernmental:				
Federal	293,950	408,300	341,904	(66,396)
State	22,513,600	23,574,400	23,427,838	(146,562)
County	0	836,491	0	(836,491)
Charges for Services	1,201,300	1,232,700	1,199,416	(33,284)
Miscellaneous	255,000	303,120	292,769	(10,351)
Total Revenues	<u>45,653,850</u>	<u>47,681,011</u>	<u>46,733,229</u>	<u>(947,782)</u>
EXPENDITURES:				
Instruction:				
Regular	28,003,103	29,204,740	28,481,974	722,766
Special Education	4,377,500	4,402,098	4,310,885	91,213
Vocational	1,411,000	1,448,682	1,418,136	30,546
Adult Education	144,950	201,572	176,812	24,760
Total Instruction	<u>33,936,553</u>	<u>35,257,092</u>	<u>34,387,807</u>	<u>869,285</u>
Student Support Services:				
Attendance	51,700	51,700	51,370	330
Health Services	542,116	555,546	525,535	30,011
Other	1,974,150	2,098,848	2,046,518	52,330
Total Student Support Services	<u>2,567,966</u>	<u>2,706,094</u>	<u>2,623,423</u>	<u>82,671</u>
Instructional Staff Support Services:				
Regular	2,713,268	3,114,290	2,810,594	303,696
Special Education	370,350	388,350	386,242	2,108
Vocational	139,200	140,500	139,397	1,103
Adult Education	121,500	132,890	99,334	33,556
Total Instructional Staff Support Services	<u>3,344,318</u>	<u>3,776,030</u>	<u>3,435,567</u>	<u>340,463</u>
General Administrative Support Services:				
Board of Education	1,212,600	1,213,379	1,174,904	38,475
Office of Superintendent	1,112,500	1,104,078	1,007,630	96,448
Total General Administrative Support Services	<u>2,325,100</u>	<u>2,317,457</u>	<u>2,182,534</u>	<u>134,923</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
GENERAL PURPOSE SCHOOL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
School Administrative Support Services	2,679,572	2,721,344	2,712,201	9,143
Business Administrative Support Services	301,400	321,284	319,340	1,944
Operations and Maintenance Support Services:				
Operations	4,216,939	4,209,197	4,139,563	69,634
Plant Maintenance	1,802,950	2,433,364	2,422,675	10,689
Total Operations and Maintenance Support Services	6,019,889	6,642,561	6,562,238	80,323
Student Transportation Support Services	1,441,000	1,394,688	1,271,213	123,475
Noninstructional Services:				
After School Programs	332,150	348,165	306,701	41,464
Community Service	544,650	580,520	534,401	46,119
Total Noninstructional Services	876,800	928,685	841,102	87,583
Capital Outlay	1,347,952	633,424	177,200	456,224
Total Expenditures	54,840,550	56,698,659	54,512,625	2,186,034
Deficiency of Revenues Under Expenditures	(9,186,700)	(9,017,648)	(7,779,396)	1,238,252
OTHER FINANCING SOURCES (USES):				
Transfers In	12,942,600	13,175,949	12,920,445	(255,504)
Transfers Out	(3,755,900)	(5,264,894)	(4,352,654)	912,240
Total Other Financing Sources (Uses)	9,186,700	7,911,055	8,567,791	656,736
Net Change in Fund Balances	0	(1,106,593)	788,395	1,894,988
Fund Balances, July 1, 2010	0	1,106,593	3,381,817	2,275,224
Fund Balances, June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,170,212</u>	<u>\$ 4,170,212</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business - Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
ASSETS:							
Current Assets:							
Cash with Fiscal Agent	\$ 36,762	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36,762	\$ 0
Equity in Pooled Cash and Investments	8,628,416	7,540,674	59,828	143,163	0	16,372,081	7,755,095
Accounts Receivable, Net	1,770,166	1,755,487	78,387	53,931	35,958	3,693,929	709,045
Accrued Interest Receivable	8,718	0	0	0	0	8,718	15,296
Due from Other Governments	0	2,078,722	0	0	0	2,078,722	0
Due from Other Funds	0	0	0	0	0	0	198,480
Due from Component Units	10,715	14,796	0	0	0	25,511	0
Inventories	556,516	0	0	0	107,208	663,724	412,954
Prepays	40,561	0	0	0	0	40,561	172,708
Total Current Assets	11,051,854	11,389,679	138,215	197,094	143,166	22,920,008	9,263,578
Noncurrent Assets:							
Restricted Assets:							
Cash	97,108	383,219	0	135,000	0	615,327	0
Cash from Unspent Bonds	1,576,958	5,217,269	198	4,326	0	6,798,751	0
Long Term Certificates of Deposit	56,000	0	0	0	0	56,000	2,000,000
Investments	520,360	1,001,349	6,854	155,674	3,808	1,688,045	1,638,673
Total Restricted Assets	2,250,426	6,601,837	7,052	295,000	3,808	9,158,123	3,638,673
Capital Assets:							
Land	728,245	902,852	1,308,121	1,515,497	981,600	5,436,315	14,695
Buildings and Systems	95,310,650	145,872,202	179,577	22,371,413	810,601	264,544,443	0
Improvements Other Than Buildings	0	0	2,200,702	395,506	6,116,093	8,712,301	0
Software	66,400	0	0	0	0	66,400	0
Machinery and Equipment	1,042,159	732,633	503,873	1,037,929	434,260	3,750,854	23,535,658
Construction in Progress	11,374,670	41,825,499	408,188	17,984,733	0	71,593,090	0
Less: Accumulated Depreciation	(36,862,998)	(55,418,252)	(1,388,389)	(8,441,632)	(3,597,200)	(105,708,471)	(16,922,617)
Total Capital Assets	71,659,126	133,914,934	3,212,072	34,863,446	4,745,354	248,394,932	6,627,736
Other Assets:							
Advances to Other Funds	0	0	0	0	0	0	1,427,033
Deposits	0	0	0	0	0	0	157,500
Unamortized Bond Costs	207,405	307,194	6,834	321,557	3,764	846,754	0
Total Other Assets	207,405	307,194	6,834	321,557	3,764	846,754	1,584,533
Total Noncurrent Assets	74,116,957	140,823,965	3,225,958	35,480,003	4,752,926	258,399,809	11,850,942
Total Assets	85,168,811	152,213,644	3,364,173	35,677,097	4,896,092	281,319,817	21,114,520

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business - Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
LIABILITIES:							
Current Liabilities:							
Accounts Payable	769,037	1,244,102	154,551	181,863	26,256	2,375,809	513,750
Due to Other Governments	90,273	0	0	0	0	90,273	490
Due to Other Funds	0	0	0	0	681,958	681,958	0
Compensated Absences Payable	260,403	166,740	91,974	0	0	519,117	98,068
Retainages Payable	97,108	383,219	0	50,000	0	530,327	0
Arbitrage Rebate Payable	47,436	111,836	0	0	0	159,272	0
Matured Bonds Payable	35,262	0	0	0	0	35,262	0
Matured Interest Payable	1,500	0	0	0	0	1,500	0
Accrued Interest Payable	147,491	320,446	7,841	205,937	0	681,715	0
General Obligation Bonds - Current	2,022,244	3,607,756	25,000	600,000	105,000	6,360,000	0
State Revolving Loan Current	136,212	985,365	0	0	0	1,121,577	0
Other Payables	292,723	15,465	0	0	0	308,188	1,579,579
Total Current Liabilities	3,899,689	6,834,929	279,366	1,037,800	813,214	12,864,998	2,191,887
Noncurrent Liabilities:							
General Obligation Bonds Payable (Net of Deferred Refunding Costs, Discounts and Premiums)	19,856,675	24,445,668	574,310	15,160,505	617,000	60,654,158	0
State Revolving Loan Payable	817,240	22,349,643	0	0	0	23,166,883	0
Advances from Other Funds	0	0	378,052	0	0	378,052	0
OPEB Liability	801,873	467,118	316,159	0	0	1,585,150	0
Post Closure Liability	0	0	50,723	0	0	50,723	0
Total Noncurrent Liabilities	21,475,788	47,262,429	1,319,244	15,160,505	617,000	85,834,966	0
Total Liabilities	25,375,477	54,097,358	1,598,610	16,198,305	1,430,214	98,699,964	2,191,887
NET ASSETS:							
Invested in Capital Assets, Net of Related Debt	50,403,713	87,743,771	2,612,960	19,107,267	4,023,354	163,891,065	6,627,736
Restricted for Debt Service	146,308	1,001,349	6,854	1,431	0	1,155,942	0
Restricted for Capital Improvements	0	0	0	271,300	4,884	276,184	0
Unrestricted	9,243,313	9,371,166	(854,251)	98,794	(562,360)	17,296,662	12,294,897
Total Net Assets	\$ 59,793,334	\$ 98,116,286	\$ 1,765,563	\$ 19,478,792	\$ 3,465,878	\$ 182,619,853	\$ 18,922,633

See accompanying notes to the basic financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSFORT, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Business - Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
OPERATING REVENUES:							
Charges and Fees	\$ 11,928,787	\$ 11,944,288	\$ 815,553	\$ 303,648	\$ 938,658	\$ 25,930,934	\$ 14,449,026
Penalties and Fines	407,881	139,851	0	0	0	547,732	0
Miscellaneous	46,837	192,303	13,858	0	0	252,998	1,278,357
Total Operating Revenue	12,383,505	12,276,442	829,411	303,648	938,658	26,731,664	15,727,383
OPERATING EXPENSES:							
Operating Costs	6,827,682	4,226,465	3,914,923	866,893	1,094,271	16,930,234	14,875,303
Depreciation	2,466,050	3,411,180	84,592	607,782	276,617	6,846,221	1,440,298
Total Operating Expenses	9,293,732	7,637,645	3,999,515	1,474,675	1,370,888	23,776,455	16,315,601
Operating Income (Loss)	3,089,773	4,638,797	(3,170,104)	(1,171,027)	(432,230)	2,955,209	(588,218)
NONOPERATING REVENUES AND EXPENSES:							
Investment Earnings	50,244	71,255	1,064	23,717	48	146,328	135,956
Federal Interest Subsidy	81,352	122,055	6,111	20,458	0	229,976	0
Interest Expense	(292,956)	(550,503)	(9,673)	(104,957)	(9,087)	(967,176)	0
Gain (Loss) on Disposal of Fixed Assets	(22,029)	0	0	0	0	(22,029)	25,769
Amortization Expense	(21,761)	(39,387)	(534)	(18,165)	(4,306)	(84,153)	0
Total Nonoperating Revenues and Expenses	(205,150)	(396,580)	(3,032)	(78,947)	(13,345)	(697,054)	161,725
Income (Loss) Before Capital Contributions and Transfers	2,884,623	4,242,217	(3,173,136)	(1,249,974)	(445,575)	2,258,155	(426,493)
Capital Contributions	18,525	636,649	0	0	0	655,174	0
Transfers In	105,304	0	3,100,000	2,292,917	1,510,197	7,008,418	91,559
Transfers Out	(1,309,401)	(1,273,679)	0	0	0	(2,583,080)	(680,000)
Change in Net Assets	1,699,051	3,605,187	(73,136)	1,042,943	1,064,622	7,338,667	(1,014,934)
Net Assets, July 1, 2010	58,094,283	94,511,099	1,838,699	18,435,849	2,401,256	175,281,186	19,937,567
Net Assets, June 30, 2011	\$ 59,793,334	\$ 98,116,286	\$ 1,765,563	\$ 19,478,792	\$ 3,465,878	\$ 182,619,853	\$ 18,922,633

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Business - Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers and Users	\$ 12,447,685	\$ 11,882,716	\$ 800,538	\$ 284,973	\$ 1,053,902	\$ 26,469,814	\$ 0
Receipts from Interfund Services Provided	98,604	213,145	0	0	0	311,749	15,023,430
Payments to Suppliers	(3,136,672)	(2,043,857)	(2,304,790)	(2,568,422)	(1,087,087)	(11,140,828)	(12,975,819)
Payments to Employees	(3,836,772)	(2,247,795)	(1,538,013)	0	0	(7,622,580)	(1,522,838)
Net Cash Provided (Used) by Operating Activities	5,572,845	7,804,209	(3,042,265)	(2,283,449)	(33,185)	8,018,155	524,773
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers from Other Funds	105,304	0	3,100,000	2,292,917	1,510,197	7,008,418	0
Transfers to Other Funds	(1,309,401)	(1,273,679)	0	0	0	(2,583,080)	(680,000)
Due to or from Other Funds	0	0	0	(89,830)	(913,730)	(1,003,560)	(198,480)
Advances to or from Other Funds	0	0	(174,878)	0	0	(174,878)	(483,197)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,204,097)	(1,273,679)	2,925,122	2,203,087	596,467	3,246,900	(1,361,677)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from Capital Debt	57,220	2,099,517	0	0	0	2,156,737	0
Capital Transfers from Other Funds	0	0	0	0	0	0	91,559
Acquisition and Construction of Capital Assets	(5,255,110)	(8,966,829)	(17,442)	(8,994,615)	0	(23,233,996)	(961,480)
Principal Paid on Capital Debt	(2,243,548)	(3,843,650)	(23,750)	(585,000)	(568,500)	(7,264,448)	0
Interest Paid on Capital Debt	(271,263)	(555,575)	(6,240)	(104,105)	(9,087)	(946,270)	0
Proceeds from Sales of Capital Assets	0	0	0	0	0	0	25,769
Net Cash Used by Capital and Related Financing Activities	(7,712,701)	(11,266,537)	(47,432)	(9,683,720)	(577,587)	(29,287,977)	(844,152)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from Sales and Maturities of Investments	0	0	0	362,565	14,257	376,822	1,634,118
Purchase of Investments	(54,321)	(865,020)	(6,623)	0	0	(925,964)	0
Interest Received	47,106	71,255	1,064	31,647	48	151,120	246,368
Net Cash Provided (Used) by Investing Activities	(7,215)	(793,765)	(5,559)	394,212	14,305	(398,022)	1,880,486
Net Increase (Decrease) In Cash and Cash Equivalents	(3,351,168)	(5,529,772)	(170,134)	(9,369,870)	0	(18,420,944)	199,430
Cash and Cash Equivalents, July 1, 2010	13,690,412	18,670,934	230,160	9,652,359	0	42,243,865	7,555,665
Cash and Cash Equivalents, June 30, 2011	\$ 10,339,244	\$ 13,141,162	\$ 60,026	\$ 282,489	\$ 0	\$ 23,822,921	\$ 7,755,095

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Business - Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	Governmental Activities - Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating Income (Loss)	\$ 3,089,773	\$ 4,638,797	\$ (3,170,104)	\$ (1,171,027)	\$ (432,230)	\$ 2,955,209	\$ (588,218)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation	2,466,050	3,411,180	84,592	607,782	276,617	6,846,221	1,440,298
(Increase) Decrease in Assets:							
Accounts Receivable	193,978	3,467	(22,070)	(18,675)	115,244	271,944	(703,953)
Inventory	(140,252)	0	0	0	9,812	(130,440)	(46,448)
Deposits	0	0	0	0	0	0	(127,500)
Prepays	(1,533)	0	0	0	0	(1,533)	(17,220)
Increase (Decrease) in Liabilities:							
Accounts Payable	(215,203)	518,390	(42,771)	(1,428,300)	(2,628)	(1,170,512)	292,533
Benefits Payable	0	0	0	0	0	0	275,728
Compensated Absences Payable	7,216	18,757	(5,390)	0	0	20,583	(447)
OPEB Liability	172,497	104,450	69,558	0	0	346,505	0
Post Closure Liability	0	0	50,723	0	0	50,723	0
Arbitrage Payable	(28,880)	(184,048)	(6,803)	0	0	(219,731)	0
Other Payables	(62,411)	(61,370)	0	0	0	(123,781)	0
Retainages Payable	91,610	(645,414)	0	(273,229)	0	(827,033)	0
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,572,845</u>	<u>\$ 7,804,209</u>	<u>\$ (3,042,265)</u>	<u>\$ (2,283,449)</u>	<u>\$ (33,185)</u>	<u>\$ 8,018,155</u>	<u>\$ 524,773</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:							
Cash with Fiscal Agent	\$ 36,762	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36,762	\$ 0
Equity in Pooled Cash and Investments	8,628,416	7,540,674	59,828	143,163	0	16,372,081	7,755,095
Restricted Cash from Unspent Bonds	1,576,958	5,217,269	198	4,326	0	6,798,751	0
Restricted Cash	97,108	383,219	0	135,000	0	615,327	0
Cash and Cash Equivalents, June 30, 2011	<u>\$ 10,339,244</u>	<u>\$ 13,141,162</u>	<u>\$ 60,026</u>	<u>\$ 282,489</u>	<u>\$ 0</u>	<u>\$ 23,822,921</u>	<u>\$ 7,755,095</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:							
Capital Assets Contributed by Developers	<u>\$ 18,525</u>	<u>\$ 51,714</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,239</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Reporting entity

Primary Government

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Reporting entity (continued)

Discretely Presented Component Units

Proprietary Fund Type

The Industrial Development Board of the City of Kingsport, Tennessee (IDBK) – The IDBK was incorporated on February 11, 1986, under the provisions of the State of Tennessee constitution and general statutes. The purpose of the IDBK is to finance, acquire, own, lease, and/or dispose of properties to maintain and increase employment opportunities in the City. The IDBK consists of nine members, all of whom are appointed by the City's BMA. Due to the close relationship between the City and the IDBK, it seems likely the City could impose their will on the IDBK, and therefore IDBK is considered a component unit of the City of Kingsport. 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. Due to the close relationship between the City and the ECD, it seems likely the City could impose their will on the ECD, and therefore ECD is considered a component unit of the City of Kingsport. Separately issued financial statements may be requested from the ECD administrative offices.

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

B. Government-wide and fund financial statements

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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. 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 and reported in another fund. The primary financial resources reported in the general fund are, local property taxes, local option sales taxes, and state shared revenues.

The *general purpose school fund* is used to account for and report transactions of the City School System. The major sources of funding are state-shared revenues, local property taxes, and local option sales taxes.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets related to the general operation of the City (excluding types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments).

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for 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* is a special revenue fund used to account for and report federal and state financial resources, as well as user fees for the specific activities associated with the operation of the City School System cafeterias.

The *special school projects fund* is a special revenue fund used to account for and report financial resources derived from federal and state grants related to school projects.

The *public law 93-380 fund* is a special revenue fund used to account for and report restricted federal financial resources, specific to academic programs associated with federal grant entitlements.

The *Palmer Center fund* is a special revenue fund used to account for and report 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* is a special revenue fund used to account for and report federal and state grants matched with local revenues to fund general government programs or non-capital improvement projects.

The *community development fund* is a special revenue fund used to account for and report activities funded by community block grant entitlements from the United States Department of Housing and Urban Development.

The *federal transit administration fund* is a special revenue fund used to account for and report activities funded by federal and state grants for support of local government transportation programs.

The *state street aid fund* is a special revenue fund used to account for and report activities funded by state gasoline taxes.

The *drug fund* is a special revenue fund used to account for and report financial resources primarily derived from fines and forfeitures and used to support the City's police department drug investigations and enforcement programs.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The *criminal forfeiture fund* is a special revenue fund used to account for and report 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* is a special revenue fund used to account for and report the proceeds from a \$.0025 (1/4 ¢) local option 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 including the Cattails Golf Course and future Aquatics Center.

The *public library commission fund* is a special revenue fund used to account for and report contributions from patrons, civic organizations, private corporations, and other supporters of the Kingsport Public Library.

The *Bays Mountain Park fund* is a special revenue fund used to account for and report contributions from individuals, civic organizations and private corporations for the support and continued development of the Bays Mountain Park.

The *Steadman cemetery fund* is a special revenue fund used to account for and report 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* is a special revenue fund used to account for and report financial resources derived from various programs and events conducted by participating senior citizens and contributions from individuals, civic organizations and private corporations.

The *metropolitan planning office fund* is a special revenue fund used to account for and report grant funds received from the federal highway administration, federal transit administration, and State of Tennessee for support of local MPO programs.

The *justice assistance grant fund* is a special revenue fund used to account for and report direct federal grant funds received from the Edward Byrne Memorial Justice Assistance Grant Program. These funds are restricted for certain law enforcement programs.

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

The *Allandale Trust fund* is a permanent fund used to account for and report restricted, nonexpendable assets left to the City by the late Harvey Brooks, consisting of his home (Allandale Mansion) and other tangible and intangible assets.

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

D. Assets, liabilities and net assets or equity

1. Deposits and investments

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

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

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

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

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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 "advances to/from other funds". 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 Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

5. Capital assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Debt service interest for business-type activities totaled \$3,282,516, with \$967,176 being expensed and \$2,315,340 being capitalized related to capital assets under construction as detailed in the respective funds as follows:

	Water Fund	Sewer Fund	Solid Waste Management Fund	Meadowview Conference Resort and Convention Center Fund	Cattails at Meadowview Golf Course Fund	Total Business - Type Activities
Interest Expensed	\$ 292,956	\$ 550,503	\$ 9,673	\$ 104,957	\$ 9,087	\$ 967,176
Capitalized Interest	<u>396,912</u>	<u>1,368,460</u>	<u>17,442</u>	<u>532,526</u>	<u>0</u>	<u>2,315,340</u>
Debt Service Interest	<u>\$ 689,868</u>	<u>\$ 1,918,963</u>	<u>\$ 27,115</u>	<u>\$ 637,483</u>	<u>\$ 9,087</u>	<u>\$3,282,516</u>

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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.

It is also the City's policy to permit employees from certain departments of the City to accumulate earned but unused compensation time (comp time) for excess hours worked in lieu of overtime payments. The unpaid balance of reimbursable unused comp time is accrued when incurred in the government-wide, 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.

Because of the City's policy limits on the amount of accumulated compensated absences an employee can carry forward and the fact that this benefit is available to be taken as soon as it is earned, the entire outstanding balance is considered a current liability and recorded as compensated absences payable on the statement of net assets rather than as long-term debt. Compensated absences accrued in proprietary or internal service funds are liquidated from the individual fund where they are accrued. Compensated absences accrued on the statement of net assets as governmental activities will primarily be liquidated from the general fund.

Changes in compensated absences for the fiscal year ending June 30, 2011 are as follows:

Compensated Absences, Beginning of Year	\$ 3,603,589
Compensated Absences Earned in FY2011	3,240,195
Compensated Absences Used in FY2011	<u>(3,301,276)</u>
Compensated Absences, End of Year	<u><u>\$ 3,542,508</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

Effective July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Governmental fund equity is classified as fund balance. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash (for example: inventories, prepaid amounts, and long-term notes receivable).

Restricted Fund Balance – includes amounts that are (a) externally restricted by creditors, grantors, contributors, or laws or regulations of other governments, or (b) restricted by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision making authority, the Board of Mayor and Aldermen. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the (a) City’s Board of Mayor and Aldermen, or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Unassigned Fund Balance – is a residual classification for the general fund and includes all spendable amounts not contained in the other classifications. It is also used for any negative fund balances in other funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

9. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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 a 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 \$322,552,344 difference are as follows:

Governmental funds capital assets	\$ 516,674,529
Less: accumulated depreciation	<u>(194,122,185)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ 322,552,344</u></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 \$1,506,091 difference are as follows:

Deferred bond issuance costs	\$ 2,014,363
Less: accumulated amortization	<u>(508,272)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ 1,506,091</u></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 \$(143,003,283) difference are as follows:

Bonds payable, net of deferred refunding, premiums, and discounts	\$(107,563,297)
Notes payable	(7,567,620)
Interlocal cooperative agreements	(1,720,000)
Capital outlay notes payable	(1,228,000)
Compensated absences	(2,899,712)
OPEB liability	(20,457,743)
Accrued interest payable	<u>(1,566,911)</u>
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$(143,003,283)</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation of general fixed assets.” The details of this \$7,273,792 difference are as follows:

Capital outlays	\$ 20,219,807
Depreciation expense	<u>(12,946,015)</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><u>\$ 7,273,792</u></u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is a decrease to net assets.” The details of this (\$1,422,671) difference are as follows:

Capital asset donations reported in statement of activities	\$ 6,166,800
Capital asset roads annexed reported in statement of activities	1,755,970
Capital project expenditures not meeting capitalization requirements	(6,998,327)
Asset disposals	<u>(2,347,114)</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><u>\$ (1,422,671)</u></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 \$14,068 difference are as follows:

Deferred property taxes as of June 30, 2011	\$ 1,378,570
Prior years' property taxes collected during current year	<u>(1,364,502)</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><u>\$ 14,068</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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

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

Another element of that reconciliation states that “the net revenue of certain activities of internal service funds is reported with governmental activities.” The details of this \$(1,014,934) difference are as follows:

Investment earnings	\$ 135,956
Gain on disposal of capital assets	25,769
Operating loss	(588,218)
Transfers In	91,559
Transfers Out	<u>(680,000)</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>\$ (1,014,934)</u>

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 \$885,916 difference are as follows:

Principal payments	\$ 5,271,066
Interlocal cooperative agreement payments	500,000
New interlocal agreement	(720,000)
Issuance of general obligation bonds and notes payable	(4,097,044)
Amortization of premiums, discounts and refunding costs	10,322
Bond issue costs	20,479
Amortization of deferred bond issue costs	<u>(98,907)</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>\$ 885,916</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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

C. Fund Balance Classification

As provided for in GASB Statement No. 54, governmental fund balances by classification, as of June 30, 2011 are as follows:

Fund Balances:	Major Governmental Funds				Other	Total
	General Fund	General Purpose Schools Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds	Governmental Funds
<i>Nonspendable:</i>						
Inventory	\$ 2,901	\$ 9,462	\$ 0	\$ 0	\$ 148,066	\$ 160,429
Prepays	41,670	1,370	0	0	0	43,040
Allandale Trust Principal	0	0	0	0	152,691	152,691
Allandale Long Term Interest Receivable	0	0	0	0	23,769	23,769
Total Nonspendable	44,571	10,832	0	0	324,526	379,929
<i>Restricted for:</i>						
Unspent Federal Forfeitures	0	0	0	0	16,971	16,971
Unspent Bond Proceeds	0	0	0	29,825,294	0	29,825,294
Unspent State Career Ladder	0	56,568	0	0	0	56,568
Total Restricted	0	56,568	0	29,825,294	16,971	29,898,833
<i>Committed to:</i>						
School Textbooks	0	180,000	0	0	0	180,000
DB Track Maintenance Project	0	15,000	0	0	0	15,000
Total Committed	0	195,000	0	0	0	195,000
<i>Assigned to:</i>						
Fund Balance Allocations	1,419,523		0	0	0	1,419,523
Future Industrial Park	20,927		0	0	0	20,927
Debt Service	0	0	169,280	0	0	169,280
Capital Projects	0	0	0	2,121,652	0	2,121,652
Other Projects	0	0	0	0	124,229	124,229
Community Development	0	0	0	0	18,095	18,095
Allandale Fund	0	0	0	0	21,600	21,600
Education:						
General Purpose School Fund	0	3,907,812	0	0	0	3,907,812
School Nutrition Fund	0	0	0	0	1,974,797	1,974,797
School Projects Fund - Safe Schools	0	0	0	0	23,004	23,004
Palmer Center Fund	0	0	0	0	65,617	65,617
Public Safety:						
Criminal Forfeiture Fund	0	0	0	0	89,306	89,306
Drug Fund	0	0	0	0	611,088	611,088
Transportation:						
Federal Transit Fund	0	0	0	0	330,776	330,776
MPO Fund	0	0	0	0	277,239	277,239
State Street Aid Fund	0	0	0	0	15,686	15,686
Culture and Recreation:						
Regional Sales Tax Fund	0	0	0	0	105,514	105,514
Visitors Enhancement Fund	0	0	0	0	327,018	327,018
Steadman Cemetery Fund	0	0	0	0	18,854	18,854
Library Commission Fund	0	0	0	0	1,167	1,167
Bays Mountain Park Fund	0	0	0	0	46,042	46,042
Senior Citizens Fund	0	0	0	0	54,917	54,917
Total Assigned	1,440,450	3,907,812	169,280	2,121,652	4,104,949	11,744,143
<i>Unassigned:</i>	12,099,373	0	0	0	0	12,099,373
Total Fund Balances	\$ 13,584,394	\$ 4,170,212	\$ 169,280	\$ 31,946,946	\$ 4,446,446	\$ 54,317,278

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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

D. Change in beginning fund balance

Restatement

With the implementation of GASB No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, it was determined a restatement of beginning fund balance was necessary. The restrictions on the specified revenue stream consisting of property tax received from the annexation of the Long Island area owned by Eastman, Inc., for the special revenue fund, Eastman Annexation Tax Fund, had expired. Without a dedicated revenue source, the fund did not comply with GASB No. 54. Therefore, the assets of this fund were closed into the General Fund.

The following discloses the restatement of governmental fund balances as of the beginning of the fiscal year:

	<u>General Fund</u>	<u>Other Governmental Funds</u>
Fund Balances, July 1, 2010, as previously stated:	\$ 14,729,151	\$ 5,713,566
Increase (decrease) due to reclassification of special revenue fund	<u>86,162</u>	<u>(86,162)</u>
Fund Balances, July 1, 2010, as restated	<u>\$ 14,815,313</u>	<u>\$ 5,627,404</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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 fiscal year.

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

Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as Assigned Fund Balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2011, there were no instances of expenditures exceeding appropriations in any funds.

C. Deficit fund equity

For the fiscal year ended June 30 2011, there were no instances of deficit fund equity in any funds.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS:

A. Deposits and investments

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

Custodial Credit Rate Risk

Deposits

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

At year end, the City's carrying amount of deposits was \$85,186,317 and the bank balance was \$87,199,317. Of the bank balance, \$1,250,000 was covered by federal depository insurance with the remaining balance of \$85,949,317 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 \$376,786 and the bank balance was \$592,875. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law, as effective December 31, 2010 through December 31, 2012, to provide separate and unlimited deposit insurance coverage for non-interest bearing transaction accounts. This coverage is in addition to the permanent \$250,000 federal deposit insurance coverage (FDIC) in effect. Therefore, of the bank balance, \$367,397 was covered by the Dodd-Frank Act, with the remaining balance of \$225,478 being covered by FDIC. In addition, \$592,864 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 \$2,271,274 and the bank balance was \$2,339,150. The ECD's entire bank balance was either insured by the federal depository insurance corporation (FDIC), or collateralized through 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.

Investments

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

The City's investments generally include long-term certificates of deposit placed at local banks or money market deposits with the State of Tennessee Local Government Investment Pool (LGIP).

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

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011**

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments (continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in Years)</u>
Certificate of Deposit	\$ 2,426,509	1.04
Tennessee Local Government Investment Pool	<u>4,868,177</u>	0.30
Total	<u><u>\$ 7,294,686</u></u>	

The City does not have a policy for determining which investments will be recorded at amortized cost. No investments are recorded at amortized cost at June 30, 2011.

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 Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of June 30, 2011 for the City's individual major funds, nonmajor funds, 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	Meadow View Conference Resort and Convention Center	Cattails at Meadow View Golf Course	Internal Service	NonMajor and Other Funds	Total Primary Government	Component Units
Receivables:												
Taxes	\$ 34,736,849	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 34,736,849	\$ 0
Accounts	1,123,214	130,858	160,405	1,839,264	2,021,527	102,582	53,931	35,958	709,045	36,347	6,213,131	52,572
Intergovernmental	4,545,346	17,645,819	70,790	0	2,078,722	0	0	0	0	2,654,594	26,995,271	19,475
Gross receivables	40,405,409	17,776,677	231,195	1,839,264	4,100,249	102,582	53,931	35,958	709,045	2,690,941	67,945,251	72,047
Less: Allowances for uncollectibles	(1,144,019)	(44,223)	0	(69,098)	(266,040)	(24,195)	0	0	0	0	(1,547,575)	0
Net total receivables	<u>\$ 39,261,390</u>	<u>\$ 17,732,454</u>	<u>\$ 231,195</u>	<u>\$ 1,770,166</u>	<u>\$ 3,834,209</u>	<u>\$ 78,387</u>	<u>\$ 53,931</u>	<u>\$ 35,958</u>	<u>\$ 709,045</u>	<u>\$ 2,690,941</u>	<u>\$ 66,397,676</u>	<u>\$ 72,047</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	\$ 81,924
Uncollectibles related to general activities	118,001
Uncollectibles related to school activities	(1,500)
Uncollectibles related to water sales	(4,147)
Uncollectibles related to sewer charges	13,104
Uncollectibles related to solid waste charges	2,085
Total uncollectibles of the current fiscal year	<u>\$ 209,467</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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)	\$ 0	\$ 32,143,803
Delinquent property taxes receivable (general fund)	1,378,570	0
Other taxes receivable (general fund)	0	275,000
Property taxes receivable (general purpose school fund)	0	14,710,000
Service fees not yet earned (general purpose school fund)	0	8,635
Receipts for meals not yet served (school nutrition services)	0	38,207
Grant drawdowns (special school project fund)	0	21,500
Grant drawdowns (public law 93-380 fund)	0	6,770
Grant drawdowns (justice assistance grant fund)	0	2,508
Grant drawdowns (special revenue general project fund)	0	12,000
Grant drawdowns (capital project fund)	0	50,061
	<u>0</u>	<u>50,061</u>
Total deferred / unearned revenue for governmental funds	<u>\$ 1,378,570</u>	<u>\$ 47,268,484</u>

Property taxes which are delinquent at year end are earned but not available. The tax year 2011 property taxes are unearned and unavailable, but are recorded as receivable on the lien date, as described in Note 1. Unearned revenue is considered a liability in the government wide statement of net assets. However deferred revenue at the fund financial statement level includes both unearned and unavailable revenues.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2011, was as follows:

Primary government

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 19,595,394	\$ 5,959,900	\$ (2,218,079)	\$ 0	\$ 23,337,215
Construction in Progress	67,961,891	11,017,428	(25,785,728)	0	53,193,591
Total capital assets, not being depreciated	87,557,285	16,977,328	(28,003,807)	0	76,530,806
Capital assets, being depreciated:					
Buildings	117,312,394	23,959,687	(65,187)	0	141,206,894
Improvements other than buildings	14,982,438	443,699	(111,395)	0	15,314,742
Equipment	33,297,462	4,125,090	(1,117,376)	0	36,305,176
Software	304,032	162,814	0	0	466,846
Infrastructure	268,180,369	2,220,049	0	0	270,400,418
Total capital assets, being depreciated	434,076,695	30,911,339	(1,293,958)	0	463,694,076
Less accumulated depreciation for:					
Buildings	(55,448,731)	(5,378,108)	64,636	0	(60,762,203)
Improvements other than buildings	(8,877,646)	(1,207,871)	79,929	0	(10,005,588)
Equipment	(24,305,195)	(2,229,601)	1,023,149	0	(25,511,647)
Software	(197,266)	(57,117)	0	0	(254,383)
Infrastructure	(108,997,365)	(5,513,616)	0	0	(114,510,981)
Total accumulated depreciation	(197,826,203)	(14,386,313)	1,167,714	0	(211,044,802)
Total capital assets, being depreciated, net	236,250,492	16,525,026	(126,244)	0	252,649,274
Governmental activities capital assets, net	\$ 323,807,777	\$ 33,502,354	\$ (28,130,051)	\$ 0	\$ 329,180,080

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
<u>Water</u>					
Land	\$ 639,744	\$ 88,501	\$ 0	\$ 0	\$ 728,245
Construction in Progress	18,210,715	4,482,694	(11,318,739)	0	11,374,670
<u>Sewer</u>					
Land	814,352	88,500	0	0	902,852
Construction in Progress	34,663,347	7,216,734	(54,582)	0	41,825,499
<u>Solid Waste Management</u>					
Land	1,308,121	0	0	0	1,308,121
Construction in Progress	408,188	0	0	0	408,188
<u>MeadowView Conference Resort and Convention Center</u>					
Land	1,515,497	0	0	0	1,515,497
Construction in Progress	9,613,032	8,371,701	0	0	17,984,733
<u>Cattails at MeadowView Golf Course</u>					
Land	981,600	0	0	0	981,600
Total capital assets, not being depreciated	68,154,596	20,248,130	(11,373,321)	0	77,029,405
Capital assets, being depreciated:					
<u>Water</u>					
Buildings and system	83,444,733	12,004,171	(138,254)	0	95,310,650
Equipment and machinery	1,094,216	18,202	(70,259)	0	1,042,159
Software	66,400	0	0	0	66,400
<u>Sewer</u>					
Buildings and system	144,250,290	1,621,912	0	0	145,872,202
Equipment and machinery	705,833	147,978	(121,178)	0	732,633
<u>Solid Waste Management</u>					
Buildings and system	162,135	17,442	0	0	179,577
Improvements other than buildings	2,200,702	0	0	0	2,200,702
Equipment and machinery	503,873	0	0	0	503,873
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	21,838,887	532,526	0	0	22,371,413
Improvements other than buildings	395,506	0	0	0	395,506
Equipment	947,541	90,388	0	0	1,037,929
<u>Cattails at MeadowView Golf Course</u>					
Buildings	810,601	0	0	0	810,601
Improvements other than buildings	6,116,093	0	0	0	6,116,093
Equipment	435,538	0	(1,278)	0	434,260
Total capital assets, being depreciated	262,972,348	14,432,619	(330,969)	0	277,073,998

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Less accumulated depreciation for:					
<u>Water</u>					
Buildings and system	(33,754,365)	(2,415,356)	116,034	0	(36,053,687)
Equipment and machinery	(813,485)	(37,416)	69,257	0	(781,644)
Software	(14,387)	(13,280)	0	0	(27,667)
<u>Sewer</u>					
Buildings and system	(51,475,876)	(3,383,096)	0	0	(54,858,972)
Equipment and machinery	(650,375)	(28,084)	119,179	0	(559,280)
<u>Solid Waste Management</u>					
Buildings and system	(81,166)	(4,900)	0	0	(86,066)
Improvements other than buildings	(1,081,881)	(23,846)	0	0	(1,105,727)
Equipment and machinery	(140,750)	(55,846)	0	0	(196,596)
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	(6,697,502)	(542,574)	0	0	(7,240,076)
Improvements other than buildings	(250,345)	(46,995)	0	0	(297,340)
Equipment	(886,003)	(18,213)	0	0	(904,216)
<u>Cattails at MeadowView Golf Course</u>					
Buildings	(245,977)	(20,571)	0	0	(266,548)
Improvements other than buildings	(2,720,089)	(239,631)	0	0	(2,959,720)
Equipment	(355,796)	(16,413)	1,277	0	(370,932)
Total accumulated depreciation	(99,167,997)	(6,846,221)	305,747	0	(105,708,471)
Total capital assets, being depreciated, net	163,804,351	7,586,398	(25,222)	0	171,365,527
Business-type activities capital assets, net	<u>\$ 231,958,947</u>	<u>\$ 27,834,528</u>	<u>\$ (11,398,543)</u>	<u>\$ 0</u>	<u>\$ 248,394,932</u>

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

Governmental activities:	
General government	\$ 686,351
Economic and physical development	332,482
Public safety	875,758
Public works	6,242,360
Culture and recreation	1,070,852
Education	5,178,510
Total depreciation expense - governmental activities	<u>\$ 14,386,313</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Primary government (continued)

Business-type activities:	
Water	\$ 2,466,050
Sewer	3,411,180
Solid Waste Management	84,592
MeadowView Conference Resort and Convention Center	607,782
Cattails at MeadowView Golf Course	<u>276,617</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 6,846,221</u></u>

Construction commitments

The City has active construction projects as of June 30, 2011. 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 \$29,825,294 through bonded debt. In the proprietary funds, funding for construction projects has been provided and is in segregated deposit and investment accounts totaling \$6,798,751. 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, 2011, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital assets, being depreciated:					
Signs	\$ 55,422	\$ 0	\$ 0	\$ 0	\$ 55,422
Improvements other than buildings	<u>20,303</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,303</u>
Total capital assets, being depreciated	<u>75,725</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>75,725</u>
Less accumulated depreciation for:					
Signs	(48,422)	(3,084)	0	0	(51,506)
Improvements other than buildings	<u>(20,303)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(20,303)</u>
Total accumulated depreciation	<u>(68,725)</u>	<u>(3,084)</u>	<u>0</u>	<u>0</u>	<u>(71,809)</u>
Total capital assets, being depreciated, net	<u>7,000</u>	<u>(3,084)</u>	<u>0</u>	<u>0</u>	<u>3,916</u>
IDBK capital assets, net	<u><u>\$ 7,000</u></u>	<u><u>\$ (3,084)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 3,916</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Discretely presented component units (continued)

Activity for the ECD for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Capital assets, being depreciated:					
Equipment	\$ 718,202	\$ 0	\$ 0	\$ 0	\$ 718,202
Total capital assets, being depreciated	718,202	0	0	0	718,202
Less accumulated depreciation for:					
Equipment	(575,262)	(43,981)	0	0	(619,243)
Total accumulated depreciation	(575,262)	(43,981)	0	0	(619,243)
Total capital assets, being depreciated, net	142,940	(43,981)	0	0	98,959
ECD capital assets, net	\$ 142,940	\$ (43,981)	\$ 0	\$ 0	\$ 98,959

D. Interfund receivables, payables, and transfers

Interfund receivables and payables

The composition of interfund balances as of June 30, 2011, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General (major)	Cattails at MeadowView Golf Course (major)	\$ 660,747
	State Street Aid (nonmajor)	101,678
	Community Development (nonmajor)	30,305
	Justice Assistance Grant Fund (nonmajor)	65,210
	Regional Sales Tax Fund (nonmajor)	477,328
General Purpose School (major)	Public Law 93-380 (nonmajor)	491,891
	Special School Projects (nonmajor)	130,115
	School Food Nutrition Services (nonmajor)	24,261
Regional Sales Tax (nonmajor)	Cattails at MeadowView Golf Course (major)	21,211
Fleet Maintenance (nonmajor)	Capital Projects (major)	198,480
Total		<u>\$ 2,201,226</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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.

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Fleet Maintenance (major)	General (major)	\$ 1,048,981
	Solid Waste Management (major)	<u>378,052</u>
Total		<u>\$ 1,427,033</u>

Advances to/from other funds represent interfund loans with established repayment schedules that span over one year and are subject to interest rates ranging from 2.5% to 5.3%.

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government-General Fund	Component unit - IDBK	\$ 10,592
Primary government-Water Fund	Component unit - IDBK	10,715
Primary government-Sewer Fund	Component unit - IDBK	14,796
Component unit - IDBK	Primary government-General Fund	(20,019)
Component unit - IDBK	Primary government-Capital Projects Fund	<u>(294,182)</u>
Total		<u>\$ (278,098)</u>

The City of Kingsport's primary government is also liable to their component unit Industrial Development Board for certain agreements that are reported as long-term notes payable. The total amounts due under these agreements at June 30, 2011 are \$1,720,000. The amounts due in one year related to these agreements are \$620,000.

Interfund transfers

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

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

Interfund transfers (continued)

Transfers in:														
Transfers out:	General	General Purpose School	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental	Water	Solid Waste Management	Meadow View Conference Resort and Convention Center	Cattails at Meadow View	Total Proprietary	Fleet Maintenance	Total Internal Service	Total
General	\$ 0	\$ 12,776,081	\$ 5,010,164	\$ 935,165	\$ 1,547,532	\$ 20,268,942	\$ 0	\$ 3,100,000	\$ 0	\$ 0	\$ 3,100,000	\$ 0	\$ 0	\$ 23,368,942
General Purpose School	234,213	0	3,294,680	732,202	0	4,261,095	0	0	0	0	0	91,559	91,559	4,352,654
Debt Service	0	0	0	741	0	741	0	0	0	0	0	0	0	741
Capital Projects	0	0	420,941	0	0	420,941	0	0	0	0	0	0	0	420,941
Nonmajor Governmental	121,691	144,364	678,673	160,210	0	1,104,938	0	0	2,292,917	1,510,197	3,803,114	0	0	4,908,052
Total Governmental	355,904	12,920,445	9,404,458	1,828,318	1,547,532	26,056,657	0	3,100,000	2,292,917	1,510,197	6,903,114	91,559	91,559	33,051,330
Water	1,309,401	0	0	0	0	1,309,401	0	0	0	0	0	0	0	1,309,401
Sewer	1,168,375	0	0	0	0	1,168,375	105,304	0	0	0	105,304	0	0	1,273,679
Total Proprietary	2,477,776	0	0	0	0	2,477,776	105,304	0	0	0	105,304	0	0	2,583,080
Fleet Maintenance	680,000	0	0	0	0	680,000	0	0	0	0	0	0	0	680,000
Total Internal Service	680,000	0	0	0	0	680,000	0	0	0	0	0	0	0	680,000
Total	\$ 3,513,680	\$ 12,920,445	\$ 9,404,458	\$ 1,828,318	\$ 1,547,532	\$ 29,214,433	\$ 105,304	\$ 3,100,000	\$ 2,292,917	\$ 1,510,197	\$ 7,008,418	\$ 91,559	\$ 91,559	\$ 36,314,410

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt

The City of Kingsport routinely issues and retires a variety of long-term debt instruments each year for both general governmental activities and business-type activities. Long-term debt issued for general governmental activities is recorded in the General Long-Term Debt account group and paid from the Debt Service Fund, with the exception of the HUD Section 108 loan, which is paid from annual entitlement allocations through Community Development Block Grant (CDBG) projects. Long-term debt issued for business-type activities is recorded in and paid from the applicable enterprise fund.

Governmental Activities:

During the fiscal year ended June 30, 2011, the City issued two new loans totaling \$5,856,000 related to general governmental activities. A \$5,000,000 loan through the State of Tennessee Energy Efficient Schools Initiative is being utilized for energy efficiency improvement projects to ten school buildings along with several support facilities within the City. An \$856,000 loan issued through the U.S. Department of Housing and Urban Development was used to construct a new community center located in a residential area of the City known as the Riverview Community.

Notes Payable

The City issued a Note Payable with the State of Tennessee as a loan for Qualified Zone Academy Projects in November 1999 for \$413,697 with a maturity date of November 11, 2011. Annual principal payments are \$34,483 and the interest rate is 0.00%. As of June 30, 2011, \$34,483 is outstanding.

The City issued a loan with the State of Tennessee for Qualified Zone Academy Projects in November 2004 for \$3,524,680 with a maturity date of November 2020. Annual principal payments are \$220,293 and the interest rate is 0.00%. As of June 30, 2011, \$2,202,925 is outstanding.

The City issued a loan with the State of Tennessee for the Qualified Zone Academy Bonds in December 2005 for \$1,549,000 with a maturity date of December 2020. Annual principal payments are \$103,267 and the interest rate is 0.00%. As of June 30, 2011, \$1,032,666 is outstanding.

The City issued a General Obligation Capital Outlay Note, Series 2007 on May 2, 2007 for \$1,600,000 for energy management improvement projects. The note has an annual interest rate of 4.12% with a maturity date of May 2019. As of June 30, 2011, \$1,228,000 is outstanding.

The City issued a Local Government Energy Efficiency Note on May 25, 2007 for \$475,000 for energy efficiency improvement projects. The note has an interest rate of 0.00% with a maturity date of July 15, 2014. As of June 30, 2011, \$271,429 is outstanding.

In December 2009, the City issued a loan with the State of Tennessee for Qualified School Construction Bonds in the amount of \$1,240,000, with an interest rate of 1.515% and a maturity date of September 2026. A total of \$228,053 of the loan has been utilized for eligible expenditures during the fiscal year, leaving \$1,011,947 invested in the State of Tennessee Local Government Investment Pool (LGIP). Principal payments of \$70,927 were made during the fiscal year, reducing the principal amount outstanding as of June 30, 2011, to \$1,169,073.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Notes Payable (continued)

In July 2010, the City issued a HUD Section 108 loan with the U.S. Department of Housing and Urban Development (HUD) in the amount of \$856,000 with a maturity date of August 2030. Annual principal payments are \$43,000 and the interest rate ranges from 3.00% to 5.00%. As of June 30, 2011, \$856,000 is outstanding.

In December 2010, the City issued a loan with the State of Tennessee Energy Efficient Schools Initiative in the amount of \$5,000,000 with an annual interest rate of 0.75%. As of June 30, 2011, \$2,001,044 in principal had been drawn and recognized as outstanding. Annual repayments of principal will begin 60 days after the total project is completed.

Payments to maturity on the notes payable are as follows:

Fiscal Year Ending June 30	1999 QZAB	2004 QZAB	2005 QZAB	2009 QSCB	Capital Outlay Note	Energy Efficiency Loan	HUD 108 Loan	School Energy Efficiency Loan
2012	\$ 34,483	\$ 220,293	\$ 103,266	\$ 77,376	\$ 133,000	\$ 67,857	\$ 43,000	\$ 399,696
2013	0	220,292	103,266	77,376	139,000	67,857	43,000	402,708
2014	0	220,293	103,267	77,376	144,000	67,857	43,000	405,744
2015	0	220,292	103,266	77,376	150,000	67,858	43,000	408,792
2016	0	220,293	103,267	77,376	156,000	0	43,000	411,864
2017	0	220,292	103,266	77,376	162,000	0	43,000	414,972
2018	0	220,293	103,267	77,376	169,000	0	43,000	418,092
2019	0	220,292	103,267	77,376	175,000	0	43,000	421,236
2020	0	220,293	103,267	77,376	0	0	43,000	424,404
2021	0	220,292	103,267	77,376	0	0	43,000	427,608
2022	0	0	0	77,376	0	0	43,000	430,824
2023	0	0	0	77,376	0	0	43,000	397,892
2024	0	0	0	77,376	0	0	43,000	36,168
2025	0	0	0	77,376	0	0	43,000	0
2026	0	0	0	84,990	0	0	43,000	0
2027	0	0	0	819	0	0	43,000	0
2028	0	0	0	0	0	0	43,000	0
2029	0	0	0	0	0	0	43,000	0
2030	0	0	0	0	0	0	43,000	0
2031	0	0	0	0	0	0	39,000	0
	<u>\$ 34,483</u>	<u>\$ 2,202,925</u>	<u>\$ 1,032,666</u>	<u>\$ 1,169,073</u>	<u>\$ 1,228,000</u>	<u>\$ 271,429</u>	<u>\$ 856,000</u>	<u>\$ 5,000,000</u>

Interlocal Cooperative Agreements

The City entered into an interlocal cooperative agreement in October 2006 to contribute \$2,500,000 to IDBK for the purchase of property for commercial development in the City. This contribution is to be made in five installments of \$500,000 per year beginning July 2008. As of June 30, 2011, \$1,000,000 is outstanding.

The City entered into an interlocal agreement effective June 30, 2011 to contribute \$720,000 to IDBK for financing incentives related to the former Quebecor property. This contribution will be paid in six installments of \$120,000 per year beginning August 2011. As of June 30, 2011, \$720,000 is outstanding.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

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:

Debt Service Fund	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2011
2003 General Obligation	04/01, 10/01	12/01/03	\$ 7,900,000	2.000%-4.200%	\$ 4,385,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	5,825,000	2.200%-5.000%	3,900,000
2004 General Obligation School	05/01, 11/01	12/06/04	2,850,000	3.000%-4.000%	1,770,000
2005 General Obligation	02/01, 08/01	12/06/05	2,826,250	3.750%-5.000%	2,060,625
2006 General Obligation	02/01, 08/01	12/20/06	13,320,000	3.625%-4.100%	12,250,000
2007 General Obligation	08/01, 02/01	06/08/07	19,360,000	4.000%-5.000%	17,840,000
2008-A General Obligation	03/01, 09/01	06/12/08	7,480,000	3.500%-4.375%	6,920,000
2008-B General Obligation	03/01, 09/01	06/12/08	11,165,000	3.500%-4.375%	10,330,000
2009-A General Obligation	03/01, 09/01	01/22/09	12,160,000	2.000%-5.000%	11,685,000
2009-B General Obligation	03/01, 09/01	01/22/09	7,100,000	2.000%-5.000%	6,825,000
2009-D BABS General Obligation	03/01, 09/01	12/08/09	14,982,043	2.000%-5.000%	14,982,043
2009-E General Obligation	03/01, 09/01	12/08/09	14,225,000	2.000%-5.000%	14,225,000
Total General Obligation Bonds (before deferred debt refunding costs of (\$554,000) and net premiums and discounts of \$944,629)					<u>\$ 107,172,668</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 560,000	\$ 169,489	\$ 729,489
2013	580,000	149,889	729,889
2014	600,000	129,589	729,589
2015	625,000	107,089	732,089
2016	650,000	82,870	732,870
2017	670,000	56,870	726,870
2018	700,000	29,400	729,400
	<u>\$ 4,385,000</u>	<u>\$ 725,196</u>	<u>\$ 5,110,196</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 985,000	\$ 181,775	\$ 1,166,775
2013	1,040,000	142,375	1,182,375
2014	1,085,000	90,375	1,175,375
2015	565,000	36,125	601,125
2016	225,000	7,875	232,875
	<u>\$ 3,900,000</u>	<u>\$ 458,525</u>	<u>\$ 4,358,525</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (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
2012	\$ 200,000	\$ 67,003	\$ 267,003
2013	200,000	60,002	260,002
2014	200,000	53,003	253,003
2015	220,000	45,802	265,802
2016	225,000	37,663	262,663
2017	225,000	29,000	254,000
2018	250,000	20,000	270,000
2019	250,000	10,000	260,000
	<u>\$ 1,770,000</u>	<u>\$ 322,473</u>	<u>\$ 2,092,473</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
2012	\$ 175,000	\$ 80,090	\$ 255,090
2013	175,000	73,527	248,527
2014	183,750	66,965	250,715
2015	192,500	57,777	250,277
2016	201,250	48,153	249,403
2017	218,750	38,090	256,840
2018	218,750	31,527	250,277
2019	227,500	24,965	252,465
2020	231,875	18,140	250,015
2021	236,250	9,155	245,405
	<u>\$ 2,060,625</u>	<u>\$ 448,389</u>	<u>\$ 2,509,014</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 565,000	\$ 482,421	\$ 1,047,421
2013	585,000	459,821	1,044,821
2014	610,000	437,884	1,047,884
2015	630,000	415,009	1,045,009
2016	655,000	391,384	1,046,384
2017	680,000	367,640	1,047,640
2018	710,000	342,990	1,052,990
2019	735,000	314,590	1,049,590
2020	765,000	285,190	1,050,190
2021	795,000	254,590	1,049,590
2022	830,000	222,790	1,052,790
2023	865,000	189,590	1,054,590
2024	900,000	154,990	1,054,990
2025	935,000	118,990	1,053,990
2026	975,000	81,590	1,056,590
2027	1,015,000	41,615	1,056,615
	<u>\$ 12,250,000</u>	<u>\$ 4,561,084</u>	<u>\$ 16,811,084</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 810,000	\$ 751,587	\$ 1,561,587
2013	840,000	719,188	1,559,188
2014	875,000	685,587	1,560,587
2015	910,000	650,587	1,560,587
2016	945,000	614,188	1,559,188
2017	1,000,000	566,937	1,566,937
2018	1,040,000	516,938	1,556,938
2019	1,075,000	475,337	1,550,337
2020	1,115,000	432,338	1,547,338
2021	1,160,000	387,738	1,547,738
2022	1,210,000	339,887	1,549,887
2023	1,260,000	289,975	1,549,975
2024	1,315,000	238,000	1,553,000
2025	1,370,000	182,113	1,552,113
2026	1,425,000	123,888	1,548,888
2027	1,490,000	63,325	1,553,325
	<u>\$ 17,840,000</u>	<u>\$ 7,037,613</u>	<u>\$ 24,877,613</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 295,000	\$ 281,138	\$ 576,138
2013	305,000	270,812	575,812
2014	315,000	258,613	573,613
2015	330,000	246,012	576,012
2016	340,000	232,813	572,813
2017	355,000	219,212	574,212
2018	370,000	206,788	576,788
2019	380,000	191,987	571,987
2020	400,000	176,788	576,788
2021	415,000	160,787	575,787
2022	430,000	144,188	574,188
2023	450,000	126,987	576,987
2024	465,000	108,425	573,425
2025	485,000	88,663	573,663
2026	505,000	68,050	573,050
2027	530,000	46,587	576,587
2028	550,000	24,063	574,063
	<u>\$ 6,920,000</u>	<u>\$ 2,851,913</u>	<u>\$ 9,771,913</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 440,000	\$ 419,675	\$ 859,675
2013	455,000	404,275	859,275
2014	470,000	386,075	856,075
2015	490,000	367,275	857,275
2016	510,000	347,675	857,675
2017	530,000	327,275	857,275
2018	550,000	308,725	858,725
2019	570,000	286,725	856,725
2020	595,000	263,925	858,925
2021	620,000	240,125	860,125
2022	645,000	215,325	860,325
2023	670,000	189,525	859,525
2024	695,000	161,887	856,887
2025	725,000	132,350	857,350
2026	755,000	101,538	856,538
2027	790,000	69,450	859,450
2028	820,000	35,875	855,875
	<u>\$ 10,330,000</u>	<u>\$ 4,257,700</u>	<u>\$ 14,587,700</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009A, issued January 22, 2009 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 480,000	\$ 467,406	\$ 947,406
2013	495,000	455,406	950,406
2014	505,000	443,032	948,032
2015	520,000	427,881	947,881
2016	540,000	412,281	952,281
2017	555,000	396,081	951,081
2018	570,000	379,432	949,432
2019	590,000	362,331	952,331
2020	610,000	338,731	948,731
2021	635,000	314,331	949,331
2022	660,000	288,932	948,932
2023	685,000	262,531	947,531
2024	720,000	231,706	951,706
2025	750,000	199,306	949,306
2026	785,000	165,557	950,557
2027	820,000	129,250	949,250
2028	860,000	88,250	948,250
2029	905,000	45,250	950,250
	<u>\$ 11,685,000</u>	<u>\$ 5,407,694</u>	<u>\$ 17,092,694</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009B, issued January 22, 2009 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 280,000	\$ 272,781	\$ 552,781
2013	290,000	265,781	555,781
2014	295,000	258,531	553,531
2015	305,000	249,681	554,681
2016	315,000	240,531	555,531
2017	325,000	231,081	556,081
2018	335,000	221,332	556,332
2019	345,000	210,443	555,443
2020	355,000	196,644	551,644
2021	370,000	182,444	552,444
2022	385,000	167,644	552,644
2023	400,000	152,244	552,244
2024	420,000	135,244	555,244
2025	440,000	116,344	556,344
2026	455,000	96,544	551,544
2027	480,000	75,500	555,500
2028	500,000	51,500	551,500
2029	530,000	26,500	556,500
	<u>\$ 6,825,000</u>	<u>\$ 3,150,769</u>	<u>\$ 9,975,769</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009D BABS, issued December 08, 2009 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 0	\$ 699,779	\$ 699,779
2013	689,123	699,779	1,388,902
2014	694,795	684,274	1,379,069
2015	706,138	663,429	1,369,567
2016	720,318	639,596	1,359,914
2017	740,169	612,583	1,352,752
2018	760,020	583,901	1,343,921
2019	757,184	549,698	1,306,882
2020	779,872	515,624	1,295,496
2021	805,395	479,553	1,284,948
2022	825,246	441,296	1,266,542
2023	850,769	401,064	1,251,833
2024	884,799	358,524	1,243,323
2025	884,800	314,282	1,199,082
2026	910,323	268,934	1,179,257
2027	941,518	221,141	1,162,659
2028	972,713	170,532	1,143,245
2029	1,009,579	115,815	1,125,394
2030	1,049,282	59,024	1,108,306
	<u>\$ 14,982,043</u>	<u>\$ 8,478,828</u>	<u>\$ 23,460,871</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2011, the City's Debt Service Fund paid \$559,726 in BABS interest, while the Federal government paid an additional \$301,391 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009E, issued December 08, 2009 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 0	\$ 534,675	\$ 534,675
2013	585,000	534,675	1,119,675
2014	600,000	520,050	1,120,050
2015	620,000	503,550	1,123,550
2016	635,000	484,950	1,119,950
2017	655,000	465,900	1,120,900
2018	675,000	446,250	1,121,250
2019	695,000	424,312	1,119,312
2020	720,000	399,988	1,119,988
2021	760,000	363,987	1,123,987
2022	790,000	333,588	1,123,588
2023	815,000	305,937	1,120,937
2024	845,000	277,413	1,122,413
2025	875,000	243,612	1,118,612
2026	915,000	208,613	1,123,613
2027	950,000	172,012	1,122,012
2028	985,000	134,013	1,119,013
2029	1,030,000	92,150	1,122,150
2030	1,075,000	48,375	1,123,375
	<u>\$ 14,225,000</u>	<u>\$ 6,494,050</u>	<u>\$ 20,719,050</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 4,790,000	\$ 4,407,819	\$ 9,197,819
2013	6,239,123	4,235,530	10,474,653
2014	6,433,545	4,013,978	10,447,523
2015	6,113,638	3,770,217	9,883,855
2016	5,961,568	3,539,979	9,501,547
Next Five Years	29,125,765	14,268,418	43,394,183
Next Five Years	31,205,937	8,248,066	39,454,003
Next Five Years	17,303,092	1,710,227	19,013,319
	<u>\$ 107,172,668</u>	<u>\$ 44,194,234</u>	<u>\$ 151,366,902</u>

The total on the statement of net assets has been adjusted by deferred debt refunding costs of (\$554,000) and net premiums and discounts of \$944,629.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities

There were no new issuances of long-term debt instruments related to the business-type activities of the City during the fiscal year ended June 30, 2011.

Notes Payable

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

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2011</u>
<u>Water Fund:</u>				
State Revolving Loan - DWF#98-009	03/25/98	\$ 1,937,015	3.675%	<u>\$ 953,452</u>
<u>Sewer Fund:</u>				
State Revolving Loan - SRF#98-119	02/28/99	\$ 2,364,929	3.550%	\$ 1,211,796
State Revolving Loan - SRF#99-123	06/28/99	2,731,550	3.550%	1,475,512
State Revolving Loan - SRF#07-200	07/15/07	2,850,000	3.200%	1,346,749
State Revolving Loan - SRF#07-197	11/29/07	19,366,647	3.140%	18,225,092
State Revolving Loan - SRF#09-240	07/20/09	2,200,000	2.880%	<u>1,075,859</u>
Total				<u>\$ 23,335,008</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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 20 year financing for the following projects:

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 136,212	\$ 32,760	\$ 168,972
2013	141,300	27,672	168,972
2014	146,592	22,392	168,984
2015	152,064	16,908	168,972
2016	157,752	11,220	168,972
2017	163,644	5,328	168,972
2018	55,888	428	56,316
	<u>\$ 953,452</u>	<u>\$ 116,708</u>	<u>\$ 1,070,160</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 164,028	\$ 40,368	\$ 204,396
2013	169,944	34,452	204,396
2014	176,076	28,320	204,396
2015	182,436	21,960	204,396
2016	189,012	15,384	204,396
2017	195,840	8,556	204,396
2018	134,460	1,800	136,260
	<u>\$ 1,211,796</u>	<u>\$ 150,840</u>	<u>\$ 1,362,636</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Notes Payable (continued)

A \$2,731,550 line to provide for sewer line improvements in the Reedy Creek drainage basin areas.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 186,540	\$ 49,368	\$ 235,908
2013	193,272	42,636	235,908
2014	200,244	35,664	235,908
2015	207,468	28,440	235,908
2016	214,956	20,952	235,908
2017	222,708	13,188	235,896
2018	230,748	5,160	235,908
2019	19,576	58	19,634
	<u>\$ 1,475,512</u>	<u>\$ 195,466</u>	<u>\$ 1,670,978</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Notes Payable (continued)

A \$2,850,000 line to provide for sewer line improvements in the West Kingsport area was available. The project was completed at a total cost of \$1,384,279 and the City expects no future draws will be made. Principal repayment began in October 2010, reducing the amount outstanding as of June 30, 2011, to \$1,346,749.

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 51,456	\$ 42,348	\$ 93,804
2013	53,136	40,668	93,804
2014	54,852	38,952	93,804
2015	56,640	37,164	93,804
2016	58,476	35,328	93,804
2017	60,372	33,432	93,804
2018	62,328	31,476	93,804
2019	64,356	29,448	93,804
2020	66,444	27,360	93,804
2021	68,604	25,200	93,804
2022	70,836	22,968	93,804
2023	73,140	20,664	93,804
2024	75,504	18,300	93,804
2025	77,964	15,840	93,804
2026	80,496	13,308	93,804
2027	83,112	10,692	93,804
2028	85,812	7,992	93,804
2029	88,596	5,208	93,804
2030	91,464	2,340	93,804
2031	23,161	122	23,283
	<u>\$ 1,346,749</u>	<u>\$ 458,810</u>	<u>\$ 1,805,559</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Notes Payable (continued)

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

A \$19,366,647 credit line is available for upgrades to the City's waste water treatment facility. As of June 30, 2011, \$18,225,092 had been drawn and recorded as outstanding. The City began making principal payments in October 2011. The City will be allowed one final draw at which time the repayment schedule will be recalculated. Debt service requirements to maturity for the current outstanding balance is as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 553,170	\$ 470,410	\$ 1,023,580
2013	683,172	545,124	1,228,296
2014	704,940	523,356	1,228,296
2015	727,392	500,904	1,228,296
2016	750,564	477,732	1,228,296
2017	774,468	453,828	1,228,296
2018	799,152	429,144	1,228,296
2019	824,604	403,692	1,228,296
2020	850,872	377,424	1,228,296
2021	877,980	350,316	1,228,296
2022	905,940	322,356	1,228,296
2023	934,812	293,484	1,228,296
2024	964,584	263,712	1,228,296
2025	995,316	232,980	1,228,296
2026	1,027,020	201,276	1,228,296
2027	1,059,732	168,564	1,228,296
2028	1,093,500	134,796	1,228,296
2029	1,128,336	99,960	1,228,296
2030	1,164,276	64,020	1,228,296
2031	1,201,368	26,928	1,228,296
2032	203,894	812	204,706
	<u>\$ 18,225,092</u>	<u>\$ 6,340,818</u>	<u>\$ 24,565,910</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Notes Payable (continued)

A \$2,200,000 credit line is available for upgrades to the waste water treatment facility. This credit line is funded 50% by the State of Tennessee and 50% through federal ARRA funds. The loan will be paid over 20 years. As of June 30, 2011, \$1,793,098 had been drawn from the credit line. The loan provides for 40% of each principal draw to be "forgiven". The principal forgiven for fiscal years 2010 and 2011 was \$132,304 and \$584,935 respectively, and has been included in income. The City began making principal payments in September 2011. The City will be allowed one final draw at which time the repayment schedule will be recalculated. The principal amount of the loan outstanding at June 30, 2011 is \$1,075,859.

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 30,171	\$ 22,950	\$ 53,121
2013	41,254	29,574	70,828
2014	42,457	28,371	70,828
2015	43,697	27,131	70,828
2016	44,971	25,857	70,828
2017	46,284	24,544	70,828
2018	47,635	23,193	70,828
2019	49,025	21,803	70,828
2020	50,455	20,373	70,828
2021	51,928	18,900	70,828
2022	53,444	17,384	70,828
2023	55,003	15,825	70,828
2024	56,609	14,219	70,828
2025	58,260	12,568	70,828
2026	59,960	10,868	70,828
2027	61,710	9,118	70,828
2028	63,511	7,317	70,828
2029	65,365	5,463	70,828
2030	67,272	3,556	70,828
2031	69,235	1,593	70,828
2032	17,613	83	17,696
	<u>\$ 1,075,859</u>	<u>\$ 340,690</u>	<u>\$ 1,416,549</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Notes Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 1,121,577	\$ 658,204	\$ 1,779,781
2013	1,282,078	720,126	2,002,204
2014	1,325,161	677,055	2,002,216
2015	1,369,697	632,507	2,002,204
2016	1,415,731	586,473	2,002,204
Next Five Years	5,717,371	2,304,651	8,022,022
Next Five Years	5,488,888	1,475,752	6,964,640
Next Five Years	6,346,450	547,669	6,894,119
Next Five Years	221,507	895	222,402
	<u>\$ 24,288,460</u>	<u>\$ 7,603,332</u>	<u>\$ 31,891,792</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable

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

	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2011
<u>Solid Waste Management Fund</u>					
2005 General Obligation	02/01, 08/01	12/06/05	\$ 403,750	3.000%-5.000%	\$ 294,375
2009-D BABS General Obligation	03/01, 09/01	12/08/09	303,404	2.250%-5.625%	<u>303,404</u>
Total Solid Waste Management Fund (before bond premiums of \$1,531)					<u>\$ 597,779</u>
<u>MeadowView Conference Resort and Convention Center Fund</u>					
2009-C Local Option Sales Tax Revenue and Tax Bonds	03/01, 09/01	01/22/09	\$ 15,180,000	2.000%-5.000%	\$ 14,595,000
2009-D BABS General Obligation	03/01, 09/01	12/08/09	1,016,085	2.250%-5.625%	<u>1,016,085</u>
Total MeadowView Conference Resort and Convention Center Fund (before bond premiums of \$149,420)					<u>\$ 15,611,085</u>
<u>Cattails at MeadowView Golf Course Fund</u>					
1998 Golf Course-TMBF	Monthly	1998	\$ 1,450,000	Variable	<u>\$ 722,000</u>
Total Cattails at MeadowView Golf Course Fund					<u>\$ 722,000</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

<u>Water 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, 2011</u>
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	\$ 1,315,000	2.000%-4.200%	\$ 730,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	4,126,955	2.050%-5.000%	2,240,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	2,200,000	3.500%-5.000%	1,600,000
2004 Water and Sewer Revenue and Tax	05/01, 11/01	12/06/04	1,625,000	2.750%-4.125%	1,015,000
2005 Water and Sewer Revenue and Tax	02/01, 08/01	12/06/05	870,000	3.000%-5.000%	635,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	316,463	3.750%-5.000%	271,254
2008 Water and Sewer Revenue and Tax	03/01, 09/01	06/12/08	1,200,000	3.500%-4.250%	1,065,000
2008 Tennessee Municipal Bond Fund	Monthly	10/15/08	9,800,000	Variable	8,868,196
2009-D BABS General Obligation	03/01, 09/01	12/08/09	4,045,387	2.250%-5.625%	4,045,387
2010 Water and Sewer Revenue and Tax Refunding	12/01, 06/01	04/19/10	1,515,000	2.000%-3.000%	<u>1,305,000</u>
Total Water Fund (before deferred debt refunding costs of (\$202,560) and net premiums and discounts of \$306,642)					<u><u>\$ 21,774,837</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

<u>Sewer 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, 2011</u>
2003 Water and Sewer Revenue and Tax	04/01, 10/01	12/01/03	\$ 4,585,000	2.000%-4.200%	\$ 2,555,000
2004 Water and Sewer Revenue and Tax Refunding	03/01, 09/01	03/01/04	12,473,045	2.000%-5.000%	6,255,000
2004 General Obligation Refunding	03/01, 09/01	03/15/04	3,010,000	2.200%-5.000%	2,185,000
2004 Water and Sewer Revenue and Tax	11/01, 05/01	12/06/04	6,275,000	2.750%-4.125%	3,910,000
2005 Water and Sewer Revenue and Tax	02/01, 08/01	12/06/05	4,100,000	2.750%-4.125%	2,985,000
2006 Water and Sewer Revenue and Tax	02/01, 08/01	12/20/06	1,363,537	3.750%-5.000%	1,168,746
2009-D BABS General Obligation	03/01, 09/01	12/08/09	6,068,081	2.250%-5.625%	6,068,081
2010 Water and Sewer Revenue and Tax Refunding	12/01, 06/01	04/19/10	2,940,000	2.000%-3.000%	<u>2,540,000</u>
Total Sewer Fund (before deferred debt refunding costs of (\$333,110) and net premiums and discounts of \$719,707)					<u><u>\$ 27,666,827</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (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
2012	\$ 25,000	\$ 11,441	\$ 36,441
2013	25,000	10,504	35,504
2014	26,250	9,566	35,816
2015	27,500	8,254	35,754
2016	28,750	6,879	35,629
2017	31,250	5,441	36,691
2018	31,250	4,504	35,754
2019	32,500	3,566	36,066
2020	33,125	2,592	35,717
2021	33,750	1,308	35,058
	<u>\$ 294,375</u>	<u>\$ 64,055</u>	<u>\$ 358,430</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009-D BABS, issued December 08, 2009 debt service requirements to maturity for the Solid Waste Management Fund portion are as follows :

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 0	\$ 14,188	\$ 14,188
2013	13,956	14,188	28,144
2014	14,071	13,874	27,945
2015	14,300	13,451	27,751
2016	14,587	12,968	27,555
2017	14,989	12,420	27,409
2018	15,391	11,839	27,230
2019	15,334	11,145	26,479
2020	15,794	10,454	26,248
2021	16,310	9,723	26,033
2022	16,712	8,947	25,659
2023	17,229	8,132	25,361
2024	17,918	7,269	25,187
2025	17,918	6,372	24,290
2026	18,435	5,453	23,888
2027	19,067	4,484	23,551
2028	19,699	3,458	23,157
2029	20,445	2,348	22,793
2030	21,249	1,197	22,446
	<u>\$ 303,404</u>	<u>\$ 171,910</u>	<u>\$ 475,314</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2011, the Solid Waste Management Fund paid \$11,348 in BABS interest, while the Federal government paid an additional \$6,111 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Local Option Sales Tax Revenue and Tax Bonds, Series 2009 C, issued January 22, 2009 for MeadowView Conference Resort and Convention Center Fund, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 600,000	\$ 586,938	\$ 1,186,938
2013	615,000	571,937	1,186,937
2014	630,000	556,563	1,186,563
2015	645,000	537,662	1,182,662
2016	665,000	518,313	1,183,313
2017	685,000	498,363	1,183,363
2018	710,000	476,100	1,186,100
2019	735,000	447,700	1,182,700
2020	765,000	418,300	1,183,300
2021	800,000	387,700	1,187,700
2022	830,000	355,700	1,185,700
2023	865,000	322,500	1,187,500
2024	900,000	284,656	1,184,656
2025	940,000	245,281	1,185,281
2026	980,000	202,981	1,182,981
2027	1,025,000	157,656	1,182,656
2028	1,075,000	110,250	1,185,250
2029	1,130,000	56,500	1,186,500
	<u>\$ 14,595,000</u>	<u>\$ 6,735,100</u>	<u>\$ 21,330,100</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009-D BABS, issued December 08, 2009 debt service requirements to maturity for the MeadowView Conference Resort and Convention Center Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 0	\$ 47,499	\$ 47,499
2013	46,737	47,499	94,236
2014	47,121	46,447	93,568
2015	47,891	45,032	92,923
2016	48,852	43,414	92,266
2017	50,198	41,580	91,778
2018	51,545	39,634	91,179
2019	51,352	37,312	88,664
2020	52,891	34,999	87,890
2021	54,622	32,551	87,173
2022	55,968	29,954	85,922
2023	57,699	27,223	84,922
2024	60,007	24,336	84,343
2025	60,007	21,333	81,340
2026	61,738	18,255	79,993
2027	63,854	15,010	78,864
2028	65,970	11,575	77,545
2029	68,470	7,861	76,331
2030	71,163	4,006	75,169
	<u>\$ 1,016,085</u>	<u>\$ 575,520</u>	<u>\$ 1,591,605</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2011, the MeadowView Conference Resort and Convention Center Fund paid \$37,992 in BABS interest, while the Federal government paid an additional \$20,458 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Golf Course Bonds, Series 1998 issued through the Tennessee Municipal Bond Fund (TMBF) totaling \$1,450,000, debt service requirements to maturity for the Cattails at MeadowView Golf Course Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest *	Total
2012	\$ 105,000	\$ 4,440	\$ 109,440
2013	110,000	3,795	113,795
2014	117,000	3,118	120,118
2015	123,000	2,399	125,399
2016	130,000	1,642	131,642
2017	137,000	843	137,843
	<u>\$ 722,000</u>	<u>\$ 16,237</u>	<u>\$ 738,237</u>

Principal payments are made on an annual basis, while interest is paid monthly.

* The interest rate on the TMBF Golf Course Bonds is a variable monthly rate, based on the average daily rate for the period, plus a 0.15% administrator's fee. The annual interest expense requirements to maturity are estimated using the monthly interest amount and other monthly loan expenses, as of June 30, 2011, to calculate an estimated annual effective interest rate of 0.615%

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 95,000	\$ 28,209	\$ 123,209
2013	95,000	24,884	119,884
2014	100,000	21,559	121,559
2015	105,000	17,809	122,809
2016	110,000	13,740	123,740
2017	110,000	9,340	119,340
2018	115,000	4,830	119,830
	<u>\$ 730,000</u>	<u>\$ 120,371</u>	<u>\$ 850,371</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 650,000	\$ 112,000	\$ 762,000
2013	505,000	79,500	584,500
2014	530,000	54,250	584,250
2015	555,000	27,750	582,750
	<u>\$ 2,240,000</u>	<u>\$ 273,500</u>	<u>\$ 2,513,500</u>

General Obligation Refunding Bonds, Series 2004, issued March 15, 2004, debt service requirements to maturity for the Water Fund portion are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 395,000	\$ 73,200	\$ 468,200
2013	405,000	57,400	462,400
2014	430,000	37,150	467,150
2015	180,000	15,650	195,650
2016	190,000	6,650	196,650
	<u>\$ 1,600,000</u>	<u>\$ 190,050</u>	<u>\$ 1,790,050</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 110,000	\$ 38,686	\$ 148,686
2013	115,000	34,946	149,946
2014	120,000	30,922	150,922
2015	125,000	26,601	151,601
2016	130,000	21,851	151,851
2017	135,000	16,781	151,781
2018	135,000	11,382	146,382
2019	145,000	5,981	150,981
	<u>\$ 1,015,000</u>	<u>\$ 187,150</u>	<u>\$ 1,202,150</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 50,000	\$ 24,506	\$ 74,506
2013	55,000	22,631	77,631
2014	55,000	20,569	75,569
2015	55,000	17,819	72,819
2016	60,000	15,069	75,069
2017	70,000	12,069	82,069
2018	75,000	9,969	84,969
2019	70,000	7,719	77,719
2020	70,000	5,618	75,618
2021	75,000	2,906	77,906
	<u>\$ 635,000</u>	<u>\$ 138,875</u>	<u>\$ 773,875</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 12,244	\$ 11,076	\$ 23,320
2013	13,186	10,525	23,711
2014	13,186	9,932	23,118
2015	14,128	9,338	23,466
2016	15,070	8,702	23,772
2017	15,070	8,024	23,094
2018	18,837	7,459	26,296
2019	18,837	6,753	25,590
2020	18,837	6,046	24,883
2021	18,837	5,317	24,154
2022	18,837	4,563	23,400
2023	18,837	3,810	22,647
2024	18,837	3,056	21,893
2025	18,837	2,303	21,140
2026	18,837	1,549	20,386
2027	18,837	777	19,614
	\$ 271,254	\$ 99,230	\$ 370,484

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 70,000	\$ 41,594	\$ 111,594
2013	75,000	39,144	114,144
2014	75,000	36,519	111,519
2015	80,000	33,894	113,894
2016	85,000	30,894	115,894
2017	85,000	27,706	112,706
2018	90,000	24,306	114,306
2019	95,000	20,706	115,706
2020	95,000	16,906	111,906
2021	100,000	13,106	113,106
2022	105,000	9,006	114,006
2023	110,000	4,675	114,675
	<u>\$ 1,065,000</u>	<u>\$ 298,456</u>	<u>\$ 1,363,456</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Water Bonds, Series 2008 were issued through the Tennessee Municipal Bond Fund (TMBF) in an amount not to exceed \$9,800,000. These bonds funded the acquisition and installation of an automated meter reading and leak detection system. The project was complete at June 30, 2011 and a total of \$9,698,196 was drawn against the available funds. The amount outstanding at June 30, 2011 is \$8,868,196 and the debt service to maturity for the Water Fund is as follows:

Fiscal Year Ending June 30	Principal	Interest *	Total
2012	\$ 430,000	\$ 35,169	\$ 465,169
2013	455,000	33,463	488,463
2014	455,000	31,659	486,659
2015	505,000	29,855	534,855
2016	530,000	27,852	557,852
2017	555,000	25,750	580,750
2018	555,000	23,549	578,549
2019	605,000	21,348	626,348
2020	630,000	18,949	648,949
2021	655,000	16,451	671,451
2022	655,000	13,853	668,853
2023	710,000	11,255	721,255
2024	735,000	8,440	743,440
2025	735,000	5,525	740,525
2026	658,196	2,610	660,806
	<u>\$ 8,868,196</u>	<u>\$ 305,728</u>	<u>\$ 9,173,924</u>

* The interest rate on the TMBF Water Bonds is a variable monthly rate, based on the average daily rate for the period, plus a 0.15% administrator's fee. The annual interest expense requirements to maturity are estimated using the monthly interest amount and other monthly loan expenses, as of June 30, 2011, to calculate an estimated annual effective interest rate of 0.396%

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009D BABS, issued December 08, 2009 debt service requirements to maturity for the Water Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 0	\$ 188,886	\$ 188,886
2013	186,074	188,886	374,960
2014	187,606	184,701	372,307
2015	190,668	179,074	369,742
2016	194,497	172,641	367,138
2017	199,857	165,350	365,207
2018	205,217	157,608	362,825
2019	204,452	148,376	352,828
2020	210,578	139,178	349,756
2021	217,469	129,442	346,911
2022	222,829	119,116	341,945
2023	229,721	108,256	337,977
2024	238,910	96,774	335,684
2025	238,910	84,832	323,742
2026	245,801	72,591	318,392
2027	254,225	59,691	313,916
2028	262,648	46,030	308,678
2029	272,602	31,261	303,863
2030	283,323	15,932	299,255
	<u>\$ 4,045,387</u>	<u>\$ 2,288,625</u>	<u>\$ 6,334,012</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2011, the Water Fund paid \$151,083 in BABS interest, while the Federal government paid an additional \$81,352 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Water and Sewer Revenue and Tax Refunding Bonds, Series 2010, issued April 19, 2010 debt service requirements to maturity for the Water Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 210,000	\$ 31,700	\$ 241,700
2013	210,000	27,500	237,500
2014	215,000	23,300	238,300
2015	215,000	19,000	234,000
2016	225,000	13,088	238,088
2017	230,000	6,900	236,900
	<u>\$ 1,305,000</u>	<u>\$ 121,488</u>	<u>\$ 1,426,488</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 320,000	\$ 98,810	\$ 418,810
2013	335,000	87,610	422,610
2014	350,000	75,885	425,885
2015	360,000	62,760	422,760
2016	390,000	48,810	438,810
2017	390,000	33,210	423,210
2018	410,000	17,220	427,220
	<u>\$ 2,555,000</u>	<u>\$ 424,305</u>	<u>\$ 2,979,305</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 1,625,000	\$ 307,750	\$ 1,932,750
2013	1,315,000	226,500	1,541,500
2014	1,370,000	160,750	1,530,750
2015	1,445,000	92,250	1,537,250
2016	500,000	20,000	520,000
	<u>\$ 6,255,000</u>	<u>\$ 807,250</u>	<u>\$ 7,062,250</u>

General Obligation Refunding Bonds, Series 2004, issued March 15, 2004, debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 520,000	\$ 100,225	\$ 620,225
2013	540,000	79,425	619,425
2014	575,000	52,425	627,425
2015	295,000	23,675	318,675
2016	255,000	8,925	263,925
	<u>\$ 2,185,000</u>	<u>\$ 264,675</u>	<u>\$ 2,449,675</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 430,000	\$ 149,004	\$ 579,004
2013	445,000	134,383	579,383
2014	460,000	118,809	578,809
2015	475,000	102,248	577,248
2016	495,000	84,199	579,199
2017	515,000	64,894	579,894
2018	535,000	44,294	579,294
2019	555,000	22,894	577,894
	<u>\$ 3,910,000</u>	<u>\$ 720,725</u>	<u>\$ 4,630,725</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 250,000	\$ 116,375	\$ 366,375
2013	255,000	107,000	362,000
2014	270,000	97,437	367,437
2015	285,000	83,938	368,938
2016	295,000	69,687	364,687
2017	305,000	54,938	359,938
2018	310,000	45,787	355,787
2019	325,000	36,488	361,488
2020	340,000	26,737	366,737
2021	350,000	13,563	363,563
	<u>\$ 2,985,000</u>	<u>\$ 651,950</u>	<u>\$ 3,636,950</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 52,756	\$ 47,724	\$ 100,480
2013	56,814	45,350	102,164
2014	56,814	42,793	99,607
2015	60,872	40,236	101,108
2016	64,930	37,497	102,427
2017	64,930	34,575	99,505
2018	81,163	32,141	113,304
2019	81,163	29,097	110,260
2020	81,163	26,053	107,216
2021	81,163	22,908	104,071
2022	81,163	19,662	100,825
2023	81,163	16,415	97,578
2024	81,163	13,169	94,332
2025	81,163	9,922	91,085
2026	81,163	6,676	87,839
2027	81,163	3,348	84,511
	<u>\$ 1,168,746</u>	<u>\$ 427,566</u>	<u>\$ 1,596,312</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009D BABS, issued December 08, 2009 debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 0	\$ 283,391	\$ 283,391
2013	279,111	283,391	562,502
2014	281,408	277,112	558,520
2015	286,003	268,670	554,673
2016	291,746	259,018	550,764
2017	299,786	248,079	547,865
2018	307,826	236,463	544,289
2019	306,678	222,612	529,290
2020	315,866	208,813	524,679
2021	326,204	194,206	520,410
2022	334,244	178,712	512,956
2023	344,581	162,419	507,000
2024	358,365	145,192	503,557
2025	358,365	127,275	485,640
2026	368,702	108,911	477,613
2027	381,337	89,556	470,893
2028	393,972	69,061	463,033
2029	408,903	46,902	455,805
2030	424,984	23,903	448,887
	<u>\$ 6,068,081</u>	<u>\$ 3,433,686</u>	<u>\$ 9,501,767</u>

Authorized by the American Recovery and Reinvestment Act (ARRA), the Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. The Federal government pays 35% of the gross interest due. The interest amounts above reflect the gross interest due. During the fiscal year ended June 30, 2011, the Sewer Fund paid \$226,673 in BABS interest, while the Federal government paid an additional \$122,055 in interest directly. The interest paid on the City's behalf has been recorded as interest subsidy income and interest expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Water and Sewer Revenue and Tax Refunding Bonds, Series 2010, issued April 19, 2010 debt service requirements to maturity for the Sewer Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 410,000	\$ 61,700	\$ 471,700
2013	410,000	53,500	463,500
2014	415,000	45,300	460,300
2015	420,000	37,000	457,000
2016	440,000	25,450	465,450
2017	445,000	13,350	458,350
	<u>\$ 2,540,000</u>	<u>\$ 236,300</u>	<u>\$ 2,776,300</u>

Total annual debt service requirements for enterprise fund bonds are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 6,360,000	\$ 2,414,511	\$ 8,774,511
2013	6,560,878	2,183,961	8,744,839
2014	6,793,456	1,950,640	8,744,096
2015	6,509,362	1,694,365	8,203,727
2016	5,158,432	1,447,289	6,605,721
Next Five Years	16,581,234	5,192,221	21,773,455
Next Five Years	12,047,255	2,908,959	14,956,214
Next Five Years	6,361,911	760,806	7,122,717
	<u>\$ 66,372,528</u>	<u>\$ 18,552,752</u>	<u>\$ 84,925,280</u>

The total on the statement of net assets has been adjusted by deferred debt refunding costs of (\$535,670) and the net premiums and discounts of \$1,177,300.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
General Obligation Debt	\$ 111,818,918	\$ 0	\$ 4,646,250	\$ 107,172,668	\$ 4,790,000
Less: Deferred amounts for refunding	(619,000)	0	(65,000)	(554,000)	0
Plus: Premiums and discounts	1,019,951	0	75,322	944,629	0
Total Bonds Payable	112,219,869	0	4,656,572	107,563,297	4,790,000
Interlocal Cooperative Agreement	1,500,000	720,000	500,000	1,720,000	620,000
Capital Outlay Note	1,356,000	0	128,000	1,228,000	133,000
Energy Efficiency Note	339,286	0	67,857	271,429	67,857
Notes Payable-State	3,628,106	1,240,000	428,959	4,439,147	435,418
School Energy Efficiency Note	0	2,001,044	0	2,001,044	399,696
HUD 108 Note	0	856,000	0	856,000	43,000
Total Governmental Activities	<u>\$ 119,043,261</u>	<u>\$ 4,817,044</u>	<u>\$ 5,781,388</u>	<u>\$ 118,078,917</u>	<u>\$ 6,488,971</u>
Business-type activities:					
General Obligation Debt	\$ 27,149,778	\$ 0	\$ 2,047,250	\$ 25,102,528	\$ 1,475,000
Local Option Sales Tax Revenue and Tax Bonds	15,180,000	0	585,000	14,595,000	600,000
Water and Sewer Revenue and Tax Bonds	30,800,000	0	4,125,000	26,675,000	4,285,000
Less: Deferred amounts for refunding	(705,676)	0	(170,006)	(535,670)	0
Plus: Premiums and discounts	1,405,242	0	227,942	1,177,300	0
Total Bonds Payable	73,829,344	0	6,815,186	67,014,158	6,360,000
State Revolving Notes	22,190,263	2,605,395	507,198	24,288,460	1,121,577
Total Business-type Activities	<u>\$ 96,019,607</u>	<u>\$ 2,605,395</u>	<u>\$ 7,322,384</u>	<u>\$ 91,302,618</u>	<u>\$ 7,481,577</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Closure and postclosure costs

The City currently operates a demolition landfill located on Brookside Drive, with a remaining life of approximately 60 years. Upon closure, the City is required to continue a period of monitoring and conduct any necessary post-closure activities in compliance with applicable state and federal laws.

In June, 1996, the City entered into a *Contract in Lieu of Performance Bond* with the State of Tennessee Department of Environment and Conservation to provide financial assurance in the amount of \$1,390,095, for proper operation, closure and/or post-closure activities related to the City's demolition landfill. This financial assurance pledges any revenue due to the City from the State of Tennessee as collateral to fund estimated costs associated with the proper operation and closure, and/or post closure of the Kingsport Demolition Landfill.

This agreement is subsequently amended on an annual basis for inflation by the State of Tennessee Department of Environment and Conservation. The 2010 financial assurance amount of \$1,826,367 was adjusted for inflation by 1.0% resulting in an amended amount of \$1,846,651 at June 30, 2011.

The City recognizes the need to begin accruing the liability for future operating, closure, and potential post-closure costs associated with the Kingsport Demolition Landfill. The base year to begin accruing this liability has been established as 2010 and will be accrued over the 60 year expected life of the landfill with future increases accrued in the year they occur. The liability accrued for the fiscal year ending June 30, 2011 is \$50,723.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

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 Safety National.

An actuarial study for workers compensation and public liability was conducted in January 2011 for the period ended June 30, 2010. The estimated reserve requirements were as follows:

	<u>Low</u>	<u>Expected</u>	<u>High</u>
Workers Compensation *	\$ 1,950,000	\$ 2,460,000	\$ 3,160,000
Public Liability *	930,000	990,000	1,110,000

* Based on an annual discount rate of 3%

The Insurance Reserve Fund has available fund balance of \$3,195,060 at June 30, 2011. Estimated claims are budgeted and charged to the various departments on an annual basis.

The City carries additional coverage for public officials and other employees through U.S. Fidelity and Guarantee, Travelers and Western Surety insurance companies and property insurance through Hartford, Travelers and Continental Casualty insurance companies. There has been no significant reduction in insurance coverage from the prior year, and the City has not had any settlements in the last five years, which were not covered by insurance.

Effective January 1, 2003, health insurance for government employees has been provided through a self-funded insurance program. The program is currently administered by Humana, Inc. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

A. Risk management (continued)

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

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>
Claims Accrued, Beginning	\$ 298,851	\$ 218,935
Claims Incurred	1,158,008	1,185,492
Claims Paid	<u>(1,077,280)</u>	<u>(1,105,576)</u>
Claims Accrued, Ending	<u><u>\$ 379,579</u></u>	<u><u>\$ 298,851</u></u>

The City's estimate of claims accrued at year end is based on actual claims paid during April, May, and June 2011.

B. Contingencies

Primary government

The City hires an independent arbitrage compliance firm to calculate arbitrage rebates due the IRS, for each applicable debt issue's reporting computation period. The City has recorded an estimated arbitrage rebate liability in the water and sewer funds. At June 30, 2011, the water fund and sewer fund had arbitrage rebate liabilities recorded of \$47,436 and \$111,836, respectively. These arbitrage rebate liabilities are not directly related to any bond issue, however are recorded in anticipation of future liabilities.

The City attorney advises that there are no known cases pending against the City, which would not be covered by insurance. The City has entered into several construction contracts in the various funds, which were not completed at year-end. To account for these liabilities, the City assigns 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 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 December 31, 2011. Included in the order were requirements for plans and reports to be submitted to the Tennessee Department of Environment and Conservation (TDEC) within a specified timeframe to avoid monetary fines. Projects have been scheduled and completed along with semi-annual reports to TDEC. The last project in the agreed order was completed in July 2011. The estimated total cost of the projects is \$25,177,000. Thus far, all compliance deadlines have been met, and the City anticipates full compliance approval from the State of Tennessee in December 2011. The City is funding 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 Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

B. Contingencies (continued)

Primary government (continued)

The City received a "Consent Order" from the State of Tennessee dated October 25, 2005, concerning the City's waste water treatment plant. The City must be in full compliance by December 31, 2011. Included in the order were requirements for plans and reports to be submitted to the Tennessee Department of Environment and Conservation (TDEC) within a specified timeframe to avoid monetary fines. The following items along with the submission date were submitted to TDEC by the compliance deadline: Corrective Action Plan / Engineering Report (May 3, 2006), Sewer Overflow Response Plan (February 2, 2006), Management, Operations and Maintenance Program (March 3, 2006), and Supplemental Environmental Project (Jan 3, 2006). A letter notifying the Director of Water Pollution Control of completion of the Corrective Action Plan by December 31, 2011 is the only outstanding item. The City fully expects to meet this deadline. The estimated total cost of the project is \$22,000,000. The project was funded with a State Revolving Loan, which is recorded in the sewer fund, and a General Obligation Bond.

In April 2005, the Sullivan County Economic Development Partnership (SCEDP) issued \$1,995,000 in capital outlay notes, of which, the City is contingently liable for 31%. In February 2006, SCEDP issued an additional \$505,000 in capital outlay notes, of which the City is contingently liable for 31%. During July 2007, SCEDP issued \$6,500,000 in revenue bonds, of which the City is contingently liable for 31%. Proceeds from the capital outlay notes and the bonds were used for 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 property sales in the industrial park. The related liabilities are on the books of Sullivan County. The SCEDP is responsible for making the bond payments, however in the event of their default the City is responsible for a 31% portion of the debt. As of June 30, 2011, a total of \$8,150,000 of debt was outstanding, with \$2,526,500 representing the City's 31% contingent share. During fiscal year 2011, revenue from property sales in the industrial park was not sufficient for the SCEDP to make the related debt service payments. The City recorded a \$220,540 liability for the repayment of the City's share of the current year debt service associated with the SCEDP.

Component Unit – Industrial Development Board

Subsequent to year end, the Industrial Development Board of the City of Kingsport (IDBK) entered into a loan agreement with a local bank for an amount up to \$3,500,000. The loan was used to purchase an industrial use facility near the Tri-Cities Regional Airport. The property was leased to C & F Manufacturing. In the event the manufacturing company fails to make lease payments, IDBK would be required to fund the loan payments from other resources. The City of Kingsport, as well as Sullivan County, has entered into agreements to support this economic development project and share in a contingent liability, should the IDBK default on the loan.

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011**

5. OTHER INFORMATION (CONTINUED):

C. Pension plan

City of Kingsport Plan

Plan description

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

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

Funding policy

Effective October 1, 2010, the City changed participation in the TCRS for new employees from noncontributory to contributory status. Employees hired on or after October 1, 2010 will make mandatory contributions of 5% of their annual covered payroll into the TCRS as contributory plan members. Employees hired prior to October 1, 2010 will continue participation in the TCRS as non-contributory plan members, with the City continuing to assume employee contributions up to 5% of annual covered payroll.

The City is required to make contributions into the TCRS at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 16.28% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

City of Kingsport Plan (continued)

Annual pension cost

For the fiscal year ending June 30, 2011, the City's annual pension cost of \$5,839,797 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.00% annual rate of inflation, (c) 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), (d) projected 3.50% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% 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 ten-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, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 5,839,797	100.00%	\$ 0
June 30, 2010	5,881,042	100.00%	0
June 30, 2009	5,832,643	100.00%	0

As of July 1, 2009, the most recent actuarial valuation date, the plan was 79.11% funded. The actuarial accrued liability for benefits was \$153.3 million, and the actuarial value of assets was \$121.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$32.0 million. The covered Payroll (annual payroll of active employees covered by the plan) was \$34.9 million, and the ratio of UAAL to covered payroll was 91.73%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

City of Kingsport Plan (continued)

Annual pension cost (continued)

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$ 121,255,000	\$ 153,266,000	\$ 32,011,000	79.11%	\$ 34,897,000	91.73%
July 1, 2007	\$ 117,466,000	\$ 142,266,000	\$ 24,800,000	82.57%	\$ 31,672,000	78.30%

Kingsport City Schools Plan

Plan description

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

C. Pension plan (continued)

Kingsport City Schools Plan (continued)

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, 2011 was 9.05% 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, 2011, 2010, and 2009 were \$2,681,961, \$1,895,871, and \$1,858,582 respectively, equal to the required contributions for each year.

D. Other Postemployment Benefits (OPEB)

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

Postemployment Healthcare Plan – City of Kingsport

Plan description

The City of Kingsport provides continuation of medical insurance coverage to eligible employees that retire under the Tennessee Consolidated Retirement System at the same time they end their services to the City. Employees hired prior to June 1, 2007 are eligible to continue coverage if they had been enrolled in the City's offered health insurance plan as an active full time employee at the date of retirement. Employees hired after June 1, 2007, must have a minimum of 25 years of service with the City, be at least 55 years old, and must have been enrolled in the health insurance provided by the City for three full consecutive years immediately prior to retirement or have 30 years of service with the City and have been enrolled in the health insurance provided by the City for one full year immediately prior to retirement. Employees who retired before June 30, 2010 and continued on the City's health insurance as listed above are eligible for the City funded Medicare supplement plan when they reach 65 years of age. Employees retiring after June 30, 2010 are no longer eligible for the City funded Medicare supplement plan.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport (continued)

Plan description (continued)

The number of participants as of July 1, 2010, the effective date of the OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

Active employees - medical & death benefits	548
Active employees - death benefit only	1,061
Retired employees - medical & death benefits	167
Retired employees spouse - medical benefit only	45
Retired employees - death benefit only	<u>613</u>
Total	<u><u>2,434</u></u>

Funding policy

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

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>City of Kingsport Retiree Plan</u>
Annual Required Contribution (ARC)	\$ 2,360,138
Interest on the Net Pension Obligation (NPO)	313,612
Adjustment to the Annual Required Contribution (ARC)	<u>(251,341)</u>
Annual OPEB Cost	2,422,409
Amount of Contribution	<u>(491,177)</u>
Increase/Decrease in Net Pension Obligation (NPO)	1,931,232
Net OPEB Obligation - Beginning of Year	<u>6,272,246</u>
Net OPEB Obligation - Ending of Year	<u><u>\$ 8,203,478</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport (continued)

Funding policy (continued)

Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
06/30/11	City Retiree	\$ 2,422,409	20%	\$ 8,203,478
06/30/10	City Retiree	\$ 2,581,342	47%	\$ 6,272,246
06/30/09	City Retiree	\$ 3,292,208	27%	\$ 4,906,010
06/30/08	City Retiree	\$ 3,166,263	20%	\$ 2,518,897

*Data not available for the 2007 year.

Funded Status and Funding Process

The funded status of the plan as of July 1, 2010, the date of the latest actuarial valuation, was as follows:

	City of Kingsport Retiree Plan
Actuarial valuation date	07/01/10
Actuarial accrued liability (AAL)	\$ 29,469,147
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 29,469,147
Actuarial Value of Assets as a % of the AAL	0%
Covered payroll (active plan members)	\$ 26,800,332
UAAL as a percentage of covered payroll	110%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – City of Kingsport (continued)

Actuarial Methods and Assumptions (continued)

In the July 1, 2010 actuarial valuation, the Projected Unit Credit actuarial cost method was used with linear proration to decrement. The actuarial assumptions included a 5 percent investment rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Total payroll growth is estimated at 4 percent per year. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a 30 year period beginning with July 1, 2010.

Postemployment Healthcare Plan – Kingsport City Schools

Plan description

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

Funding policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government participants, however, the state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. The required contribution rate for retired teachers is based on their years of service. For the year ended June 30, 2011, retired teachers contributed \$445,622. During the year ended June 30, 2011, Kingsport City Schools contributed \$397,580 for the teacher group plan and \$220,276 for the Medicare supplement plan. For the year ended June 30, 2011, the State of Tennessee contributed \$340,211 on behalf of retirees for the teacher group plan and \$2,311 for the Medicare supplement plan.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – Kingsport City Schools (continued)

Funding policy (continued)

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Teacher Group Plan</u>	<u>Medicare Supplement Plan</u>
Annual Required Contribution (ARC)	\$ 1,910,000	\$ 1,922,000
Interest on the Net Pension Obligation (NPO)	246,645	275,909
Adjustment to the Annual Required Contribution (ARC)	<u>(164,430)</u>	<u>(183,940)</u>
Annual OPEB Cost	1,992,215	2,013,969
Amount of Contribution	<u>(397,580)</u>	<u>(220,276)</u>
Increase/Decrease in Net Pension Obligation (NPO)	1,594,635	1,793,693
Net OPEB Obligation - Beginning of Year	<u>4,932,899</u>	<u>5,518,188</u>
Net OPEB Obligation - Ending of Year	<u><u>\$ 6,527,534</u></u>	<u><u>\$ 7,311,881</u></u>

<u>Year End*</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
06/30/11	Teacher Group	\$ 1,992,215	20%	\$ 6,527,534
06/30/10	Teacher Group	\$ 2,055,663	17%	\$ 4,932,899
06/30/09	Teacher Group	\$ 1,992,895	17%	\$ 3,233,246
06/30/08	Teacher Group	\$ 1,900,000	17%	\$ 1,575,446
06/30/11	Medicare Supp	\$ 2,013,969	11%	\$ 7,311,881
06/30/10	Medicare Supp	\$ 2,079,538	10%	\$ 5,518,188
06/30/09	Medicare Supp	\$ 2,033,125	10%	\$ 3,650,763
06/30/08	Medicare Supp	\$ 1,928,000	6%	\$ 1,815,000

*Data not available for the 2007 year.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Healthcare Plan – Kingsport City Schools (continued)

Funded Status and Funding Process

The funded status of the plan as of July 1, 2010, the date of the latest valuation, was as follows:

	Teacher Group Plan	Medicare Supplement Plan
Actuarial valuation date	07/01/10	07/01/10
Actuarial accrued liability (AAL)	\$ 17,243,000	\$ 18,481,000
Actuarial value of plan assets	\$ 0	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 17,243,000	\$ 18,481,000
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	\$ 23,571,575	\$ 23,571,575
UAAL as a percentage of covered payroll	73%	78%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2010 actuarial valuation for the Local Education plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent by the fiscal year 2021. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll assuming total annual payroll growth of 3 percent under the closed basis, over a 30 year period.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

E. On-Behalf Payments

As required by GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the following on-behalf payments have been recorded.

Teacher Group Insurance Plan

The State of Tennessee makes a contribution (on-behalf payment) for retired teachers who participate in the State-administered Teacher Group Insurance Plan through TCRS as described in Note 5. D. The on-behalf payment for 2011 was \$340,211 and has been recorded as revenue and expenditure in the general purpose school fund.

Medicare Supplement Plan

Since Teachers are considered state employees per state statutes, the State of Tennessee makes a contribution (on-behalf payment) for retired teachers to this Plan through the TCRS. The on-behalf payment for 2011 was \$2,311 and has been recorded as revenue and expenditure in the general purpose school fund.

F. Economic dependency

The City is dependent upon financial resources flowing from, or associated with, both the Federal Government and the State of Tennessee. Due to this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and appropriations.

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, 2010 and 2009, the taxes assessed on the above mentioned taxpayer accounted for approximately 25% and 26% respectively, of total property taxes assessed for each year.

G. Joint Ventures

Tri-Cities Airport Commission

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

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

G. Joint Ventures (continued)

Tri-Cities Airport Commission (continued)

Audited information as of June 30, 2011 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 5,896,264
Operating Expenses	(5,347,016)
Depreciation	(3,148,163)
Amortization	(13,500)
Other Income	936,264
Capital Contributions	<u>3,640,905</u>
Change in Net Assets	1,964,754
Net Assets, July 1	<u>61,058,737</u>
Net Assets, June 30	\$ <u>63,023,491</u>
 Total Assets	 \$ 70,662,959
Total Liabilities	<u>(7,639,468)</u>
Total Net Assets	\$ <u>63,023,491</u>

Phipps Bend Joint Venture

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

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

Note Receivable from Phipps Bend Venture	\$ 501,312
20% interest in capital of Phipps Bend Joint Venture	<u>349,781</u>
Total Investment	<u>\$ 851,093</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2011

5. OTHER INFORMATION (CONTINUED):

H. Subsequent Events

In November 2011, the City BMA adopted an ordinance establishing a Stormwater Management Utility to be operated as an enterprise fund. The City contracted with an engineering firm to assist in the development of a geographic information system (GIS) database which identifies impervious surface areas contributing to stormwater run-off within the City. From this information, an average single family residential unit (SFU) was established, which will be used as the basis for billing the monthly stormwater utility fee, for all contributing properties. The current SFU rate approved by the BMA is \$3.50. A tiered rate structure will be used. The average size residential home will be billed a stormwater fee of \$3.50 per month. Smaller and larger residential units will be billed based on a multiplier applied to the SFU. Non-residential properties will be billed in direct proportion to the SFU, based upon the calculated impervious surface areas. A policy for applying stormwater billing adjustments, credits, and exemptions is in development. The City estimates that the stormwater utility fees will begin billing in February 2012.

In November 2011, the BMA adopted initial and detailed bond resolutions authorizing the issuance of General Obligation Public Improvement Bonds, Series 2011 in an amount not to exceed \$16,250,000. In December 2011, the City sold bonds totaling \$16,140,000 with a coupon rate ranging from 2.00% to 3.75%. Principal repayment will begin in March 2015. Proceeds from the bonds are to be utilized as follows: \$11,300,000 for general purpose use including various road construction and improvements, improvement to various City owned buildings and facilities, and land acquisition for future development; \$805,000 for water utility plant design and water line rehabilitation; \$4,035,000 for sewer utility line extensions to newly annexed areas and sewer line inflow and infiltration improvements.

I. Prior Period Adjustment – Drug Fund Seized Cash

Seized cash from drug related crime cases is held in evidence and subsequently recorded as revenue after an official award is made to the City by the courts and the State of Tennessee. The City determined that revenue recorded in fiscal year 2011, was in fact previously awarded cash and should have been recorded in the prior fiscal year. A prior period adjustment in the amount of \$167,596 was recorded in the Drug Fund, appropriately adjusting beginning net assets and fund balances.

CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN
For the Fiscal Year Ended June 30, 2011

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$ 121,255,000	\$ 153,266,000	\$ 32,011,000	79.11%	\$ 34,897,000	91.73%
July 1, 2007	\$ 117,466,000	\$ 142,266,000	\$ 24,800,000	82.57%	\$ 31,672,000	78.30%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the Entry Age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLANS
For the Fiscal Year Ended June 30, 2011

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2010	City Retiree	\$ 0	\$ 29,469,147	\$ 29,469,147	0.00%	\$ 26,800,332	110%
July 1, 2009	City Retiree	\$ 0	\$ 32,019,362	\$ 32,019,362	0.00%	\$ 23,721,000	134%
July 1, 2007	City Retiree	\$ 0	\$ 30,541,000	\$ 30,541,000	0.00%	\$ 21,931,000	139%

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2010	Teacher Group	\$ 0	\$ 17,243,000	\$ 17,243,000	0.00%	\$ 23,571,575	73%
July 1, 2010	Medicare	\$ 0	\$ 18,481,000	\$ 18,481,000	0.00%	\$ 23,571,575	78%
July 1, 2009	Teacher Group	\$ 0	\$ 17,196,000	\$ 17,196,000	0.00%	\$ 22,403,067	77%
July 1, 2009	Medicare	\$ 0	\$ 18,481,000	\$ 18,481,000	0.00%	\$ 22,403,067	82%
July 1, 2007	Teacher Group	\$ 0	\$ 17,503,000	\$ 17,503,000	0.00%	\$ 24,795,000	70%
July 1, 2007	Medicare	\$ 0	\$ 18,268,000	\$ 18,268,000	0.00%	\$ 24,795,000	74%

* An additional year will be reported as data becomes available.

THIS PAGE INTENTIONALLY LEFT BLANK



C. COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TENNESSEE
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 115,000	\$ 43,760	\$ 203,502	\$ 159,742
Federal Interest Subsidy	0	272,718	301,391	28,673
Total Revenues	115,000	316,478	504,893	188,415
EXPENDITURES:				
Principal	6,046,800	5,271,067	5,271,066	1
Interest	3,961,900	4,930,283	4,930,280	3
Miscellaneous	37,300	33,063	33,061	2
Total Expenditures	10,046,000	10,234,413	10,234,407	6
Excess (Deficiency) of Revenues Over (Under) Expenditures	(9,931,000)	(9,917,935)	(9,729,514)	188,421
OTHER FINANCING SOURCES (USES):				
Transfers In	9,734,800	9,565,322	9,404,458	(160,864)
Transfers Out	0	(741)	(741)	0
Total Other Financing Sources (Uses)	9,734,800	9,564,581	9,403,717	(160,864)
Net Change in Fund Balances	(196,200)	(353,354)	(325,797)	27,557
Fund Balances, July 1, 2010	196,200	353,354	495,077	141,723
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 169,280	\$ 169,280

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Funds							Permanent Fund	
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds	Allandale Trust Fund	Total Nonmajor Governmental Funds
ASSETS:									
Cash	\$ 0	\$ 0	\$ 5,675	\$ 100	\$ 0	\$ 1,705,943	\$ 1,711,718	\$ 0	\$ 1,711,718
Equity in Pooled Cash & Investments	0	70,735	705,171	301,276	309,214	0	1,386,396	17,128	1,403,524
Long Term Certificates of Deposit	0	0	0	0	0	217,818	217,818	152,691	370,509
Investments	0	0	0	0	119,912	65,617	185,529	4,472	190,001
Accounts Receivable	0	0	0	0	36,347	0	36,347	0	36,347
Accrued Interest Receivable	0	0	0	0	0	0	0	23,769	23,769
Due from Other Governments	53,706	105,505	82,178	675,043	558,523	1,179,639	2,654,594	0	2,654,594
Due from Other Funds	0	0	0	0	21,211	0	21,211	0	21,211
Inventories	0	0	0	0	0	148,066	148,066	0	148,066
Restricted Investments	0	0	16,971	0	0	0	16,971	0	16,971
Total Assets	<u>\$ 53,706</u>	<u>\$ 176,240</u>	<u>\$ 809,995</u>	<u>\$ 976,419</u>	<u>\$ 1,045,207</u>	<u>\$ 3,317,083</u>	<u>\$ 6,378,650</u>	<u>\$ 198,060</u>	<u>\$ 6,576,710</u>
LIABILITIES AND FUND BALANCES:									
Liabilities:									
Accounts Payable	\$ 5,306	\$ 40,011	\$ 24,912	\$ 218,075	\$ 14,367	\$ 391,647	\$ 694,318	\$ 0	\$ 694,318
Other Liabilities	0	0	0	0	0	1,208	1,208	0	1,208
Due to Other Funds	30,305	0	65,210	101,678	477,328	646,267	1,320,788	0	1,320,788
Due to Other Governments	0	0	0	32,965	0	0	32,965	0	32,965
Deferred Revenue	0	12,000	2,508	0	0	66,477	80,985	0	80,985
Total Liabilities	<u>35,611</u>	<u>52,011</u>	<u>92,630</u>	<u>352,718</u>	<u>491,695</u>	<u>1,105,599</u>	<u>2,130,264</u>	<u>0</u>	<u>2,130,264</u>
Fund Balances:									
Nonspendable:									
Inventory	0	0	0	0	0	148,066	148,066	0	148,066
Allandale Trust Principal	0	0	0	0	0	0	0	152,691	152,691
Allandale Long Term Interest Receivable	0	0	0	0	0	0	0	23,769	23,769
Restricted:									
Unspent Federal Forfeitures	0	0	16,971	0	0	0	16,971	0	16,971
Assigned	18,095	124,229	700,394	623,701	553,512	2,063,418	4,083,349	21,600	4,104,949
Total Fund Balances	<u>18,095</u>	<u>124,229</u>	<u>717,365</u>	<u>623,701</u>	<u>553,512</u>	<u>2,211,484</u>	<u>4,248,386</u>	<u>198,060</u>	<u>4,446,446</u>
Total Liabilities and Fund Balances	<u>\$ 53,706</u>	<u>\$ 176,240</u>	<u>\$ 809,995</u>	<u>\$ 976,419</u>	<u>\$ 1,045,207</u>	<u>\$ 3,317,083</u>	<u>\$ 6,378,650</u>	<u>\$ 198,060</u>	<u>\$ 6,576,710</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

	Special Revenue Funds							Permanent Fund	
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds	Allandale Trust Fund	Total Nonmajor Governmental Funds
REVENUES:									
Local Option Sales Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,183,807	\$ 0	\$ 3,183,807	\$ 0	\$ 3,183,807
Hotel/Motel Tax Allocation	0	0	0	0	345,148	0	345,148	0	345,148
Federal Government	682,779	348,714	149,265	1,532,748	0	7,708,865	10,422,371	0	10,422,371
State Government	0	25,767	0	1,667,065	0	887,833	2,580,665	0	2,580,665
Charges for Services	0	5,729	0	110,713	111,866	1,286,218	1,514,526	0	1,514,526
Fines and Forfeitures	0	0	232,882	0	0	0	232,882	0	232,882
Investment Earnings	0	0	35	16	2,089	1,583	3,723	8,565	12,288
Contributions and Donations	0	104,393	0	0	23,408	189,836	317,637	0	317,637
Total Revenues	682,779	484,603	382,182	3,310,542	3,666,318	10,074,335	18,600,759	8,565	18,609,324
EXPENDITURES:									
General & Administrative	0	751,451	3,512	0	0	0	754,963	0	754,963
School Food Service	0	0	0	0	0	3,332,057	3,332,057	0	3,332,057
School Federal Projects	0	0	0	0	0	5,265,474	5,265,474	0	5,265,474
Economic & Physical Development	681,453	0	0	0	0	0	681,453	0	681,453
Public Safety	0	0	251,473	0	0	0	251,473	0	251,473
Transportation	0	0	0	4,404,721	0	0	4,404,721	0	4,404,721
Culture and Recreation	0	0	0	0	318,090	0	318,090	0	318,090
Education	0	0	0	0	0	1,011,899	1,011,899	0	1,011,899
Capital Outlay	0	121,588	8,840	56,893	0	389,907	577,228	0	577,228
Total Expenditures	681,453	873,039	263,825	4,461,614	318,090	9,999,337	16,597,358	0	16,597,358
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,326	(388,436)	118,357	(1,151,072)	3,348,228	74,998	2,003,401	8,565	2,011,966
OTHER FINANCING SOURCES (USES):									
Transfers In	0	175,342	0	1,372,190	0	0	1,547,532	0	1,547,532
Transfers Out	0	(125,213)	0	0	(4,638,475)	(144,364)	(4,908,052)	0	(4,908,052)
Total Other Financing Sources (Uses)	0	50,129	0	1,372,190	(4,638,475)	(144,364)	(3,360,520)	0	(3,360,520)
Net Change in Fund Balances	1,326	(338,307)	118,357	221,118	(1,290,247)	(69,366)	(1,357,119)	8,565	(1,348,554)
Fund Balances, July 1, 2010, as restated	16,769	462,536	431,412	402,583	1,843,759	2,280,850	5,437,909	189,495	5,627,404
Prior Period Adjustment:									
Seized Cash	0	0	167,596	0	0	0	167,596	0	167,596
Fund Balances, June 30, 2011	\$ 18,095	\$ 124,229	\$ 717,365	\$ 623,701	\$ 553,512	\$ 2,211,484	\$ 4,248,386	\$ 198,060	\$ 4,446,446

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
June 30, 2011

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
ASSETS:				
Cash	\$ 0	\$ 5,675	\$ 0	\$ 5,675
Equity in Pooled Cash and Investments	89,306	615,865	0	705,171
Due from Other Governments	0	0	82,178	82,178
Restricted Investments	16,971	0	0	16,971
Total Assets	<u>\$ 106,277</u>	<u>\$ 621,540</u>	<u>\$ 82,178</u>	<u>\$ 809,995</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 0	\$ 10,452	\$ 14,460	\$ 24,912
Due to Other Funds	0	0	65,210	65,210
Deferred Revenue	0	0	2,508	2,508
Total Liabilities	<u>0</u>	<u>10,452</u>	<u>82,178</u>	<u>92,630</u>
Fund Balances:				
Restricted:				
Unspent Federal Forfeitures	16,971	0	0	16,971
Assigned	89,306	611,088	0	700,394
Total Fund Balances	<u>106,277</u>	<u>611,088</u>	<u>0</u>	<u>717,365</u>
Total Liabilities and Fund Balances	<u>\$ 106,277</u>	<u>\$ 621,540</u>	<u>\$ 82,178</u>	<u>\$ 809,995</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 Fiscal Year Ended June 30, 2011

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 149,265	\$ 149,265
Fines and Forfeitures	5,857	227,025	0	232,882
Investment Earnings	35	0	0	35
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	5,892	227,025	149,265	382,182
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES:				
General and Administrative	0	3,512	0	3,512
Public Safety	0	102,208	149,265	251,473
Capital Outlay	0	8,840	0	8,840
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	0	114,560	149,265	263,825
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,892	112,465	0	118,357
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	0	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balances	5,892	112,465	0	118,357
Fund Balances, July 1, 2010	100,385	331,027	0	431,412
Prior Period Adjustment:				
Seized Cash	0	167,596	0	167,596
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances, June 30, 2011	<u>\$ 106,277</u>	<u>\$ 611,088</u>	<u>\$ 0</u>	<u>\$ 717,365</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
June 30, 2011

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
ASSETS:				
Cash	\$ 100	\$ 0	\$ 0	\$ 100
Equity in Pooled Cash and Investments	95,295	205,981	0	301,276
Due from Other Governments	350,107	101,384	223,552	675,043
Total Assets	\$ 445,502	\$ 307,365	\$ 223,552	\$ 976,419
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 81,761	\$ 30,126	\$ 106,188	\$ 218,075
Due to Other Governments	32,965	0	0	32,965
Due to Other Funds	0	0	101,678	101,678
Total Liabilities	114,726	30,126	207,866	352,718
Fund Balances:				
Assigned	330,776	277,239	15,686	623,701
Total Fund Balances	330,776	277,239	15,686	623,701
Total Liabilities and Fund Balances	\$ 445,502	\$ 307,365	\$ 223,552	\$ 976,419

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
For the Fiscal Year Ended June 30, 2011

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
REVENUES:				
Federal Government	\$ 1,359,139	\$ 173,609	\$ 0	\$ 1,532,748
State Government	252,242	160,528	1,254,295	1,667,065
Charges for Services	110,713	0	0	110,713
Investment Earnings	0	0	16	16
Total Revenues	<u>1,722,094</u>	<u>334,137</u>	<u>1,254,311</u>	<u>3,310,542</u>
EXPENDITURES:				
Transportation	1,956,061	415,832	2,032,828	4,404,721
Capital Outlay	<u>29,112</u>	<u>0</u>	<u>27,781</u>	<u>56,893</u>
Total Expenditures	<u>1,985,173</u>	<u>415,832</u>	<u>2,060,609</u>	<u>4,461,614</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(263,079)</u>	<u>(81,695)</u>	<u>(806,298)</u>	<u>(1,151,072)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	327,825	330,231	714,134	1,372,190
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>327,825</u>	<u>330,231</u>	<u>714,134</u>	<u>1,372,190</u>
Net Change in Fund Balances	64,746	248,536	(92,164)	221,118
Fund Balances, July 1, 2010	<u>266,030</u>	<u>28,703</u>	<u>107,850</u>	<u>402,583</u>
Fund Balances, June 30, 2011	<u>\$ 330,776</u>	<u>\$ 277,239</u>	<u>\$ 15,686</u>	<u>\$ 623,701</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
June 30, 2011

	Regional Sales Tax Revenue Fund	Visitors Enhancement Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Park Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
ASSETS:							
Equity in Pooled Cash & Investments	\$ 0	\$ 296,769	\$ 0	\$ 19	\$ 262	\$ 12,164	\$ 309,214
Investments	3,108	0	18,854	1,148	45,986	50,816	119,912
Accounts Receivable	0	36,347	0	0	0	0	36,347
Due from Other Governments	558,523	0	0	0	0	0	558,523
Due from Other Funds	21,211	0	0	0	0	0	21,211
Total Assets	\$ 582,842	\$ 333,116	\$ 18,854	\$ 1,167	\$ 46,248	\$ 62,980	\$ 1,045,207
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts Payable	\$ 0	\$ 6,098	\$ 0	\$ 0	\$ 206	\$ 8,063	\$ 14,367
Due to Other Funds	477,328	0	0	0	0	0	477,328
Total Liabilities	477,328	6,098	0	0	206	8,063	491,695
Fund Balances:							
Assigned	105,514	327,018	18,854	1,167	46,042	54,917	553,512
Total Fund Balances	105,514	327,018	18,854	1,167	46,042	54,917	553,512
Total Liabilities and Fund Balances	\$ 582,842	\$ 333,116	\$ 18,854	\$ 1,167	\$ 46,248	\$ 62,980	\$ 1,045,207

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 Fiscal Year Ended June 30, 2011

	Regional Sales Tax Revenue Fund	Visitors Enhancement Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Park Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
REVENUES:							
Local Option Sales Tax	\$ 3,183,807	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,183,807
Hotel/Motel Tax Allocation	0	345,148	0	0	0	0	345,148
Charges for Services	0	0	0	0	0	111,866	111,866
Investment Earnings	1,828	0	39	2	115	105	2,089
Contributions and Donations	0	0	0	0	12,403	11,005	23,408
Total Revenues	<u>3,185,635</u>	<u>345,148</u>	<u>39</u>	<u>2</u>	<u>12,518</u>	<u>122,976</u>	<u>3,666,318</u>
EXPENDITURES:							
Culture and Recreation	<u>0</u>	<u>163,821</u>	<u>0</u>	<u>0</u>	<u>24,488</u>	<u>129,781</u>	<u>318,090</u>
Total Expenditures	<u>0</u>	<u>163,821</u>	<u>0</u>	<u>0</u>	<u>24,488</u>	<u>129,781</u>	<u>318,090</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,185,635</u>	<u>181,327</u>	<u>39</u>	<u>2</u>	<u>(11,970)</u>	<u>(6,805)</u>	<u>3,348,228</u>
OTHER FINANCING SOURCES (USES):							
Transfers In	0	0	0	0	0	0	0
Transfers Out	<u>(4,481,784)</u>	<u>(156,691)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,638,475)</u>
Total Other Financing Sources (Uses)	<u>(4,481,784)</u>	<u>(156,691)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,638,475)</u>
Net Change in Fund Balances	(1,296,149)	24,636	39	2	(11,970)	(6,805)	(1,290,247)
Fund Balances, July 1, 2010, as restated	<u>1,401,663</u>	<u>302,382</u>	<u>18,815</u>	<u>1,165</u>	<u>58,012</u>	<u>61,722</u>	<u>1,843,759</u>
Fund Balances, June 30, 2011	<u>\$ 105,514</u>	<u>\$ 327,018</u>	<u>\$ 18,854</u>	<u>\$ 1,167</u>	<u>\$ 46,042</u>	<u>\$ 54,917</u>	<u>\$ 553,512</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
June 30, 2011

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
ASSETS:					
Cash	\$ 1,705,943	\$ 0	\$ 0	\$ 0	\$ 1,705,943
Long Term Certificates of Deposit	217,818	0	0	0	217,818
Investments	0	0	0	65,617	65,617
Due from Other Governments	163,911	204,247	811,481	0	1,179,639
Inventories	148,066	0	0	0	148,066
Total Assets	\$ 2,235,738	\$ 204,247	\$ 811,481	\$ 65,617	\$ 3,317,083
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 50,407	\$ 43,981	\$ 297,259	\$ 0	\$ 391,647
Other Liabilities	0	377	831	0	1,208
Due to Other Funds	24,261	130,115	491,891	0	646,267
Due to Other Governments	0	0	0	0	0
Deferred Revenue	38,207	6,770	21,500	0	66,477
Total Liabilities	112,875	181,243	811,481	0	1,105,599
Fund Balances:					
Nonspendable:					
Inventory	148,066	0	0	0	148,066
Assigned	1,974,797	23,004	0	65,617	2,063,418
Total Fund Balances	2,122,863	23,004	0	65,617	2,211,484
Total Liabilities and Fund Balances	\$ 2,235,738	\$ 204,247	\$ 811,481	\$ 65,617	\$ 3,317,083

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
For the Fiscal Year Ended June 30, 2011

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
REVENUES:					
Federal Government	\$ 1,777,151	\$ 185,285	\$ 5,746,429	\$ 0	\$ 7,708,865
State Government	29,138	858,695	0	0	887,833
Charges for Services	1,264,983	21,235	0	0	1,286,218
Investment Earnings	1,448	0	0	135	1,583
Contributions and Donations	189,836	0	0	0	189,836
Total Revenues	<u>3,262,556</u>	<u>1,065,215</u>	<u>5,746,429</u>	<u>135</u>	<u>10,074,335</u>
EXPENDITURES:					
School Food Service	3,332,057	0	0	0	3,332,057
School Federal Projects	0	0	5,265,474	0	5,265,474
Education	0	1,011,899	0	0	1,011,899
Capital Outlay	0	53,316	336,591	0	389,907
Total Expenditures	<u>3,332,057</u>	<u>1,065,215</u>	<u>5,602,065</u>	<u>0</u>	<u>9,999,337</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(69,501)</u>	<u>0</u>	<u>144,364</u>	<u>135</u>	<u>74,998</u>
OTHER FINANCING SOURCES (USES):					
Transfers In	0	0	0	0	0
Transfers Out	0	0	(144,364)	0	(144,364)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>(144,364)</u>	<u>0</u>	<u>(144,364)</u>
Net Change in Fund Balances	(69,501)	0	0	135	(69,366)
Fund Balances, July 1, 2010	<u>2,192,364</u>	<u>23,004</u>	<u>0</u>	<u>65,482</u>	<u>2,280,850</u>
Fund Balances, June 30, 2011	<u>\$ 2,122,863</u>	<u>\$ 23,004</u>	<u>\$ 0</u>	<u>\$ 65,617</u>	<u>\$ 2,211,484</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CRIMINAL FORFEITURE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 0	\$ 0
Fines and Forfeitures	8,000	8,000	5,857	(2,143)
Investment Earnings	0	0	35	35
Contributions and Donations	0	0	0	0
Total Revenues	8,000	8,000	5,892	(2,108)
EXPENDITURES:				
Public Safety	8,000	8,000	0	8,000
Capital Outlay	0	0	0	0
Total Expenditures	8,000	8,000	0	8,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	5,892	5,892
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	5,892	5,892
Fund Balances, July 1, 2010	0	0	100,385	100,385
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 106,277	\$ 106,277

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DRUG FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
State Government	\$ 0	\$ 0	\$ 0	\$ 0
Fines and Forfeitures	95,000	95,000	227,025	132,025
Contributions and Donations	0	0	0	0
Total Revenues	95,000	95,000	227,025	132,025
EXPENDITURES:				
General and Administrative	3,500	3,600	3,512	88
Public Safety	89,500	106,708	102,208	4,500
Capital Outlay	35,000	17,692	8,840	8,852
Total Expenditures	128,000	128,000	114,560	13,440
Excess (Deficiency) of Revenues Over (Under) Expenditures	(33,000)	(33,000)	112,465	145,465
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	(33,000)	(33,000)	112,465	145,465
Fund Balances, July 1, 2010	33,000	33,000	331,027	298,027
Prior Period Adjustment:				
Seized Cash	0	0	167,596	167,596
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 611,088	\$ 611,088

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
STATE STREET AID FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
State Government	\$ 1,200,000	\$ 1,322,276	\$ 1,254,295	\$ (67,981)
Investment Earnings	0	0	16	16
Total Revenues	1,200,000	1,322,276	1,254,311	(67,965)
EXPENDITURES:				
Highways and Streets	2,230,100	2,128,943	2,032,828	96,115
Capital Outlay	10,000	27,781	27,781	0
Total Expenditures	2,240,100	2,156,724	2,060,609	96,115
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,040,100)	(834,448)	(806,298)	28,150
OTHER FINANCING SOURCES (USES):				
Transfers In	960,100	733,940	714,134	(19,806)
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	960,100	733,940	714,134	(19,806)
Net Change in Fund Balances	(80,000)	(100,508)	(92,164)	8,344
Fund Balances, July 1, 2010	80,000	100,508	107,850	7,342
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 15,686	\$ 15,686

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
REGIONAL SALES TAX REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Local Option Sales Tax	\$ 3,126,200	\$ 3,126,200	\$ 3,183,807	\$ 57,607
Investment Earnings	10,000	10,000	1,828	(8,172)
Total Revenues	3,136,200	3,136,200	3,185,635	49,435
EXPENDITURES:				
Culture and Recreation	0	0	0	0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,136,200	3,136,200	3,185,635	49,435
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	(4,787,100)	(4,787,100)	(4,481,784)	305,316
Total Other Financing Sources (Uses)	(4,787,100)	(4,787,100)	(4,481,784)	305,316
Net Change in Fund Balances	(1,650,900)	(1,650,900)	(1,296,149)	354,751
Fund Balances, July 1, 2010	1,650,900	1,650,900	1,401,663	(249,237)
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 105,514	\$ 105,514

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
VISITORS ENHANCEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 0	\$ 311,500	\$ 345,148	\$ 33,648
Total Revenues	0	311,500	345,148	33,648
EXPENDITURES:				
Culture and Recreation	301,500	392,962	163,821	229,141
Capital Outlay	0	0	0	0
Total Expenditures	301,500	392,962	163,821	229,141
Excess (Deficiency) of Revenues Over (Under) Expenditures	(301,500)	(81,462)	181,327	262,789
OTHER FINANCING SOURCES (USES):				
Transfers In	311,500	0	0	0
Transfers Out	(170,000)	(170,000)	(156,691)	13,309
Total Other Financing Sources (Uses)	141,500	(170,000)	(156,691)	13,309
Net Change in Fund Balances	(160,000)	(251,462)	24,636	276,098
Fund Balances, July 1, 2010	160,000	251,462	302,382	50,920
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 327,018	\$ 327,018

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
STEADMAN CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 50	\$ 50	\$ 39	\$ (11)
Total Revenues	<u>50</u>	<u>50</u>	<u>39</u>	<u>(11)</u>
EXPENDITURES:				
Maintenance	<u>50</u>	<u>1,350</u>	<u>0</u>	<u>1,350</u>
Total Expenditures	<u>50</u>	<u>1,350</u>	<u>0</u>	<u>1,350</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>(1,300)</u>	<u>39</u>	<u>1,339</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	(1,300)	39	1,339
Fund Balances, July 1, 2010	<u>0</u>	<u>1,300</u>	<u>18,815</u>	<u>17,515</u>
Fund Balances, June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,854</u>	<u>\$ 18,854</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
PUBLIC LIBRARY COMMISSION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 50	\$ 50	\$ 2	\$ (48)
Contributions and Donations	0	0	0	0
Total Revenues	50	50	2	(48)
EXPENDITURES:				
Culture and Recreation	50	50	0	50
Total Expenditures	50	50	0	50
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	2	2
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	2	2
Fund Balances, July 1, 2010	0	0	1,165	1,165
Fund Balances, June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,167</u>	<u>\$ 1,167</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
BAYS MOUNTAIN PARK FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 500	\$ 500	\$ 115	\$ (385)
Contributions and Donations	20,000	20,000	12,403	(7,597)
Total Revenues	20,500	20,500	12,518	(7,982)
EXPENDITURES:				
Culture and Recreation	56,500	56,500	24,488	32,012
Total Expenditures	56,500	56,500	24,488	32,012
Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,000)	(36,000)	(11,970)	24,030
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	(36,000)	(36,000)	(11,970)	24,030
Fund Balances, July 1, 2010	36,000	36,000	58,012	22,012
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 46,042	\$ 46,042

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SENIOR CITIZENS ADVISORY BOARD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Charges for Services	\$ 168,200	\$ 168,200	\$ 111,866	\$ (56,334)
Investment Earnings	100	100	105	5
Contributions and Donations	9,800	9,800	11,005	1,205
Total Revenues	178,100	178,100	122,976	(55,124)
EXPENDITURES:				
Culture and Recreation	178,100	188,420	129,781	58,639
Total Expenditures	178,100	188,420	129,781	58,639
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(10,320)	(6,805)	3,515
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	(10,320)	(6,805)	3,515
Fund Balances, July 1, 2010	0	10,320	61,722	51,402
Fund Balances, June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 54,917</u>	<u>\$ 54,917</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHOOL NUTRITION SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal Government	\$ 1,409,550	\$ 1,409,550	\$ 1,777,151	\$ 367,601
State Government	28,300	28,300	29,138	838
Charges for Services	1,541,400	1,555,400	1,264,983	(290,417)
Investment Earnings	3,600	3,600	1,448	(2,152)
Contributions and Donations	171,650	171,650	189,836	18,186
Total Revenues	3,154,500	3,168,500	3,262,556	94,056
EXPENDITURES:				
School Food Service	3,154,500	3,841,602	3,332,057	509,545
Total Expenditures	3,154,500	3,841,602	3,332,057	509,545
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(673,102)	(69,501)	603,601
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	(673,102)	(69,501)	603,601
Fund Balances, July 1, 2010	0	673,102	2,192,364	1,519,262
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 2,122,863	\$ 2,122,863

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
PALMER CENTER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Investment Earnings	\$ 200	\$ 200	\$ 135	\$ (65)
Total Revenues	<u>200</u>	<u>200</u>	<u>135</u>	<u>(65)</u>
EXPENDITURES:				
Capital Outlay	<u>200</u>	<u>200</u>	<u>0</u>	<u>200</u>
Total Expenditures	<u>200</u>	<u>200</u>	<u>0</u>	<u>200</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>0</u>	<u>0</u>	<u>135</u>	<u>135</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	0	0	135	135
Fund Balances, July 1, 2010	<u>0</u>	<u>0</u>	<u>65,482</u>	<u>65,482</u>
Fund Balances, June 30, 2011	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,617</u>	<u>\$ 65,617</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
ALLANDALE TRUST FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 5,700	\$ 5,700	\$ 8,565	\$ 2,865
Total Revenues	5,700	5,700	8,565	2,865
EXPENDITURES:				
Culture and Recreation	5,700	5,700	0	5,700
Total Expenditures	5,700	5,700	0	5,700
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	8,565	8,565
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	8,565	8,565
Fund Balances, July 1, 2010	0	0	189,495	189,495
Fund Balances, June 30, 2011	\$ 0	\$ 0	\$ 198,060	\$ 198,060

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2011

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
ASSETS:					
Current Assets:					
Equity in Pooled Cash and Investments	\$ 2,052,672	\$ 3,055,708	\$ 2,096,929	\$ 549,786	\$ 7,755,095
Accounts Receivable	130	132	702,989	5,794	709,045
Accrued Interest Receivable	15,262	34	0	0	15,296
Due from Other Funds	198,480	0	0	0	198,480
Inventories	412,954	0	0	0	412,954
Prepays	0	164,706	6,008	1,994	172,708
Total Current Assets	2,679,498	3,220,580	2,805,926	557,574	9,263,578
Capital Assets:					
Land	14,695	0	0	0	14,695
Machinery and Equipment	23,535,658	0	0	0	23,535,658
Less: Accumulated Depreciation	(16,922,617)	0	0	0	(16,922,617)
Net Capital Assets	6,627,736	0	0	0	6,627,736
Other Assets:					
Advances to Other Funds	1,427,033	0	0	0	1,427,033
Deposits	0	30,000	102,000	25,500	157,500
Total Other Assets	1,427,033	30,000	102,000	25,500	1,584,533
Restricted Assets:					
Long Term Certificates of Deposit	1,500,000	500,000	0	0	2,000,000
Investments	1,638,673	0	0	0	1,638,673
Total Restricted Assets	3,138,673	500,000	0	0	3,638,673
Total Assets	13,872,940	3,750,580	2,907,926	583,074	21,114,520
LIABILITIES:					
Current Liabilities:					
Accounts Payable	346,713	166,191	846	0	513,750
Due to Other Governments	490	0	0	0	490
Benefits Payable	0	379,579	1,000,000	200,000	1,579,579
Compensated Absences Payable	83,550	9,750	4,768	0	98,068
Total Current Liabilities	430,753	555,520	1,005,614	200,000	2,191,887
Total Liabilities	430,753	555,520	1,005,614	200,000	2,191,887
NET ASSETS:					
Invested in Capital Assets	6,627,736	0	0	0	6,627,736
Unrestricted	6,814,451	3,195,060	1,902,312	383,074	12,294,897
Total Net Assets	\$ 13,442,187	\$ 3,195,060	\$ 1,902,312	\$ 383,074	\$ 18,922,633

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2011

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
OPERATING REVENUE:					
Charges for Sales and Services	\$ 5,372,631	\$ 2,256,198	\$ 5,884,679	\$ 935,518	\$ 14,449,026
Miscellaneous	51,695	237,849	965,670	23,143	1,278,357
Total Operating Revenue	5,424,326	2,494,047	6,850,349	958,661	15,727,383
OPERATING EXPENSES:					
Personnel Services and Benefits	1,241,524	219,911	60,956	0	1,522,391
Materials and Supplies	2,972,922	1,866	3,055	0	2,977,843
Contractual Services	77,148	59,721	167,323	9,500	313,692
Insurance	1,825	374,314	303,065	29,147	708,351
Insurance Claims	0	1,598,815	6,405,859	615,206	8,619,880
Depreciation	1,440,298	0	0	0	1,440,298
Miscellaneous	65,301	45,459	584,030	38,356	733,146
Total Operating Expenses	5,799,018	2,300,086	7,524,288	692,209	16,315,601
Operating Income (Loss)	(374,692)	193,961	(673,939)	266,452	(588,218)
NONOPERATING REVENUES:					
Gain on Disposal of Fixed Assets	25,769	0	0	0	25,769
Investment Earnings	106,560	16,495	11,315	1,586	135,956
Total Nonoperating Revenues	132,329	16,495	11,315	1,586	161,725
Income (Loss) Before Transfers	(242,363)	210,456	(662,624)	268,038	(426,493)
Transfers In	91,559	0	0	0	91,559
Transfers Out	(680,000)	0	0	0	(680,000)
Change in Net Assets	(830,804)	210,456	(662,624)	268,038	(1,014,934)
Net Assets, July 1, 2010	14,272,991	2,984,604	2,564,936	115,036	19,937,567
Net Assets, June 30, 2011	\$ 13,442,187	\$ 3,195,060	\$ 1,902,312	\$ 383,074	\$ 18,922,633

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Retirees Health Insurance Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Interfund Services Provided	\$ 5,425,434	\$ 2,494,047	\$ 6,148,163	\$ 955,786	\$ 15,023,430
Payments to Suppliers	(2,965,178)	(1,907,781)	(7,348,157)	(754,703)	(12,975,819)
Payments to Employees	(1,241,413)	(220,607)	(60,818)	0	(1,522,838)
Net Cash Provided (Used) by Operating Activities	1,218,843	365,659	(1,260,812)	201,083	524,773
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers to Other Funds	(680,000)	0	0	0	(680,000)
Due to (from) Other Funds	(198,480)	0	0	0	(198,480)
Advances (to) from Other Funds	(483,197)	0	0	0	(483,197)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,361,677)	0	0	0	(1,361,677)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital Transfers from Other Funds	91,559	0	0	0	91,559
Purchase of Capital Assets	(961,480)	0	0	0	(961,480)
Proceeds from Sales of Capital Assets	25,769	0	0	0	25,769
Net Cash Provided (Used) by Capital and Related Financing Activities	(844,152)	0	0	0	(844,152)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from Investments	1,634,118	0	0	0	1,634,118
Interest Received	216,972	16,495	11,315	1,586	246,368
Net Cash Provided (Used) by Investing Activities	1,851,090	16,495	11,315	1,586	1,880,486
Net Increase (Decrease) In Cash and Cash Equivalents	864,104	382,154	(1,249,497)	202,669	199,430
Cash and Cash Equivalents, July 1, 2010	1,188,568	2,673,554	3,346,426	347,117	7,555,665
Cash and Cash Equivalents, June 30, 2011	\$ 2,052,672	\$ 3,055,708	\$ 2,096,929	\$ 549,786	\$ 7,755,095
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ (374,692)	\$ 193,961	\$ (673,939)	\$ 266,452	\$ (588,218)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	1,440,298	0	0	0	1,440,298
(Increase) Decrease in Assets:					
Accounts Receivable	1,108	0	(702,186)	(2,875)	(703,953)
Inventory	(46,448)	0	0	0	(46,448)
Prepays	0	(9,218)	(6,008)	(1,994)	(17,220)
Deposits	0	0	(102,000)	(25,500)	(127,500)
Increase (Decrease) in Liabilities:					
Accounts Payable	197,976	100,884	(6,817)	0	292,043
Due to Other Governments	490	0	0	0	490
Benefits Payable	0	80,728	230,000	(35,000)	275,728
Compensated Absences Payable	111	(696)	138	0	(447)
Net Cash Provided (Used) by Operating Activities	\$ 1,218,843	\$ 365,659	\$ (1,260,812)	\$ 201,083	\$ 524,773
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:					
Equity in Pooled Cash and Investments	\$ 2,052,672	\$ 3,055,708	\$ 2,096,929	\$ 549,786	\$ 7,755,095
Restricted Assets Cash in Bank	0	0	0	0	0
Cash and Cash Equivalents, June 30, 2011	\$ 2,052,672	\$ 3,055,708	\$ 2,096,929	\$ 549,786	\$ 7,755,095

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	Industrial Development Board	Emergency Communications District
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 4,926,324	\$ 649,683
Payments to Suppliers	(5,205,163)	(529,185)
Net Cash Provided (Used) by Operating Activities	(278,839)	120,498
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital Grants	0	24,000
Net Cash Provided by Noncapital Financing Activities	0	24,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	0	0
Capital Grants	0	10,000
Principal Paid on Capital Debt	(508,458)	0
Interest Paid on Capital Debt	(61,047)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(569,505)	10,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	9,725	36,646
Net Cash Provided by Investing Activities	9,725	36,646
Net Increase (Decrease) in Cash and Cash Equivalents	(838,619)	191,144
Cash and Cash Equivalents, July 1, 2010	1,215,405	2,080,130
Cash and Cash Equivalents, June 30, 2011	<u>\$ 376,786</u>	<u>\$ 2,271,274</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (519,517)	\$ 198,285
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,084	43,981
(Increase) Decrease in Assets:		
Accounts Receivable	(900)	(4,741)
Due from Other Governments	0	(191)
Due from Primary Government	(436,480)	0
Note Receivable from Other Non-Profit Organization	28,896	0
Land Held for Sale or Development	(233,127)	0
Prepaid Items	(4,225)	777
Increase (Decrease) in Liabilities:		
Accounts Payable	935,677	(117,613)
Other Payables	(52,247)	0
Net Cash Provided (Used) by Operating Activities	<u>\$ (278,839)</u>	<u>\$ 120,498</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:		
Cash	\$ 232,626	\$ 2,271,274
Restricted Assets Cash in Bank	144,160	0
Cash and Cash Equivalents, June 30, 2011	<u>\$ 376,786</u>	<u>\$ 2,271,274</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Increase in Investment in Joint Venture	<u>\$ 36,509</u>	<u>\$ 0</u>
Land Donated by Primary Government	<u>\$ 273,594</u>	<u>\$ 0</u>
Land Donated to Developer	<u>\$ 35,786</u>	<u>\$ 0</u>

See Independent Auditors' Report.

THIS PAGE INTENTIONALLY LEFT BLANK



D. SUPPLEMENTAL INFORMATION

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	\$ 23,322,520	\$ 19,580,699
Buildings	141,206,894	117,312,394
Improvements Other Than Buildings	15,314,742	14,982,438
Equipment	12,769,518	10,265,334
Software	466,846	304,032
Infrastructure	270,400,418	268,180,369
Construction in Progress	<u>53,193,591</u>	<u>67,961,891</u>
Total Governmental Funds Fixed Assets	<u>\$ 516,674,529</u>	<u>\$ 498,587,157</u>
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
General Obligation Bonds	\$ 347,103,266	\$ 322,082,499
Contributions from Municipalities	576,947	576,947
Federal Grants	6,850,644	6,353,779
State Grants	97,844	97,844
County Grants	63,817	63,817
Federal Revenue Sharing	247,612	261,130
General Fund Revenue	12,353,909	11,466,594
Gifts	23,841,890	19,544,575
Annexed Roads	11,902,015	10,146,045
Forfeitures	91,330	64,632
Special Revenue Funds	58,009,599	57,346,464
Operating Revenue	2,340,976	2,619,851
Notes Payable	1,089	1,089
Construction in Progress	<u>53,193,591</u>	<u>67,961,891</u>
Total Governmental Funds Capital Assets	<u>\$ 516,674,529</u>	<u>\$ 498,587,157</u>

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 KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2011

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction in Progress	Total
General Government:								
General Government	\$ 6,879,016	\$ 6,053,198	\$ 1,531,259	\$ 815,309	\$ 26,173	\$ 0	\$ 20,663,764	\$ 35,968,719
City Manager	0	0	20,889	0	0	0	0	20,889
Finance	0	0	0	0	193,628	0	0	193,628
Information Services	0	0	0	315,986	0	0	0	315,986
Geographic Information	0	0	0	101,365	9,000	0	0	110,365
Total General Government	6,879,016	6,053,198	1,552,148	1,232,660	228,801	0	20,663,764	36,609,587
Economic and Physical Development:								
Development Services	0	650,519	45,984	34,575	0	0	0	731,078
Transportation	0	975,014	104,076	1,831,331	69,601	0	0	2,980,022
Engineering	0	0	0	45,335	0	0	0	45,335
Total Economic and Physical Development	0	1,625,533	150,060	1,911,241	69,601	0	0	3,756,435
Public Safety:								
Police	90,587	4,650,342	69,147	832,709	23,053	0	746,407	6,412,245
Fire	735,230	3,789,595	208,179	1,080,716	0	0	1,123,576	6,937,296
Communication	0	66,535	0	66,972	0	0	0	133,507
Central Dispatch	0	0	44,000	2,046,631	0	0	0	2,090,631
Total Public Safety	825,817	8,506,472	321,326	4,027,028	23,053	0	1,869,983	15,573,679
Public Works:								
General and Administrative	0	315,240	16,284	33,180	0	344,470	0	709,174
Sanitation	0	0	0	5,000	0	0	0	5,000
Streets	0	0	1,123,214	423,165	0	19,767,376	5,966,027	27,279,782
Maintenance	0	0	0	216,673	0	0	0	216,673
Bridges System	0	0	0	0	0	6,206,316	1,455,188	7,661,504
Highways System	0	0	0	0	0	243,605,639	504,393	244,110,032
Total Public Works	0	315,240	1,139,498	678,018	0	269,923,801	7,925,608	279,982,165

(continued)

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2011

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction in Progress	Total
Culture and Recreation:								
Senior Citizens	0	3,871,546	0	0	0	0	0	3,871,546
Recreation	10,241,227	7,689,768	3,811,996	518,213	0	0	20,344,493	42,605,697
Bays Mountain	980,962	886,158	255,891	33,891	0	0	1,186,739	3,343,641
Allandale	306,018	344,930	336,886	192,686	0	0	0	1,180,520
Library	133,000	3,620,618	0	125,153	0	476,617	0	4,355,388
Total Culture and Recreation	11,661,207	16,413,020	4,404,773	869,943	0	476,617	21,531,232	55,356,792
Education	3,956,480	108,293,431	7,746,937	4,050,628	145,391	0	1,203,004	125,395,871
Total Governmental Funds Capital Assets	<u>\$ 23,322,520</u>	<u>\$ 141,206,894</u>	<u>\$ 15,314,742</u>	<u>\$ 12,769,518</u>	<u>\$ 466,846</u>	<u>\$ 270,400,418</u>	<u>\$ 53,193,591</u>	<u>\$ 516,674,529</u>

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

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Fiscal Year Ended June 30, 2011

Function and Activity	Governmental Funds Capital Assets July 1, 2010	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2011
General Government:					
General Government	\$ 31,818,732	\$ 10,808,228	\$ (6,658,241)	\$ 0	\$ 35,968,719
City Manager	20,889	0		0	20,889
Finance	205,179	149,428	(160,979)	0	193,628
Information Services	315,986	0	0	0	315,986
Geographic Information	115,412	0	(5,047)	0	110,365
Total General Government	32,476,198	10,957,656	(6,824,267)	0	36,609,587
Economic and Physical Development:					
Development Services	731,078	0	0	0	731,078
Transportation	2,462,961	795,016	(277,955)	0	2,980,022
Engineering	64,361	0	(19,026)	0	45,335
Total Economic and Physical Development	3,258,400	795,016	(296,981)	0	3,756,435
Public Safety:					
Police	6,375,510	67,525	(30,790)	0	6,412,245
Fire	6,428,633	2,818,303	(2,309,640)	0	6,937,296
Communication	133,507	0	0	0	133,507
Central Dispatch	2,212,168	0	(121,537)	0	2,090,631
Total Public Safety	15,149,818	2,885,828	(2,461,967)	0	15,573,679
Public Works:					
General and Administrative	698,260	10,914	0	0	709,174
Sanitation	13,742	0	(8,742)	0	5,000
Streets	23,011,742	4,402,988	(134,948)	0	27,279,782
Maintenance	205,464	11,209		0	216,673
Bridges System	7,600,885	60,619	0	0	7,661,504
Highways System	244,110,032	0	0	0	244,110,032
Total Public Works	275,640,125	4,485,730	(143,690)	0	279,982,165
Culture and Recreation:					
Senior Citizens	3,871,546	0		0	3,871,546
Recreation	35,206,655	7,595,791	(196,749)	0	42,605,697
Bays Mountain	2,985,281	358,360		0	3,343,641
Allandale	1,180,520	0	0	0	1,180,520
Library	4,355,388	0		0	4,355,388
Total Culture and Recreation	47,599,390	7,954,151	(196,749)	0	55,356,792
Education	124,463,226	19,851,595	(18,918,950)	0	125,395,871
Total Governmental Funds Capital Assets	\$ 498,587,157	\$ 46,929,976	\$ (28,842,604)	\$ 0	\$ 516,674,529

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 Fiscal Year Ended June 30, 2011

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Management Fund</u>	<u>MeadowView Conference Resort and Convention Center Fund</u>	<u>Cattails at MeadowView Golf Course Fund</u>	<u>Total Enterprise Funds</u>
General and Administrative:						
Personnel Services	\$ 510,200	\$ 379,874	\$ 69,558	\$ 0	\$ 0	\$ 959,632
Contractual Services	180,721	226,168	12,200	35,679	187,297	642,065
Supplies	185,332	2,123	0	131,177	13,426	332,058
Insurance	44,417	60,000	22,000	5,522	29,878	161,817
Subsidies and Contributions	0	0	0	405,974	0	405,974
Base Management Fee	0	0	0	105,648	27,340	132,988
Other	121,722	55,168	42,232	182,893	46,821	448,836
Total General and Administrative	<u>1,042,392</u>	<u>723,333</u>	<u>145,990</u>	<u>866,893</u>	<u>304,762</u>	<u>3,083,370</u>
Operations:						
Water Plant Operations	2,146,250	0	0	0	0	2,146,250
Sewer Plant Operations	0	1,989,731	0	0	0	1,989,731
Water Distribution System Maintenance	2,874,192	0	0	0	0	2,874,192
Sewer Collection System Maintenance	0	1,513,401	0	0	0	1,513,401
Reading, Service and Maintenance of Meters	764,848	0	0	0	0	764,848
Landfill Operations and Services	0	0	775,801	0	0	775,801
Solid Waste Collection Services	0	0	655,831	0	0	655,831
Organic Refuse Services	0	0	1,850,195	0	0	1,850,195
Recycling Services	0	0	487,106	0	0	487,106
Golf Grounds Maintenance	0	0	0	0	320,054	320,054
Golf Pro Shop	0	0	0	0	389,721	389,721
Golf Shop Food and Beverage	0	0	0	0	79,734	79,734
Total Operations	<u>5,785,290</u>	<u>3,503,132</u>	<u>3,768,933</u>	<u>0</u>	<u>789,509</u>	<u>13,846,864</u>
Total Operating Costs	<u>\$ 6,827,682</u>	<u>\$ 4,226,465</u>	<u>\$ 3,914,923</u>	<u>\$ 866,893</u>	<u>\$ 1,094,271</u>	<u>\$ 16,930,234</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expend- itures	Balance June 30, 2011
<u>SCHOOL NUTRITION SERVICES FUND:</u>						
Pass Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ (38,847)	\$ 1,266,873	\$ 1,360,623	\$ (132,597) *
10.553	School Breakfast Program	U.S. Department of Agriculture	0	375,213	404,759	(29,546) *
10.582	Fresh Fruit and Vegetable Program	U.S. Department of Agriculture	(1,965)	11,966	11,769	(1,768) *
Pass Through Tennessee Department of Agriculture:						
10.569	Commodity Supplemental Feeding	U.S. Department of Agriculture	256,635	122,034	265,474	113,195 ***
Total School Nutrition Services Fund			215,823	1,776,086	2,042,625	(50,716)
<u>PUBLIC LAW 93-380 FUND:</u>						
Pass Through Tennessee Department of Education:						
84.010	Title I, Project 10-01	U.S. Department of Education	(244,521)	447,393	202,872	0
84.010	Title I, Project 11-01	U.S. Department of Education	0	1,228,810	1,400,981	(172,171) *
ARRA 84.389	Title I, Project 10-01 ARRA	U.S. Department of Education	(35,406)	188,954	153,548	0
ARRA 84.389	Title I, Project 10-21 ARRA	U.S. Department of Education	0	276,187	399,643	(123,456) *
84.027	IDEA Part B, 10-01	U.S. Department of Education	(122,467)	308,768	186,301	0
84.027	IDEA Part B, 10-21	U.S. Department of Education	0	410,949	410,949	0
84.027	IDEA Part B, 11-01	U.S. Department of Education	0	590,377	696,529	(106,152) *
ARRA 84.391	IDEA Part B, 10-01 ARRA	U.S. Department of Education	(85,997)	300,547	214,550	0
ARRA 84.391	IDEA Part B, 10-21 ARRA	U.S. Department of Education	0	446,120	551,954	(105,834) *
84.048	Carl Perkins, 2010	U.S. Department of Education	(54,275)	58,274	3,999	0
84.048	Carl Perkins, 2011	U.S. Department of Education	0	66,517	79,144	(12,627) *
84.173	Pre School 10-01	U.S. Department of Education	(7,757)	7,757	0	0
84.173	Pre School 11-01	U.S. Department of Education	0	37,409	40,409	(3,000) *
ARRA 84.392	Pre School 10-01 ARRA	U.S. Department of Education	(842)	842	0	0
ARRA 84.392	Pre School 10-21 ARRA	U.S. Department of Education	0	5,683	29,151	(23,468) *
84.367	Title II, 2010, 2010-01	U.S. Department of Education	(44,605)	44,605	0	0
84.367	Title II, 2010, 2010-21	U.S. Department of Education	0	226,075	237,075	(11,000) *
84.367	Title II, 2011, 2011-01	U.S. Department of Education	0	136,970	217,874	(80,904) *
84.318	Title II D, 2011, 2011-01	U.S. Department of Education	0	5,970	5,970	0
ARRA 84.386	Title II D, 2010, 2010-01 ARRA	U.S. Department of Education	0	14,220	14,220	0
ARRA 84.386	Title II D e4000, 2010-01 ARRA	U.S. Department of Education	0	4,398	20,000	(15,602) *
ARRA 84.387	Title X, 2010-01 ARRA	U.S. Department of Education	(3,861)	7,389	11,899	(8,371) *
ARRA 84.395	Race To The Top, 2011, ARRA	U.S. Department of Education	0	348,737	424,491	(75,754) *
84.410	Education Jobs Fund	U.S. Department of Education	0	371,659	435,029	(63,370) *
Pass Through Cocke County:						
84.365	Title III, 2010-01	U.S. Department of Education	68	(68)	0	0
84.365	Title III, 2011-01	U.S. Department of Education	0	68	9,840	(9,772) *
Total Public Law 93-380 Fund			(599,663)	5,534,610	5,746,428	(811,481)

(continued)

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expend- itures	Balance June 30, 2011
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
17.279	Green Collar Job Preparation CO-196394-09	U.S. Department of Labor	(44,625)	40,163	0	(4,462) *
84.215	Elem Sec School Counseling	U.S. Department of Education	0	132,254	132,254	0
Pass-Through Tennessee Department of Labor:						
17.260	Rapid Response Dislocated Worker Z-08-211888-00	U.S. Department of Education	(4,762)	4,762	0	0
Pass-Through Tennessee Department of Education:						
84.318	Education for Tennessee Grant	U.S. Department of Education	(14,235)	36,535	53,030	(30,730) *
84.186	Youth Violence & Drug Prevention	U.S. Department of Education	(6,539)	6,539	0	0
84.196	Homeless Assistance Grant	U.S. Department of Education	(10,019)	32,837	37,670	(14,852) *
93.558	Youth Empowerment Initiative	U.S. Dept. of Health & Human Services	0	29,833	71,741	(41,908) *
Total Special School Projects Fund			<u>(80,180)</u>	<u>282,923</u>	<u>294,695</u>	<u>(91,952)</u>
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Direct Programs:						
ARRA 16.710	COPS Hiring Program 2009RKWX0812 ARRA	U.S. Department of Justice	(37,436)	223,875	254,806	(68,367) *
Pass Through Tennessee Emergency Management Agency						
97.078	Buffer Zone Protection Program 2009-BF-T9-0011	U.S. Dept. of Homeland Security	0	44,123	49,023	(4,900) *
Pass Through Tennessee State Library and Archives						
ARRA 11.557	Library Laptop Computers ARRA	U.S. Dept. of Commerce	0	8,255	8,255	0
45.310	Library Services Technology Grant	Institute of Museum and Library Services	0	2,550	2,550	0
Pass Through Tennessee Department of Transportation						
20.600	Aggressive Driving Multiple Violation Campaign	U. S. Dept. of Transportation	0	2,662	14,367	(11,705) *
Pass Through Community Capacity Development Office						
16.595	Weed and Seed Program	U.S. Department of Justice	0	33,947	34,080	(133) *
Pass Through South Arts						
45.025	Regional Touring Grant	National Endowment for the Arts	0	2,250	2,250	0
Total Special Revenue General Projects Fund			<u>(37,436)</u>	<u>317,662</u>	<u>365,331</u>	<u>(85,105)</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expend- itures	Balance June 30, 2011
<u>COMMUNITY DEVELOPMENT FUND:</u>						
Direct Programs:						
ARRA 14.218	Community Development Block Grants	U.S. Department of HUD	(24,518)	580,380	607,642	(51,780) *
ARRA 14.253	Community Development Block Grant ARRA B-09-MY-47-0004	U.S. Department of HUD	(8,800)	20,982	12,182	0
Pass-Through Tennessee Department of Health & Human Services:						
14.231	Emergency Shelter Grant Program	U.S. Department of HUD	0	61,029	62,955	(1,926) *
Total Community Development Fund			(33,318)	662,391	682,779	(53,706)
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-90-X263	U.S. Department of Transportation	0	48,025	48,025	0
20.507	FTA Capital/Operating/Planning TN-90-X278	U.S. Department of Transportation	0	41,058	63,905	(22,847) *
20.507	FTA Capital/Operating/Planning TN-90-X296	U.S. Department of Transportation	(130,208)	442,796	422,738	(110,150) *
20.507	FTA Capital/Operating/Planning TN-90-X318	U.S. Department of Transportation	0	0	124,096	(124,096) *
ARRA 20.507	FTA Capital ARRA Grant TN-96-X008 ARRA	U.S. Department of Transportation	(32,965)	733,340	700,375	0
Total Federal Transit Administration Fund			(163,173)	1,265,219	1,359,139	(257,093)
<u>CAPITAL PROJECTS FUND:</u>						
Direct Programs:						
11.300	Public Works Program					
ARRA 81.128	Leadership in Energy and Environment Design	U.S. Department of Commerce	(154,864)	157,027	2,163	0
	Energy Efficiency and Conservation Block Grant ARRA EE0002433	U.S. Department of Energy	153,851	0	131,290	22,561 **
14.248	Section 108 Loan Guarantee B-07-MC-47-0004	U.S. Department of HUD	0	856,000	856,000	0
Pass-Through Tennessee Department of Transportation:						
20.219	STP-EN-8200(24)	U.S. Department of Transportation	(292,145)	292,145	0	0
20.219	STP-EN-8200(22/29)	U.S. Department of Transportation	(58,862)	0	0	(58,862) *
20.205	Safe Routes to Schools SRTS-9108(30)	U.S. Department of Transportation	0	0	598	(598) *
Pass-Through Appalachian Regional Commission						
23.011	CO-16121-08	Appalachian Regional Commission	0	0	9,875	(9,875) *
Total Capital Projects Fund			(352,020)	1,305,172	999,926	(46,774)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expend- itures	Balance June 30, 2011
<u>GENERAL PURPOSE SCHOOL FUND:</u>						
	Pass-Through Tennessee Department of Labor: 84.002 Adult Basic Education	U.S. Department of Education	(20,651)	215,548	245,070	(50,173) *
ARRA	Pass-Through Tennessee Department of Education: 93.714 SNAP School Supplies ARRA	U.S. Department of Education	0	46,712	46,712	0
	Pass-Through Tennessee Department of Education: State Fiscal Stabilization Fund:					
ARRA	84.394 SFSF - BEP ARRA	U.S. Department of Education	0	1,983,550	1,983,550	0
ARRA	84.397 SFSF - Safe Schools ARRA	U.S. Department of Education	(13,513)	25,804	21,010	(8,719) *
ARRA	84.397 SFSF - Extended Contract ARRA	U.S. Department of Education	(95,956)	192,300	246,997	(150,653) *
ARRA	84.397 SFSF - Internet Connect ARRA	U.S. Department of Education	0	19,320	19,320	(0)
ARRA	84.397 SFSF - Family Resource ARRA	U.S. Department of Education	(10,762)	25,762	30,810	(15,810) *
ARRA	84.397 SFSF - Coordinated School Health ARRA	U.S. Department of Education	(47,975)	109,751	94,918	(33,142) *
Total General Purpose School Fund			(188,857)	2,618,747	2,688,387	(258,497)
<u>GENERAL FUND:</u>						
	Direct Programs:					
	16.012 Organized Crime Drug Enforcement Task Force SE-TNE-211H	U.S. Dept of Justice DEA	0	30,827	30,827	0
	Pass-Through First Tennessee Development District:					
	93.044 Title III-B Transportation & III-D Health Promotion	U.S. Dept of Health & Human Services	(1,566)	11,166	14,000	(4,400) *
	45.024 The Big Read Program	National Endowment for the Arts	(1,000)	1,000	0	0
	Pass-Through South Arts:					
	45.025 Technical Assistance Grant	National Endowment for the Arts	0	900	900	0
	Pass-Through Financial Commission for Appalachia HIDTA:					
	95.001 High Intensity Drug Trafficking Area	Executive Office of the President	0	8,716	12,811	(4,095) *
Total General Fund			(2,566)	52,609	58,538	(8,495)
<u>JUSTICE ASSISTANCE GRANT FUND:</u>						
	Direct Programs:					
	16.579 Justice Assistance Grant / 2006-DJ-BX-0738	U.S. Department of Justice	(3,800)	3,800	0	0
	16.579 Justice Assistance Grant / 2009-DJ-BX-0800	U.S. Department of Justice	0	0	10,000	(10,000) *
ARRA	16.804 Justice Assistance Grant / 2009-SB-B9-0981 ARRA	U.S. Department of Justice	(893)	70,488	67,087	2,508 **
	Pass Through Tennessee Office of Criminal Justice Programs:					
	16.738 Kingsport Targeted Community Crime Reduction DG1132208-00	U.S. Department of Justice	0	0	72,178	(72,178) *
Total Justice Assistance Grant Fund			(4,693)	74,288	149,265	(79,670)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expend- itures	Balance June 30, 2011
<u>METROPOLITAN PLANNING OFFICE FUND:</u>						
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(210) 2010	Federal Highway Administration	(28,071)	177,559	219,058	(69,570) *
20.505	FTA Capital / Operating / Planning Section 5303 10	U.S. Department of Transportation	(12,371)	31,839	30,472	(11,004) *
ARRA 20.205	ARRA STP M 9108 (31) (32) (33)	U.S. Department of Transportation	(947,980)	838,667	(109,313)	0
Pass-Through Virginia Department of Transportation:						
20.205	FHWA Project VA PL Funds 2010	Federal Highway Administration	(3,600)	7,600	4,000	0
20.205	FHWA Project VA SPR Funds 2010	Federal Highway Administration	(37,119)	170,171	145,451	(12,399) *
20.505	FTA Capital / Operating / Planning VA 2010	U.S. Department of Transportation	(3,374)	6,749	3,375	0
Total Metropolitan Planning Office Fund			(1,032,515)	1,232,585	293,043	(92,973)
<u>SEWER FUND:</u>						
Pass - Through Tennessee Dept of Environment & Conservation:						
ARRA 66.458	Clean Water SRF Loan ARRA Funded Loan	U.S. Dept. of Environmental Protection	(4,862)	82,965	146,234	(68,131) *
ARRA 66.458	Clean Water SRF ARRA Funded Principal Forgiveness	U.S. Dept. of Environmental Protection	(19,449)	331,860	584,935	(272,524) *
Total Sewer Fund			(24,311)	414,825	731,169	(340,655)
Total Federal Awards			<u>\$ (2,302,909)</u>	<u>\$ 15,537,117</u>	<u>\$ 15,411,325</u>	<u>\$ (2,177,117)</u>

NOTE A: BASIS OF PRESENTATION

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

NOTE B: FOOD DISTRIBUTION

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

NOTE C: PAYMENTS TO SUB-RECIPIENTS

Payments were made from the Community Development Block Grant to the South Central Kingsport CDC, CASA of Sullivan County, Learning Centers of KHRA, and Kingsport Child Development Center in the amounts of \$65,365; \$16,605; \$47,758; and \$20,750 respectively.

NOTE D: LOAN RECOGNITION

The City recognizes loan proceeds as income or liability depending on the applicable fund at the time the draw request is submitted. Any related debt forgiveness is also recognized at the time the draw request is submitted.

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

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2011

State Grant Number	Program Name / Grant Number	Grantor Agency	Balance June 30, 2010	Cash Receipts	Expenditures	Balance June 30, 2011
<u>GENERAL FUND:</u>						
5-J/10	Arts Build Communities	Tennessee Arts Commission	\$ (2,250)	\$ 2,250	\$ 0	\$ 0
31625-17103	TAC Technical Assistance Grant	Tennessee Arts Commission	0	840	2,590	(1,750) *
Pass-Through First Tennessee Development District:						
KINGS-2011-HOOT-11	State Senior Center Operations Grant	TN Department of Health & Human Services	(3,334)	17,867	21,200	(6,667) *
Total General Fund			(5,584)	20,957	23,790	(8,417)
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
DGA 19734	Kingsport Art and Sculpture Walk	Tennessee Arts Commission	0	0	6,300	(6,300) *
31625-18118	Kingsport Art and Sculpture Walk	Tennessee Arts Commission	0	3,000	3,000	0
5-J/11	Arts Build Community Grant	Tennessee Arts Commission	0	0	2,100	(2,100) *
Total Special Revenue General Projects Fund			0	3,000	11,400	(8,400)
<u>METROPOLITAN PLANNING ORGANIZATION FUND:</u>						
GG-07-26135-00	TN-80-0002-01 Operating 82-5303-S3-006	Tennessee Department of Transportation	0	2,032	2,032	0
GG-07-26135-00	TN-80-X003-01 Operating 82-5303-S3-006	Tennessee Department of Transportation	(1,547)	1,949	996	(594) *
GG-11-35738-00	TN-80-0004-00 Operating 82-5303-S3-012	Tennessee Department of Transportation	0	0	781	(781) *
Total Metropolitan Planning Organization Fund			(1,547)	3,981	3,809	(1,375)
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>						
GG-08-24064	TN-90-X-263 Capital 82-5307-S3-004	Tennessee Department of Transportation	0	3,058	3,058	0
GG-09-26601	TN-90-X-278 Capital/Planning 82-5307-S3-005	Tennessee Department of Transportation	0	3,724	3,724	0
GG-10-30730	TN-90-X-278 Operating 82-5307-S3-009	Tennessee Department of Transportation	0	637	8,515	(7,878) *
GG-10-30807	TN-90-X-296 Capital 82-UROP-S3-007	Tennessee Department of Transportation	(2,084)	3,579	8,887	(7,392) *
GG-10-30730	TN-90-X-296 Operating 82-UROP-S3-009	Tennessee Department of Transportation	(56,767)	207,081	166,010	(15,696) *
GG-11-34501	TN-90-X-318 Operating 82-5307-S3-009	Tennessee Department of Transportation	0	0	62,048	(62,048) *
Total Federal Transit Administration Fund			(58,851)	218,079	252,242	(93,014)
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
GG-10-28898	Truancy Intervention Program	Tennessee Department of Children's Services	(9,269)	40,403	51,109	(19,975) *
119-09-2-022	LEAPS Program	Tennessee Department of Education	(112,930)	306,644	240,625	(46,911) *
MX0-AAX	Pre-Kindergarten- Lottery	Tennessee Department of Education	(68,307)	476,522	447,551	(39,336) *
Total Special School Projects Fund			(190,506)	823,569	739,285	(106,222)

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2011

<u>State Grant Number</u>	<u>Program Name / Grant Number</u>	<u>Grantor Agency</u>	<u>Balance June 30, 2010</u>	<u>Cash Receipts</u>	<u>Expend- itures</u>	<u>Balance June 30, 2011</u>	
<u>CAPITAL PROJECTS FUND:</u>							
GG-09-25533-00	Madd Branch Storm Water Device	Tennessee Department of Agriculture	27,500	0	0	27,500	**
GG-08-22460-00	Madd Branch Improvement	Tennessee Department of Agriculture	0	2,090	10,920	(8,830)	*
GG-09-26897-00	Phase 3 Enhancements Domtar & Eastman Parks	Tennessee Dept of Environment & Conservation	(283,423)	300,000	16,577	0	
GG-09-27536-00	Phase 3 Enhancements Domtar & Eastman Parks	Tennessee Dept of Environment & Conservation	0	70,000	70,000	0	
DG-08-22849-00	Tennessee Agricultural Enhancement Program	Tennessee Department of Agriculture	0	0	2,500	(2,500)	*
Total Capital Projects Fund			<u>(255,923)</u>	<u>372,090</u>	<u>99,997</u>	<u>16,170</u>	
<u>SEWER FUND:</u>							
SRF-2007-197	State Revolving Loan Fund	Tennessee Dept of Environment & Conservation	(42,715)	690,685	1,727,993	(1,080,023)	*
SRF-2007-200	State Revolving Loan Fund	Tennessee Dept of Environment & Conservation	(579,184)	579,184	0	0	
CGA-2009-240 ARRA	State Revolving Loan Fund State Funded	Tennessee Dept of Environment & Conservation	<u>(24,311)</u>	<u>414,825</u>	<u>731,169</u>	<u>(340,655)</u>	*
Total Sewer Fund			<u>(646,210)</u>	<u>1,684,694</u>	<u>2,459,162</u>	<u>(1,420,678)</u>	
Total State Awards for the Primary Government			<u>(1,158,621)</u>	<u>3,126,370</u>	<u>3,589,685</u>	<u>(1,621,936)</u>	
<u>COMPONENT UNIT</u>							
<u>INDUSTRIAL DEVELOPMENT BOARD:</u>							
GG-10-30537-00	Advanced Manufacturing Partnership	TN Dept of Economic and Community Development	<u>655,000</u>	<u>0</u>	<u>655,000</u>	<u>0</u>	
Total Industrial Development Board			<u>655,000</u>	<u>0</u>	<u>655,000</u>	<u>0</u>	
Total State Awards			<u>\$ (503,621)</u>	<u>\$ 3,126,370</u>	<u>\$ 4,244,685</u>	<u>\$ (1,621,936)</u>	

* Receivable ** Unused Revenue

See Independent Auditors' Report.

STATISTICAL SECTION

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

Contents:

Page

Financial Trends

Tables 1 - 6 contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

171

Revenue Capacity

Tables 7 - 11 contain information to help the reader assess the government's most significant local revenue sources, the property tax and local option sales tax.

179

Debt Capacity

Tables 12 - 16 present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

184

Demographic and Economic Information

Tables 17 - 18 offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

189

Operating Information

Tables 19 - 28 contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

191

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

THIS PAGE INTENTIONALLY LEFT BLANK

Table 1

CITY OF KINGSPORT, TENNESSEE
NET ASSETS BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities										
Invested in Capital Assets, Net of Related Debt	\$ 234,544,000	\$ 235,345,000	\$ 236,295,000	\$ 236,125,000	\$ 245,201,000	\$ 244,856,000	\$ 251,706,778	\$ 255,888,658	\$ 262,313,208	\$ 246,176,930
Restricted	8,981,000	6,876,000	6,694,000	1,081,000	4,099,000	33,768,000	30,399,946	22,286,383	184,626	184,662
Unrestricted	37,305,000	39,600,000	38,668,000	50,500,000	38,707,000	9,145,000	2,085,078	(702,400)	6,871,567	9,312,041
Total Governmental Activities Net Assets	<u>\$ 280,830,000</u>	<u>\$ 281,821,000</u>	<u>\$ 281,657,000</u>	<u>\$ 287,706,000</u>	<u>\$ 288,007,000</u>	<u>\$ 287,769,000</u>	<u>\$ 284,191,802</u>	<u>\$ 277,472,641</u>	<u>\$ 269,369,401</u>	<u>\$ 255,673,633</u>
Business-Type Activities										
Invested in Capital Assets, Net of Related Debt	\$ 98,946,000	\$ 103,253,000	\$ 113,859,000	\$ 119,477,000	\$ 126,885,000	\$ 133,869,000	\$ 142,403,592	\$ 149,317,029	\$ 157,978,008	\$ 163,891,065
Restricted	1,046,000	1,068,000	562,000	897,000	838,000	952,000	1,119,119	939,246	882,421	1,432,126
Unrestricted	2,627,000	3,939,000	43,000	3,174,000	6,069,000	10,225,000	13,816,505	16,644,944	16,420,757	17,296,662
Total Business-Type Activities Net Assets	<u>\$ 102,619,000</u>	<u>\$ 108,260,000</u>	<u>\$ 114,464,000</u>	<u>\$ 123,548,000</u>	<u>\$ 133,792,000</u>	<u>\$ 145,046,000</u>	<u>\$ 157,339,216</u>	<u>\$ 166,901,219</u>	<u>\$ 175,281,186</u>	<u>\$ 182,619,853</u>
Primary Government										
Invested in Capital Assets, Net of Related Debt	\$ 333,490,000	\$ 338,598,000	\$ 350,154,000	\$ 355,602,000	\$ 372,086,000	\$ 378,725,000	\$ 394,110,370	\$ 405,205,687	\$ 420,291,216	\$ 410,067,995
Restricted	10,027,000	7,944,000	7,256,000	1,978,000	4,937,000	34,720,000	31,519,065	23,225,629	1,067,047	1,616,788
Unrestricted	39,932,000	43,539,000	38,711,000	53,674,000	44,776,000	19,370,000	15,901,583	15,942,544	23,292,324	26,608,703
Total Primary Government Net Assets	<u>\$ 383,449,000</u>	<u>\$ 390,081,000</u>	<u>\$ 396,121,000</u>	<u>\$ 411,254,000</u>	<u>\$ 421,799,000</u>	<u>\$ 432,815,000</u>	<u>\$ 441,531,018</u>	<u>\$ 444,373,860</u>	<u>\$ 444,650,587</u>	<u>\$ 438,293,486</u>

Source: City of Kingsport Finance Department

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

CITY OF KINGSPORT, TENNESSEE
CHANGES IN NET ASSETS
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses										
<u>Governmental Activities:</u>										
General Government	\$ 5,530,000	\$ 5,295,000	\$ 6,571,000	\$ 4,687,000	\$ 5,605,000	\$ 10,185,000	\$ 10,448,110	\$ 8,346,300	\$ 11,201,367	\$ 14,877,308
Public Safety	12,631,000	13,395,000	13,918,000	14,767,000	16,076,000	16,994,000	19,844,589	19,955,908	19,485,392	20,186,463
Public Works	9,279,000	9,225,000	10,151,000	8,737,000	11,638,000	11,388,000	13,370,957	12,871,747	14,690,010	15,325,189
Highway Transportation Planning	2,034,000	2,366,000	2,693,000	2,679,000	2,894,000	2,820,000	3,121,176	3,532,499	5,767,852	3,846,573
Economic and Physical Development	3,128,000	3,066,000	2,829,000	3,065,000	3,280,000	3,418,000	4,097,855	4,397,024	4,234,673	4,792,022
Culture and Recreation	4,096,000	4,469,000	4,294,000	4,456,000	5,253,000	5,097,000	6,802,922	6,535,076	6,144,900	6,590,859
Education	47,840,000	50,950,000	52,939,000	54,274,000	57,985,000	60,306,000	66,063,108	69,060,256	71,107,497	75,900,414
Interest on Long-Term Debt	2,713,000	2,329,000	2,228,000	2,002,000	1,737,000	1,470,000	3,244,491	3,276,319	4,069,104	4,718,229
Other	234,000	314,000	475,000	0	0	0	0	0	0	0
Total Governmental Activities Expenses	87,485,000	91,409,000	96,098,000	94,667,000	104,468,000	111,678,000	126,993,208	127,975,129	136,700,795	146,237,057
<u>Business-Type Activities:</u>										
Water	8,216,000	7,503,000	7,483,000	7,618,000	8,051,000	7,910,000	8,971,314	9,208,308	9,068,323	9,630,478
Sewer	8,015,000	6,824,000	7,631,000	7,545,000	7,700,000	7,582,000	7,941,556	8,527,859	8,082,865	8,227,535
Solid Waste Management	2,794,000	2,915,000	3,078,000	3,304,000	3,168,000	4,432,000	3,798,666	3,643,156	3,614,988	4,009,722
MeadowView Conference Center	2,117,000	1,701,000	2,321,000	1,740,000	1,392,000	1,230,000	1,246,702	1,461,629	1,986,408	1,597,797
Cattails at MeadowView Golf Course	1,351,000	1,246,000	1,255,000	1,323,000	1,355,000	1,432,000	1,447,591	1,361,077	1,586,343	1,384,281
Total Business-Type Activities Expenses	22,493,000	20,189,000	21,768,000	21,530,000	21,666,000	22,586,000	23,405,829	24,202,029	24,338,927	24,849,813
Total Primary Government Expenses	\$ 109,978,000	\$ 111,598,000	\$ 117,866,000	\$ 116,197,000	\$ 126,134,000	\$ 134,264,000	\$ 150,399,037	\$ 152,177,158	\$ 161,039,722	\$ 171,086,870
Program Revenues										
<u>Governmental Activities:</u>										
Charges for Services:										
General Government	\$ 1,564,000	\$ 406,000	\$ 322,000	\$ 368,000	\$ 507,000	\$ 821,000	\$ 138,937	\$ 194,323	\$ 687,263	\$ 1,596,808
Public Safety	140,000	274,000	216,000	287,000	288,000	314,000	2,478,198	2,384,667	1,789,496	1,820,625
Highway Transportation Planning	51,000	49,000	98,000	95,000	88,000	97,000	97,070	120,520	103,207	110,713
Economic and Physical Development	247,000	241,000	321,000	308,000	435,000	519,000	513,595	562,536	1,192,238	1,079,506
Culture and Recreation	563,000	519,000	495,000	571,000	679,000	678,000	748,935	754,137	818,919	987,328
Education	2,584,000	2,600,000	2,571,000	2,648,000	2,639,000	2,726,000	2,472,281	2,452,987	2,475,034	2,485,634
Operating Grants and Contributions	22,877,000	24,420,000	25,195,000	27,005,000	26,957,000	29,035,000	31,848,530	32,757,394	34,317,663	37,442,335
Capital Grants and Contributions	821,000	1,629,000	940,000	2,738,000	1,627,000	706,000	6,982,702	4,179,278	7,348,567	9,217,970
Total Governmental Activities Program Revenues	28,847,000	30,138,000	30,158,000	34,020,000	33,220,000	34,896,000	45,280,248	43,405,842	48,732,387	54,740,919
<u>Business-Type Activities:</u>										
Charges for Services:										
Water	10,157,000	10,708,000	11,198,000	11,904,000	12,493,000	13,445,000	13,073,516	12,981,541	12,513,017	12,383,505
Sewer	10,349,000	10,429,000	11,120,000	12,709,000	12,895,000	13,357,000	12,740,996	13,081,940	12,618,400	12,276,442
Solid Waste Management	391,000	383,000	441,000	580,000	489,000	580,000	783,960	679,518	772,999	829,411
MeadowView Conference Center	239,000	248,000	248,000	267,000	253,000	287,000	283,188	259,746	251,800	303,648
Cattails at MeadowView Golf Course	1,132,000	973,000	958,000	950,000	982,000	1,025,000	1,095,861	1,042,420	981,837	938,658
Operating Grants and Contributions	0	0	0	0	0	0	0	0	0	229,976
Capital Grants and Contributions	201,000	0	0	0	0	0	2,660,735	2,123,441	1,296,823	655,174
Total Business-Type Activities Program Revenues	22,469,000	22,741,000	23,965,000	26,410,000	27,112,000	28,694,000	30,638,256	30,168,606	28,434,876	27,616,814
Total Primary Government Program Revenues	\$ 51,316,000	\$ 52,879,000	\$ 54,123,000	\$ 60,430,000	\$ 60,332,000	\$ 63,590,000	\$ 75,918,504	\$ 73,574,448	\$ 77,167,263	\$ 82,357,733

(continued)

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (Expense)/Revenue										
Governmental Activities	\$ (58,638,000)	\$ (61,271,000)	\$ (65,940,000)	\$ (60,647,000)	\$ (71,248,000)	\$ (76,782,000)	\$ (81,712,960)	\$ (84,569,287)	\$ (87,968,408)	\$ (91,496,138)
Business-Type Activities	(24,000)	2,552,000	2,197,000	4,880,000	5,446,000	6,108,000	7,232,427	5,966,577	4,095,949	2,767,001
Total Primary Government Net (Expense) Revenue	<u>\$ (58,662,000)</u>	<u>\$ (58,719,000)</u>	<u>\$ (63,743,000)</u>	<u>\$ (55,767,000)</u>	<u>\$ (65,802,000)</u>	<u>\$ (70,674,000)</u>	<u>\$ (74,480,533)</u>	<u>\$ (78,602,710)</u>	<u>\$ (83,872,459)</u>	<u>\$ (88,729,137)</u>
General Revenues and Other Changes in Net Assets										
<u>Governmental Activities:</u>										
Taxes:										
Property Taxes	\$ 35,254,000	\$ 36,399,000	\$ 38,532,000	\$ 39,122,000	\$ 41,609,000	\$ 42,857,000	\$ 43,181,138	\$ 45,003,403	\$ 45,938,645	\$ 47,144,856
Sales Taxes	23,874,000	24,133,000	24,394,000	25,174,000	26,154,000	27,570,000	27,531,437	27,003,900	26,304,997	27,514,740
Other Taxes	4,115,000	4,013,000	3,826,000	3,743,000	4,460,000	5,069,000	6,117,575	5,447,237	5,017,241	5,234,872
Grants and Contributions Not Restricted	986,000	565,000	581,000	524,000	589,000	713,000	641,999	970,035	1,040,878	986,665
Unrestricted Investment Earnings	1,118,000	673,000	598,000	1,015,000	1,662,000	2,801,000	3,392,236	1,624,800	786,056	421,579
Gain (Loss) on Disposal of Capital Assets	20,000	4,000	13,000	30,000	2,000	4,000	269,917	18,322	(869,975)	0
Miscellaneous	621,000	933,000	1,589,000	944,000	972,000	1,340,000	1,036,779	790,029	742,259	755,400
Transfers	(5,067,000)	(2,987)	(3,757,000)	(3,856,000)	(3,899,000)	(3,810,000)	(4,035,319)	(3,007,600)	(3,874,687)	(4,425,338)
Total Governmental Activities	<u>60,921,000</u>	<u>66,717,013</u>	<u>65,776,000</u>	<u>66,696,000</u>	<u>71,549,000</u>	<u>76,544,000</u>	<u>78,135,762</u>	<u>77,850,126</u>	<u>75,085,414</u>	<u>77,632,774</u>
<u>Business-Type Activities:</u>										
Unrestricted Investment Earnings	442,000	295,000	239,000	351,000	877,000	1,334,000	1,024,862	600,431	409,331	146,328
Gain (Loss) on Disposal of Capital Assets	(6,000)	6,000	4,000	(8,000)	0	2,000	50	(12,605)	0	0
Miscellaneous	0	0	7,000	5,000	22,000	0	0	0	0	0
Transfers	5,067,000	2,987,000	3,757,000	3,856,000	3,899,000	3,810,000	4,035,319	3,007,600	3,874,687	4,425,338
Total Business-Type Activities	<u>5,503,000</u>	<u>3,288,000</u>	<u>4,007,000</u>	<u>4,204,000</u>	<u>4,798,000</u>	<u>5,146,000</u>	<u>5,060,231</u>	<u>3,595,426</u>	<u>4,284,018</u>	<u>4,571,666</u>
Total Primary Government	<u>\$ 66,424,000</u>	<u>\$ 70,005,013</u>	<u>\$ 69,783,000</u>	<u>\$ 70,900,000</u>	<u>\$ 76,347,000</u>	<u>\$ 81,690,000</u>	<u>\$ 83,195,993</u>	<u>\$ 81,445,552</u>	<u>\$ 79,369,432</u>	<u>\$ 82,204,440</u>
Change in Net Assets										
Governmental Activities	\$ 2,283,000	\$ 5,446,013	\$ (164,000)	\$ 6,049,000	\$ 301,000	\$ (238,000)	\$ (3,577,198)	\$ (6,719,161)	\$ (12,882,994)	\$ (13,863,364)
Business-Type Activities	5,479,000	5,840,000	6,204,000	9,084,000	10,244,000	11,254,000	12,292,658	9,562,003	8,379,967	7,338,667
Total Primary Government	<u>\$ 7,762,000</u>	<u>\$ 11,286,013</u>	<u>\$ 6,040,000</u>	<u>\$ 15,133,000</u>	<u>\$ 10,545,000</u>	<u>\$ 11,016,000</u>	<u>\$ 8,715,460</u>	<u>\$ 2,842,842</u>	<u>\$ (4,503,027)</u>	<u>\$ (6,524,697)</u>

Source: City of Kingsport Finance Department

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

Table 3

CITY OF KINGSPORT, TENNESSEE
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel / Motel Tax	Total
2002	\$ 35,254,000	\$ 23,874,000	\$ 664,000	\$ 1,427,000	\$ 1,307,000	\$ 717,000	\$ 63,243,000
2003	36,399,000	24,133,000	659,000	1,272,000	1,318,000	764,000	64,545,000
2004	38,532,000	24,394,000	379,000	1,416,000	1,296,000	735,000	66,752,000
2005	39,122,000	25,174,000	468,000	1,219,000	1,313,000	743,000	68,039,000
2006	41,609,000	26,154,000	750,000	1,551,000	1,368,000	791,000	72,223,000
2007	42,857,000	27,570,000	1,026,000	1,707,000	1,398,000	938,000	75,496,000
2008	43,181,138	27,531,437	1,324,987	1,951,834	1,459,593	1,381,161	76,830,150
2009	45,003,403	27,003,900	957,062	1,673,312	1,575,636	1,241,227	77,454,540
2010	45,938,645	26,304,997	577,363	1,589,591	1,549,521	1,300,766	77,260,883
2011	47,144,856	27,514,740	555,283	1,681,523	1,617,478	1,380,588	79,894,468

Source: City of Kingsport Finance Department

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

Table 4

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
General Fund										
Reserved	\$ 2,910,000	\$ 3,378,000	\$ 3,950,000	\$ 3,607,000	\$ 3,232,000	\$ 3,510,000	\$ 3,391,331	\$ 2,384,571	\$ 1,574,013	\$ 0
Unreserved	14,627,000	14,920,000	12,720,000	12,078,000	15,420,000	17,409,000	14,848,415	12,927,260	13,155,138	0
Nonspendable	0	0	0	0	0	0	0	0	0	44,571
Restricted	0	0	0	0	0	0	0	0	0	0
Committed	0	0	0	0	0	0	0	0	0	0
Assigned	0	0	0	0	0	0	0	0	0	1,440,450
Unassigned	0	0	0	0	0	0	0	0	0	12,099,373
Total General Fund	<u>\$ 17,537,000</u>	<u>\$ 18,298,000</u>	<u>\$ 16,670,000</u>	<u>\$ 15,685,000</u>	<u>\$ 18,652,000</u>	<u>\$ 20,919,000</u>	<u>\$ 18,239,746</u>	<u>\$ 15,311,831</u>	<u>\$ 14,729,151</u>	<u>\$ 13,584,394</u>
All Other Governmental Funds										
Reserved	\$ 753,000	\$ 5,602,000	\$ 4,713,000	\$ 7,797,000	\$ 4,747,000	\$ 5,695,000	\$ 14,961,015	\$ 16,130,214	\$ 9,018,913	\$ 0
Unreserved, reported in:										
Debt Service	15,000	0	71,000	33,000	69,000	1,022,000	1,140,765	626,839	411,923	0
Special Revenue Funds	6,447,000	5,732,000	5,956,000	5,385,000	5,050,000	7,556,000	6,895,192	7,432,715	6,594,744	0
Capital Project Funds	8,777,000	6,689,000	6,532,000	688,000	3,757,000	33,434,000	30,073,388	22,101,833	38,247,760	0
Permanent Fund	0	0	0	0	0	0	20,293	28,232	36,804	0
Nonspendable	0	0	0	0	0	0	0	0	0	335,358
Restricted	0	0	0	0	0	0	0	0	0	29,898,833
Committed	0	0	0	0	0	0	0	0	0	195,000
Assigned	0	0	0	0	0	0	0	0	0	10,303,693
Total all Other Governmental Funds	<u>\$ 15,992,000</u>	<u>\$ 18,023,000</u>	<u>\$ 17,272,000</u>	<u>\$ 13,903,000</u>	<u>\$ 13,623,000</u>	<u>\$ 47,707,000</u>	<u>\$ 53,090,653</u>	<u>\$ 46,319,833</u>	<u>\$ 54,310,144</u>	<u>\$ 40,732,884</u>

Source: City of Kingsport Finance Department

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

* FY 2011 Implementation of GASB Statement No. 54 Fund Balance Classification

Table 5
Page 1 of 2

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues:										
Taxes	\$ 43,644,000	\$ 45,098,000	\$ 46,524,000	\$ 48,415,000	\$ 51,532,000	\$ 53,341,000	\$ 57,472,994	\$ 58,697,849	\$ 59,644,769	\$ 61,736,098
Licenses and Permits	401,000	264,000	324,000	350,000	350,000	526,000	778,788	544,797	354,400	339,843
Intergovernmental	44,025,000	46,018,000	46,457,000	49,907,000	50,004,000	52,686,000	52,217,860	54,633,138	57,016,177	57,618,712
Charges for Services	4,643,000	3,503,000	3,561,000	3,669,000	3,900,000	4,162,000	3,940,109	4,056,619	4,903,995	5,059,845
Fines and Forfeitures	506,000	421,000	297,000	443,000	560,000	787,000	2,233,346	2,083,918	1,404,126	1,475,914
Contributions and Donations	73,000	319,000	272,000	579,000	459,000	316,000	385,508	343,405	417,259	544,308
Investment Earnings	761,000	488,000	395,000	731,000	1,188,000	2,123,000	2,754,996	1,209,675	534,657	285,622
Miscellaneous	274,000	276,000	327,000	332,000	360,000	555,000	714,899	438,420	620,950	1,087,540
Total Revenues	94,327,000	96,387,000	98,157,000	104,426,000	108,353,000	114,496,000	120,498,500	122,007,821	124,896,333	128,147,882
Expenditures:										
General Government	5,326,000	5,526,000	5,657,000	5,898,000	6,240,000	7,698,000	8,228,820	8,287,499	9,493,673	8,937,456
Public Safety	12,196,000	12,634,000	13,085,000	13,890,000	14,556,000	15,568,000	16,983,599	17,862,379	18,183,202	18,602,375
Public Works	4,448,000	4,299,000	5,207,000	4,814,000	5,018,000	5,178,000	5,639,582	6,162,895	6,297,624	6,292,395
Transportation	2,034,000	2,366,000	2,693,000	2,679,000	2,894,000	2,820,000	3,121,176	3,532,499	5,767,852	4,404,721
Development	2,977,000	2,816,000	2,556,000	2,948,000	3,068,000	3,219,000	3,681,462	3,884,126	3,823,882	4,258,551
Recreation	3,190,000	3,274,000	3,022,000	3,726,000	4,011,000	3,933,000	4,594,675	4,884,551	4,883,835	5,203,012
Education	44,589,000	46,818,000	48,581,000	51,437,000	53,181,000	55,800,000	57,969,972	60,328,330	62,216,835	63,944,855
Miscellaneous	220,000	309,000	348,000	516,000	722,000	878,000	1,019,288	860,350	1,164,299	1,179,584
Capital Outlay	7,368,000	7,502,000	10,048,000	11,933,000	10,562,000	4,954,000	21,263,050	30,907,899	23,141,716	20,219,807
Debt Service:										
Principal	6,628,000	19,770,000	11,060,000	7,847,000	8,525,000	8,488,000	12,191,783	7,750,015	4,286,390	5,271,066
Interest	2,713,000	2,299,000	2,170,000	1,982,000	1,735,000	1,470,000	2,449,755	2,761,593	3,612,987	4,930,280
Bond Issuance Costs	34,000	123,000	211,000	43,000	100,000	300,000	389,556	405,059	459,043	20,479
Arbitrage Rebate	0	0	0	0	0	0	0	0	0	0
Other Charges	14,000	5,000	30,000	15,000	20,000	11,000	7,590	19,516	9,744	33,061
Total Expenditures	91,737,000	107,741,000	104,668,000	107,728,000	110,632,000	110,317,000	137,540,308	147,646,711	143,341,082	143,297,642
Excess (deficiency) of revenues over (under) expenditures	2,590,000	(11,354,000)	(6,511,000)	(3,302,000)	(2,279,000)	4,179,000	(17,041,808)	(25,638,890)	(18,444,749)	(15,149,760)

(Continued)

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

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Other Financing Sources (Uses):										
Transfers In	24,826,000	29,658,000	28,792,000	30,494,000	32,824,000	36,504,000	36,400,996	33,134,077	28,905,392	29,214,433
Transfers Out	(29,997,000)	(32,681,000)	(32,606,000)	(34,396,000)	(36,723,000)	(40,314,000)	(40,680,728)	(36,665,512)	(32,780,079)	(33,051,330)
Issuance of Debt	2,620,000	17,155,000	13,725,000	2,850,000	6,771,000	35,441,000	23,120,000	19,260,000	29,207,043	4,097,044
Premiums on Debt Issued	0	0	561,000	0	0	0	112,398	211,590	520,024	0
Sale of Building	0	0	0	0	0	0	800,000	0	0	0
Payments to Refunded Bond Escrow Agent	0	0	(6,340,000)	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(2,551,000)	14,132,000	4,132,000	(1,052,000)	2,872,000	31,631,000	19,752,666	15,940,155	25,852,380	260,147
Net Change in Fund Balances	<u>\$ 39,000</u>	<u>\$ 2,778,000</u>	<u>\$ (2,379,000)</u>	<u>\$ (4,354,000)</u>	<u>\$ 593,000</u>	<u>\$ 35,810,000</u>	<u>\$ 2,710,858</u>	<u>\$ (9,698,735)</u>	<u>\$ 7,407,631</u>	<u>\$ (14,889,613)</u>
Debt Service as a Percentage of Noncapital Expenditures	<u>11.1%</u>	<u>22.0%</u>	<u>14.0%</u>	<u>10.3%</u>	<u>10.3%</u>	<u>9.5%</u>	<u>12.6%</u>	<u>9.0%</u>	<u>6.6%</u>	<u>8.3%</u>

Source: City of Kingsport Finance Department

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

Table 6

CITY OF KINGSFORT, TENNESSEE
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Income Tax	Business Tax	Alcoholic Beverage Tax	Hotel / Motel Tax	Total
2002	\$ 34,911,000	\$ 23,874,000	\$ 664,000	\$ 1,427,000	\$ 1,307,000	\$ 717,000	\$ 62,900,000
2003	36,117,000	24,133,000	659,000	1,272,000	1,318,000	764,000	64,263,000
2004	37,775,000	24,394,000	379,000	1,416,000	1,296,000	735,000	65,995,000
2005	39,290,000	25,174,000	468,000	1,219,000	1,313,000	743,000	68,207,000
2006	41,770,000	26,154,000	750,000	1,551,000	1,368,000	791,000	72,384,000
2007	42,929,000	27,570,000	1,026,000	1,707,000	1,398,000	938,000	75,568,000
2008	43,322,288	27,531,437	1,324,987	1,951,834	1,459,593	1,381,161	76,971,300
2009	44,749,419	27,003,900	957,062	1,673,312	1,575,636	1,241,227	77,200,556
2010	45,745,881	26,304,997	577,363	1,589,591	1,549,521	1,300,766	77,068,119
2011	47,130,788	27,514,740	555,283	1,681,523	1,617,478	1,380,588	79,880,400

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.

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

Table 7

CITY OF KINGSFORT, TENNESSEE
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30	Tax Year	Real Property				Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
		Residential and Farm Property	Industrial and Commercial Property	Personal Property	Public Utility				
2002	2001	\$ 378,890,929	\$ 350,414,588	\$ 307,946,010	\$ 39,512,083	\$ 1,076,763,610	\$ 2.22	\$ 3,489,323,774	30.86%
2003	2002	381,837,990	353,943,783	306,104,121	44,088,034	1,085,973,928	2.29	3,512,115,287	30.92%
2004	2003	386,620,196	381,988,450	337,980,179	43,108,340	1,149,697,165	2.29	3,705,828,043	31.02%
2005	2004	392,197,892	390,447,568	332,088,376	46,710,193	1,161,444,029	2.29	3,736,183,711	31.09%
2006	2005	416,736,199	438,583,408	360,312,126	48,475,652	1,264,107,385	2.26	4,053,938,000	31.18%
2007	2006	432,446,370	451,842,280	382,898,959	46,401,525	1,313,589,134	2.26	4,194,699,000	31.32%
2008	2007	443,963,472	459,872,279	341,168,271	40,991,606	1,285,995,628	2.30	4,137,292,349	31.08%
2009	2008	456,423,060	480,026,995	345,357,678	40,519,972	1,322,327,705	2.30	4,250,624,664	31.11%
2010	2009	542,112,415	601,517,500	408,047,665	47,796,156	1,599,473,736	1.94	5,119,304,395	31.24%
2011	2010	576,028,905	624,738,933	387,994,899	54,381,309	1,643,144,046	1.94	5,258,154,390	31.25%

Source: City of Kingsport Finance Department

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

Table 8

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
2002	\$ 2.2200	\$ 2.3500	\$ 2.4100
2003	2.2900	2.3500	2.4100
2004	2.2900	2.3500	2.4100
2005	2.2900	2.6700	2.5300
2006	2.2600	2.5300	2.6800
2007	2.2600	2.5300	2.3600
2008	2.3000	2.5300	2.6100
2009	2.3000	2.5300	2.6100
2010	1.9400	2.1307	2.7050
2011	1.9400	2.1307	2.7050

Source: City of Kingsport Finance Department

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

Table 9

**CITY OF KINGSPORT, TENNESSEE
PRINCIPAL PROPERTY TAXPAYERS
For The Fiscal Years Noted**

Taxpayer	2011			2002		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Eastman Chemical Company	\$ 406,862,939	1	24.8%	\$ 289,111,897	1	26.9%
Domtar, Inc (Weyerhaeuser Co/ Willamette Industries)	29,004,892	2	1.8%	26,050,629	2	2.4%
Wellmont Health System/ Holston Vally Health Care	27,819,601	3	1.7%	5,396,546	9	0.5%
Kingsport Power Company	17,828,101	4	1.1%	10,867,280	6	1.0%
Kingsport Town Center (Fort Henry Mall- Baltry, LLC)	17,033,633	5	1.0%	13,044,343	4	1.2%
Brandy Mill Apartments, LLC	13,157,040	6	0.8%			
Mountain States Health / HCA	11,362,600	7	0.7%	7,839,120	7	0.7%
Inland Western Kpt East Stone LLC - Clara F Jackson	9,607,560	8	0.6%			
Wal Mart Properties/Real Estate	9,228,840	9	0.6%	5,397,452	8	0.5%
Eastman Credit Union	9,219,225	10	0.6%			
Sprint/United Inter-Mountain Telephone Southeast				14,148,861	3	1.3%
Quebecor				12,192,626	5	1.1%
AFG/AGC Industries	-			4,037,291	10	0.4%
Totals	<u>\$ 551,124,431</u>		<u>33.7%</u>	<u>\$ 388,086,045</u>		<u>36.0%</u>

Total Taxable Assessed Value:

FYE 2011 (Tax Year 2010)	\$ 1,643,144,046
FYE 2002 (Tax Year 2001)	1,076,763,610

Source: City of Kingsport Finance Department

Table 10

CITY OF KINGSPORT, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30	Tax Levy for Fiscal Year	Subsequent Adjustments to Levy	Adjusted Tax Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Uncollected Delinquent Taxes
				Amount	Percentage of Adjusted Levy		Amount	Percentage of Adjusted Levy	
2002	\$ 23,911,170	\$ (13,092)	\$ 23,898,078	\$ 23,042,569	96.42%	\$ 762,969	\$ 23,805,538	99.61%	\$ 92,540
2003	24,868,827	63,600	24,932,427	24,104,536	96.68%	779,297	24,883,833	99.81%	48,594
2004	26,332,293	(777)	26,331,516	25,315,529	96.14%	943,352	26,258,881	99.72%	72,635
2005	26,616,925	(17,412)	26,599,513	25,793,768	96.97%	741,979	26,535,747	99.76%	63,766
2006	28,738,644	(3,753)	28,734,891	27,985,510	97.39%	651,729	28,637,239	99.66%	97,652
2007	29,564,326	1,688	29,566,014	28,769,796	97.31%	711,015	29,480,811	99.71%	85,203
2008	29,582,951	174,556	29,757,507	28,616,818	96.17%	898,277	29,515,095	99.19%	242,412
2009	30,553,586	(18,074)	30,535,512	29,616,908	96.99%	719,266	30,336,174	99.35%	199,338
2010	31,362,309	(164,042)	31,198,267	30,151,757	96.65%	595,261	30,747,018	98.55%	451,249
2011	32,011,845	285,763	32,297,608	31,071,305	96.20%	0	31,071,305	96.20%	1,226,303

Source: City of Kingsport Finance Department

Table 11

**CITY OF KINGSPORT, TENNESSEE
LOCAL OPTION SALES TAX COLLECTIONS
Last Ten Fiscal Years**

FISCAL YEAR ENDED JUN 30	TOTAL LOCAL OPTION SALES TAX COLLECTIONS	GENERAL FUND	REGIONAL SALES TAX FUND
2002	\$ 15,859,370	\$ 13,040,584	\$ 2,818,786
2003	15,970,648	13,110,702	2,859,946
2004	16,621,795	13,649,100	2,972,695
2005	16,669,868	13,685,614	2,984,254
2006	17,103,371	14,019,410	3,083,961
2007	17,833,634	14,618,999	3,214,635
2008	17,854,873	14,640,220	3,214,653
2009	17,634,903	14,478,441	3,156,462
2010	17,067,113	14,009,678	3,057,435
2011	17,778,766	14,594,959	3,183,807

Source: City of Kingsport Finance Department

Note: The Local Option Sales Tax rate for sales within the corporate limits of the City of Kingsport is 2.50% in the Sullivan County portion of the municipality. One-quarter percent (0.25%) is distributed directly to the Regional Sales Tax Fund and is used to offset the costs related to the City's MeadowView Conference, Resort, and Convention Center and related facilities, and the Aquatics Center and Water Park.

Table 12

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

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			
2002	\$ 54,766,000	\$ 554,000	\$ 61,743,000	\$ 300,000	\$ 11,419,000	\$ 128,782,000	11.04%	\$ 2,903
2003	48,434,000	4,450,000	61,394,000	270,000	13,046,000	127,594,000	11.37%	2,876
2004	49,288,000	346,000	63,890,000	240,000	7,920,000	121,684,000	11.01%	2,751
2005	44,395,000	241,000	63,045,000	225,000	6,293,000	114,199,000	9.85%	2,591
2006	38,931,000	3,932,000	60,303,000	210,000	5,829,000	109,205,000	9.11%	2,475
2007	63,481,000	6,302,000	53,665,000	195,000	5,423,000	129,066,000	10.23%	2,921
2008	74,292,500	6,419,174	47,477,500	180,000	5,591,065	133,960,239	10.68%	3,015
2009	86,349,375	5,872,283	66,339,999	160,000	15,578,624	174,300,281	12.81%	3,809
2010	111,818,918	5,323,392	72,989,778	140,000	22,190,263	212,462,351	15.09%	4,486
2011	107,172,668	8,795,620	66,372,528	0	24,288,460	206,629,276	13.23%	4,193

Source: City of Kingsport Finance Department

Note:

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

Table 13

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

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Net General Obligation Bonds	Estimated Actual Taxable Value of Property	Per Capita
2002	\$ 54,766,000	\$ 15,000	\$ 54,751,000	1.57%	\$ 1,234
2003	48,434,000	0	48,434,000	1.38%	1,092
2004	49,288,000	71,000	49,217,000	1.33%	1,113
2005	44,395,000	33,000	44,362,000	1.19%	1,007
2006	38,931,000	92,000	38,839,000	0.96%	880
2007	63,481,000	422,000	63,059,000	1.50%	1,427
2008	74,292,500	392,347	73,900,153	1.79%	1,663
2009	86,349,375	169,995	86,179,380	2.03%	1,883
2010	111,818,918	137,041	111,681,877	2.18%	2,358
2011	107,172,668	74,440	107,098,228	2.04%	2,173

Source: City of Kingsport Finance Department

Note:

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

CITY OF KINGSPORT, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
For the Fiscal Year Ended June 30, 2011

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes:			
Net Direct Debt:			
City of Kingsport	\$ 123,381,532 (1)	100.00%	\$ 123,381,532
Total Direct Debt	123,381,532	100.00%	123,381,532
Overlapping Debt:			
Sullivan County	64,276,066	44.10% (2)	28,347,159
Hawkins County	86,027,376	6.87% (2)	5,911,303
Subtotal, Overlapping Debt	150,303,442		34,258,462
Total Direct and Overlapping Debt	\$ 273,684,974		\$ 157,639,994

(1) Includes MeadowView Conference Center General Obligation Debt

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

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.

Sources:

-City of Kingsport Finance Department
 -County Governments
 -Tennessee Comptroller of the Treasury Division of Property Assessments

Table 15

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt Limit	\$ 215,352,722	\$ 217,194,786	\$ 229,939,433	\$ 232,288,806	\$ 252,821,477	\$ 262,717,827	\$ 257,199,126	\$ 264,465,541	\$ 319,894,747	\$ 328,628,809
Total Net Debt Applicable to Limit	65,906,000	62,796,000	56,978,000	50,275,000	43,335,000	65,910,000	74,655,000	101,870,000	128,636,532	123,381,532
Legal Debt Margin	<u>\$ 149,446,722</u>	<u>\$ 154,398,786</u>	<u>\$ 172,961,433</u>	<u>\$ 182,013,806</u>	<u>\$ 209,486,477</u>	<u>\$ 196,807,827</u>	<u>\$ 182,544,126</u>	<u>\$ 162,595,541</u>	<u>\$ 191,258,215</u>	<u>\$ 205,247,277</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	<u>30.60%</u>	<u>28.91%</u>	<u>24.78%</u>	<u>21.64%</u>	<u>17.14%</u>	<u>25.09%</u>	<u>29.03%</u>	<u>38.52%</u>	<u>40.21%</u>	<u>37.54%</u>
Legal Debt Margin Calculation for Fiscal Year 2011										
Total Taxable Assessed Value										<u>\$ 1,643,144,046</u>
Debt Limit (20% of Taxable Assessed Value)										328,628,809
Debt Applicable to Limit:										
General Obligation Debt										107,172,668
Add: Solid Waste General Obligation Debt										597,779
Add: MeadowView Conference Center General Obligation Debt										<u>15,611,085</u>
Total Net Debt Applicable to Limit										<u>123,381,532</u>
Legal Debt Margin										<u>\$ 205,247,277</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: "Standard & Poor's" AA-
"Moody's" Aa2

Source: City of Kingsport Finance Department

Table 16

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

Fiscal Year	Operating Revenue	(1) Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
<u>Water and Sewer Revenue Bonds:</u>							
2002	\$ 20,506,000	\$ 9,674,000	\$ 10,832,000	\$ 5,754,000	\$ 1,954,000	\$ 7,708,000	1.41
2003	21,137,000	8,770,000	12,367,000	6,669,000	1,588,000	8,257,000	1.50
2004	22,318,000	9,321,000	12,997,000	6,851,000	1,775,000	8,626,000	1.51
2005	24,613,000	9,144,000	15,469,000	8,173,000	1,732,000	9,905,000	1.56
2006	25,388,000	9,601,000	15,787,000	6,334,000	1,734,000	8,068,000	1.96
2007	26,802,000	9,341,000	17,461,000	6,327,000	1,608,000	7,935,000	2.20
2008	25,814,512	10,578,186	15,236,326	5,271,846	1,606,431	6,878,277	2.22
2009	26,063,481	11,109,643	14,953,838	4,967,220	1,309,336	6,276,556	2.38
2010	25,131,017	10,772,806	14,358,211	5,643,153	1,007,724	6,650,877	2.16
2011	24,659,947	11,054,147	13,605,800	6,087,198	843,459	6,930,657	1.96

(1) Total operating expenses exclusive of depreciation.

Source: City of Kingsport Finance Department

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

Table 17

**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
2002	44,362	\$ 1,166,986,772	\$ 26,306	*	*	6,372	5.6%
2003	44,362	1,122,314,238	25,299	*	*	6,412	5.9%
2004	44,231	1,105,023,073	24,983	*	*	6,382	5.5%
2005	44,070	1,159,746,120	26,316	*	*	6,377	5.5%
2006	44,130	1,198,703,190	27,163	*	*	6,451	5.4%
2007	44,191	1,261,608,859	28,549	*	*	6,455	4.2%
2008	44,435	1,254,044,570	28,222	*	*	6,396	6.2%
2009	45,763	1,360,533,990	29,730	*	*	6,392	9.4%
2010	47,356	1,407,893,880	29,730	*	*	6,439	8.8%
2011	49,275	1,561,869,675	31,697	*	*	6,556	8.6%

* Information was not available.

Source:

City of Kingsport Planning Department
U.S. Census Bureau

Table 18

**CITY OF KINGSPORT, TENNESSEE
PRINCIPAL EMPLOYERS
For the Fiscal Years Noted**

Employer	2011			2002		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Eastman Chemical Company	6,525	1	8.5%	7,400	1	10.1%
Wellmont Health Systems	2,624	2	3.4%	2,200	2	3.0%
Brock	1,550	3	2.0%	N/A	-	-
Kingsport City Schools	1,013	4	1.3%	1,000	5	1.4%
Jacobs	866	5	1.1%	N/A	-	-
Mountain States Health	845	6	1.1%	739	7	1.0%
Holston Medical Group	815	7	1.1%	N/A	-	-
Wal-Mart	789	8	1.0%	980	6	1.3%
City of Kingsport	736	9	1.0%	703	8	1.0%
BAE SYSTEMS Ordnance Systems, Inc.	542	10	0.7%	N/A	-	-
AFG Industries	N/A	-	-	1,167	4	1.6%
Quebecor World	N/A	-	-	1,450	3	2.0%
Weyerhaeuser Company	N/A	-	-	400	9	0.5%
Chiquola Fabrics	N/A	-	-	250	10	0.3%
	<u>16,305</u>		<u>21.2%</u>	<u>16,289</u>		<u>22.3%</u>
Total Sullivan County Employment:						
	FYE 2011	76,780				
	FYE 2002	73,129				

Source:

-NETWORKS/Sullivan Partnership & Employers

Table 19

CITY OF KINGSFORT, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government	80	81	79	80	81	80	92	96	96	93
Public Safety	234	233	235	237	237	243	254	257	262	264
Public Works	103	105	105	109	106	113	119	120	122	123
Development	49	49	46	47	47	36	25	24	25	22
Recreation	53	53	54	56	57	57	58	59	58	58
Education	913	924	945	961	970	978	982	993	1,010	1,013
Water	78	78	78	80	80	80	78	78	76	74
Sewer	46	46	45	40	40	40	40	41	40	41
Solid Waste	37	36	36	36	35	31	30	30	30	30
	<u>1,593</u>	<u>1,605</u>	<u>1,623</u>	<u>1,646</u>	<u>1,653</u>	<u>1,658</u>	<u>1,678</u>	<u>1,698</u>	<u>1,719</u>	<u>1,718</u>

Sources:

-City of Kingsport Finance Department
-Kingsport City School System

Table 20

**CITY OF KINGSPORT, TENNESSEE
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Education:										
Student Transportation:										
Miles	377,231	388,455	388,964	361,607	369,438	368,869	377,916	355,694	371,912	371,726
Average Daily Ridership	1,877	2,262	2,136	1,784	1,864	1,949	1,943	1,754	1,717	1,505
Public Safety:										
Police:										
Physical Arrests	3,811	3,662	3,605	3,605	3,251	3,206	3,348	3,587	4,584	5,066
Parking Citations	5,402	5,345	4,990	4,990	3,509	3,722	3,016	2,804	1,814	1,074
Traffic Citations	13,775	7,833	7,246	10,163	12,484	12,895	12,957	12,030	7,579	5,127
Calls for Service	41,335	41,949	41,206	41,206	44,236	47,934	48,981	46,249	57,153	59,755
Fire:										
Calls for Service	5,097	5,481	5,820	5,775	5,752	5,987	6,445	6,515	6,468	7,388
Inspections	4,028	2,855	2,812	2,507	2,873	3,403	2,899	3,378	3,378	3,339
Fire Loss	\$ 948,160	\$ 810,418	\$ 998,465	\$ 4,063,555	\$ 2,402,520	\$ 1,471,657	\$ 1,565,342	\$ 1,909,032	\$ 3,390,231	\$ 846,950
Public Works:										
Potholes Repaired	*	*	*	701	735	538	924	1,102	2,762	4,985
Streets Swept (linear miles)	*	*	*	4,320	4,500	7,853	6,339	6,247	6,456	5,105
Traffic Signal Maintenance Calls	425	425	552	607	630	650	547	598	599	610
Leaves Collected (Tons)	*	*	1,416	1,649	1,703	1,716	1,595	1,907	1,497	1,628
Parks and Recreation:										
Civic Auditorium Rentals	519	538	651	857	825	1,127	899	881	1,349	796
Civic Auditorium Attendance	44,645	51,241	69,927	55,573	53,000	54,219	70,197	72,773	147,764	96,248
Pool Attendance	27,162	26,851	21,347	29,516	29,500	27,552	25,231	18,120	22,886	8,548
Participation in Athletic Division events	57,366	58,391	56,342	175,379	176,000	180,766	187,561	198,544	201,225	265,231
Participation in Cultural Arts Division events	7,423	6,716	7,101	15,238	15,028	16,708	9,891	13,088	10,057	12,761
Participation in Community Services Division events	14,447	14,666	16,571	26,483	33,229	34,673	76,402	78,918	141,772	138,817
Renaissance Center Rentals	582	525	531	2,073	2,000	1,908	1,870	2,135	2,110	1,959
Renaissance Center Attendance	76,127	97,191	87,003	192,270	190,000	181,650	198,575	222,294	211,738	188,576
Allandale Rentals	275	205	176	305	315	297	293	274	342	304
Allandale Visitors	24,518	24,931	26,572	33,023	33,000	29,808	23,591	22,598	27,435	25,986
K - Play Games Played	n/a	n/a	n/a	1,200	1,300	1,350	1,428	1,560	1,768	1,825
K - Play Attendance	n/a	n/a	n/a	83,000	86,000	91,145	97,320	124,728	172,930	185,856
Lynn View Rentals	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	36	238
Lynn View Attendance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18,116	43,615
Senior Center:										
Active Members	2,211	2,287	2,287	1,876	2,000	1,842	2,365	2,673	2,591	2,801
Average Daily Attendance	157	159	171	159	175	188	226	241	247	252
Bays Mountain Park:										
Total Programs	*	*	2,103	1,400	1,400	1,667	1,259	2,090	1,771	1,422
Total Attendance	167,196	161,577	155,436	157,420	151,000	148,041	173,063	192,529	176,813	201,129
Library:										
Total Circulation	182,369	189,309	181,554	183,679	188,448	206,586	210,476	241,239	244,735	248,709
Building Attendance	190,501	186,046	177,729	170,014	169,122	176,854	193,344	209,234	213,379	206,533
Water:										
Average Daily Consumption in Gallons	10.4 mgd	16.2 mgd	14.8 mgd	14.8 mgd	15.2 mgd	14.5mgd	14.6 mgd	15.2 mgd	15.1 mgd	14.7 mgd
Maximum Daily Capacity in Gallons	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	16.2 mgd
Water Taps	399	446	212	584	588	339	442	256	219	168
Sewer:										
Average Daily Treatment in Gallons	8.7 mgd	9.0 mgd	9.0 mgd	9.0 mgd	9.2 mgd	8.8 mgd	8.8 mgd	8.6 mgd	9.3 mgd	8.5 mgd
Maximum Daily Plant Capacity in Gallons	12.4 mgd	12.4 mgd	17.0 mgd	17.0 mgd	17.0 mgd	12.4 mgd	12.4 mgd	12.4 mgd	12.4 mgd	17.7 mgd
Sewer Taps	321	262	264	481	402	187	206	165	84	237
Solid Waste:										
Landfill Material Accepted (Tons)	37,151	40,066	46,547	33,681	25,056	24,434	32,574	26,958	25,077	61,326
Household Refuse Collected (Tons)	15,512	16,009	16,213	16,125	16,374	16,046	16,244	15,924	16,437	16,647
Recyclables Collected (Tons)	1,886	1,922	1,028	2,128	2,167	2,587	2,613	2,728	1,715	1,848
Golf Course:										
Rounds of Golf	30,697	25,503	26,376	25,900	26,925	26,175	27,338	26,233	24,225	23,515

Source: Various City Departments

* Data was unavailable for this time period

Table 21

**CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Education:										
Student Transportation:										
Buses	36	36	36	35	35	35	37	38	38	40
Public Safety:										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	92	92	92	104	104	104	109	109	109	117
Motorcycle Units	1	1	1	1	1	1	1	1	1	0
Fire:										
Stations	6	6	6	6	6	6	6	6	7	7
Fire Trucks/Rescue Units	13	14	15	14	14	14	14	14	15	16
Public Works:										
Streets (Miles)	417	419	423	425	427	434	443	456	459	472
Street Lights	8,300	8,845	9,000	9,600	9,600	8,921	9,031	9,114	9,219	9,372
Traffic Signals	91	93	95	102	101	103	102	101	101	104
Leisure Services:										
Parks and Recreation:										
Park Sites	19	19	17	17	17	17	17	18	18	18
Park Acreage	250	250	191	191	191	191	191	237	237	237
Swimming Pools	2	2	2	2	2	2	2	1	1	1
Splash Pad	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1
Tennis Courts	8	8	8	8	8	8	8	8	8	8
Community Centers	5	5	5	5	5	5	5	5	5	5
Senior Citizens:										
Senior Center	1	1	1	1	1	1	1	1	1	1
Other Recreational Facilities:										
Bays Mountain Park & Nature Center - Acreage	2,988	3,400	3,461	3,461	3,461	3,550	3,550	3,550	3,550	3,550
Hunter Wright Baseball Stadium - Acreage	50	54	54	54	54	54	54	54	54	54
Allandale - Acreage	25	25	25	25	25	25	25	25	25	25
Civic Auditorium - Acreage	5	5	5	5	5	5	5	5	5	5
Dogwood Park Facility - Acreage	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3	3	3
Lynn View Facility - Acreage	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14	14	14
Renaissance Center - Acreage	5	5	5	5	5	5	5	5	5	5
Legion Pool - Acreage	5	5	5	5	5	5	5	5	5	5
School System:										
Elementary Schools	7	7	7	7	7	7	7	7	8	8
Middle Schools	2	2	2	2	2	2	2	2	2	2
High Schools	1	1	1	1	1	1	1	1	1	1
Water and Sewer:										
Water Mains (Miles)	750	750	750	750	750	750	817	826	828	828
Fire Hydrants	1,863	1,900	1,917	1,917	1,960	1,691	1,740	1,754	1,794	1,848
Sanitary Sewers (Miles)	369	470	480	495	525	515	515	518	524	533
Storm Sewers (Miles)	76	209	209	209	209	209	209	209	209	209
Solid Waste:										
Collection Trucks	14	14	14	14	15	14	15	15	15	15
Golf Courses	1	1	1	1	1	1	1	1	1	1
Cattails Golf Course - Acreage	192	192	192	192	192	192	192	192	192	192

Source: Various City Departments

Table 22

CITY OF KINGSPORT, TENNESSEE
UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS
June 30, 2011

Water Rates:

		<u>Inside City</u>	
First	2,000 gallons	\$ 3.43	per 1000 gal
Next	13,000 gallons	\$ 2.76	per 1000 gal
Next	35,000 gallons	\$ 2.13	per 1000 gal
Over	50,000 gallons	\$ 1.46	per 1000 gal
		<u>Outside City</u>	
First	1,000 gallons	\$ 15.65	per 1000 gal
Next	9,000 gallons	\$ 6.79	per 1000 gal
Next	10,000 gallons	\$ 6.14	per 1000 gal
Next	70,000 gallons	\$ 5.70	per 1000 gal
Next	100,000 gallons	\$ 4.66	per 1000 gal
Over	190,000 gallons	\$ 4.39	per 1000 gal

Sewer Rates:

		<u>Inside City</u>	
Minimum charge		\$ 13.64	2,000 gal
Additional gallons		\$ 6.82	per 1000 gal
		<u>Outside City</u>	
Minimum charge		\$ 20.08	2,000 gal
Additional gallons		\$ 10.04	per 1000 gal

Number of Customers:

	<u>Inside City</u>	<u>Outside City</u>
Water	<u>21,180</u>	<u>13,249</u>
Sewer	<u>19,655</u>	<u>1,221</u>

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER
June 30, 2011
(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	5,405,148,000	
C	Water Purchased	<u>5,401,200</u>	
D	Total Water Treated and Purchased		5,410,549,200
	(Sum Lines B and C)		
E	Accounted for Water:		
F	Water Sold	3,141,399,500	
G	Metered for Consumption (in house usage)	229,316,330	
H	Fire Department(s) Usage	1,352,637	
I	Flushing	37,095,349	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	2,629,800	
L	Bulk Sales	0	
M	Water Bill Adjustments	0	
N	Total Accounted for Water		<u>3,411,793,616</u>
	(Sum Lines F thru M)		
O	Unaccounted for Water		<u>1,998,755,584</u>
	(Line D minus Line N)		
P	Percent Unaccounted for Water		36.94%
	(Line O divided by Line D times 100)		
Q	Other (explain)	See Below	

Explain Other:

Line Breaks	245,748,403	
Meter Inaccuracy	62,981,679	
Unauthorized Use / Water Theft	<u>902,878,304</u>	
Total		<u><u>1,211,608,386</u></u>

*The method for determining the Unaccounted for Water percentage as defined by the State of Tennessee Comptroller's Office and reported above, does not allow the inclusion of line breaks, meter inaccuracy, or unauthorized use/water theft. Based upon the City of Kingsport Public Works Department internal statistical monitoring and reporting, the Unaccounted for Water percentage when these factors are considered is: **14.55%***

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

Sources: City of Kingsport Finance Department
City of Kingsport Water Department

Table 24

**CITY OF KINGSPORT, TENNESSEE
TOP TEN WATER CUSTOMERS
For the Fiscal Year Ended June 30, 2011**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	Revenue as % of FY11 <u>Water Sales</u>
Eastman Chemical Company	764,726,600	\$ 1,150,910	9.90%
Royal Ordnance of North America, Inc.	59,838,300	88,427	0.76%
Wellmont Health System	51,533,600	77,244	0.66%
Domtar Paper Company, LLC	46,150,800	82,543	0.71%
AGC	37,570,200	64,202	0.55%
Kingsport Housing Authority	25,361,400	47,441	0.41%
Indian Path Hospital	20,218,300	30,050	0.26%
Allandale Falls Apt, LLC	14,346,100	21,477	0.18%
Warriors Path State Park	12,123,300	57,001	0.49%
Cross Creek, LLC	11,887,700	27,959	0.24%
	<u>1,043,756,300</u>	<u>\$ 1,647,254</u>	<u>14.17%</u>

Source: City of Kingsport Finance Department

Table 25

**CITY OF KINGSPORT, TENNESSEE
TOP TEN SEWER CUSTOMERS
For the Fiscal Year Ended June 30, 2011**

<u>Customer Name</u>	<u>Consumption</u>	<u>Revenue</u>	<u>Revenue as % of FY11 Sewer User Fees</u>
Eastman Chemical Company	161,960,900	\$ 1,105,174	9.47%
Wellmont Health Systems	53,527,300	365,060	3.13%
Kingsport Housing Authority	25,348,400	175,680	1.51%
Domtar Paper Company, LLC	15,366,200	104,908	0.90%
Indian Path Hospital	14,835,400	101,177	0.87%
Allandale Falls Apt, LLC	14,346,100	97,840	0.84%
Cross Creek, LLC	11,887,700	81,074	0.69%
Model City II, L.P.	11,099,900	75,706	0.65%
Warriors Path State Park	10,710,300	107,531	0.92%
Holston Manor	9,228,400	62,938	0.54%
	<u>328,310,600</u>	<u>\$ 2,277,088</u>	<u>19.51%</u>

Source: City of Kingsport Finance Department

Table 26

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF BONDS PAYABLE - FUTURE REQUIREMENTS
JUNE 30, 2011

REVENUE AND GENERAL OBLIGATION BONDS

Fiscal Year	General Obligation Public Improvement Bonds		Water Bonds		Sewer Bonds		MeadowView Conference Resort and Convention Center and Cattails Golf Course Bonds		Combined Bonds and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 4,815,000	\$ 4,188,527	\$ 2,022,244	\$ 1,028,435	\$ 3,607,756	\$ 1,164,979	\$ 705,000	\$ 674,977	\$ 18,206,918
2013	6,278,079	4,015,300	2,114,260	940,789	3,635,925	1,017,160	771,737	654,081	19,427,331
2014	6,473,866	3,797,923	2,180,792	849,720	3,778,222	870,512	794,121	631,478	19,376,634
2015	6,155,438	3,559,722	2,024,796	753,200	3,626,875	710,778	815,891	604,593	18,251,293
2016	6,004,905	3,335,968	1,539,567	661,647	2,731,676	553,587	843,852	576,719	16,247,921
2017	6,000,158	3,114,126	1,399,927	596,580	2,019,716	449,045	872,198	547,636	14,999,386
2018	6,225,412	2,899,260	1,194,054	536,013	1,643,989	375,905	761,545	515,734	14,151,912
2019	5,672,519	2,672,705	1,138,289	480,044	1,267,841	311,089	786,352	485,012	12,813,851
2020	5,620,664	2,459,945	1,024,415	425,607	737,029	261,604	817,891	453,299	11,800,454
2021	5,846,705	2,235,898	1,066,306	374,632	757,367	230,676	854,622	420,251	11,786,457
2022	5,791,958	2,008,143	1,001,666	321,198	415,407	198,374	885,968	385,654	11,008,368
2023	6,012,998	1,785,612	1,068,558	269,906	425,745	178,834	922,699	349,723	11,014,075
2024	6,262,717	1,547,974	992,747	214,679	439,528	158,361	960,007	308,992	10,885,005
2025	6,482,718	1,292,033	992,747	162,319	439,528	137,197	1,000,007	266,614	10,773,163
2026	6,743,758	1,026,040	922,834	109,659	449,865	115,587	1,041,738	221,236	10,630,717
2027	7,035,585	745,964	273,062	60,468	462,500	92,904	1,088,854	172,666	9,932,003
2028	4,707,412	448,005	262,648	46,031	393,972	69,061	1,140,970	121,825	7,189,924
2029	3,495,024	241,528	272,602	31,261	408,903	46,902	1,198,470	64,361	5,759,051
2030	2,145,531	87,937	283,323	15,932	424,983	23,903	71,163	4,006	3,056,778
	<u>\$ 107,770,447</u>	<u>\$ 41,462,610</u>	<u>\$ 21,774,837</u>	<u>\$ 7,878,120</u>	<u>\$ 27,666,827</u>	<u>\$ 6,966,458</u>	<u>\$ 16,333,085</u>	<u>\$ 7,458,857</u>	<u>\$ 237,311,241</u>
							Principal	Interest	Total
General Obligation							\$ 107,770,447	\$ 41,462,610	\$ 149,233,057
Revenue and General Obligation							65,774,749	22,303,435	88,078,184
TOTAL							<u>\$ 173,545,196</u>	<u>\$ 63,766,045</u>	<u>\$ 237,311,241</u>

Note: Future interest requirements shown above reflect interest on TMBF bonds at the maximum possible rate of interest and interest on BABS bonds net of the 35% Federal interest subsidy.

Source: City of Kingsport Finance Department

Table 27

CITY OF KINGSPORT, TENNESSEE
SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
For the Fiscal Year Ended June 30, 2011

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
John Campbell	City Manager	\$ 158,476	\$ 5,000
J. Michael Billingsley	City Attorney	116,518	-
James H. Demming	City Recorder/Chief Financial Officer/ City Treasurer	107,143	385,000
Dr. Richard Kitzmiller	Director of Schools	143,875	-
Gale Osborne	Chief of Police	91,898	-
Dennis R. Phillips	Mayor	3,000	-
Benjamin K. Mallicote	Vice-Mayor	2,400	-
Larry Munsey	Alderman	2,400	-
C. Ken Marsh, Jr.	Alderman	2,400	-
Valerie Joh	Alderman	2,400	-
Jantry Shupe	Alderman	2,400	-
Tom C. Parham	Alderman	2,400	-

Source: City of Kingsport Finance Department

Table 28

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
June 30, 2011**

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	7/1/09-7/1/11 Annual Renewal 7/1/10-7/1/11	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000,000 3,000,000 Replacement 3,000,000	\$ 124,268
Safety National Casualty Corporation	AGC-4043333 (reinsurance agreement)	1/1/11-1/1/12	Worker's Compensation	Statutory	124,486
<u>Government Crime</u> St. Paul / U.S. Fidelity & Guarantee Co.	104703171	1/1/11-1/1/12	Employee Blanket Dishonesty (City)	500,000	1,770
Travelers Insurance Co.	105012751	7/1/10- 7/1/11	Employee Blanket Dishonesty (Schools)	510,000	6,640
<u>Unemployment Compensation</u>	Self insured				
<u>Property and Casualty</u> Continental Casualty Company	RMP2071010211	12/31/10-12/31/11	Buildings and Contents	301,116,369	150,740
FCCI Insurance Company	CPP0012129-01	2/13/11-2/13/12	Justice Center Commercial/ Gen Property	7,217,881	7,071
Hartford Insurance Co.	20MSCYQ7488	5/26/11-5/26/12	Grand Piano - Allandale		534
<u>Boiler and Machinery</u> The Cincinnati Insurance Co.	BEP2646328	3/1/11-3/1/12	Boilers and Machinery	100,000	4,284
<u>Public Officials Bond</u> Travelers Insurance Company	105376299	11/1/10-11/1/11	Bond - Treasurer (J. Demming) (State of Tennessee Schools)	1,277,000	1,937
Travelers Insurance Company	400NS5672	3/15/11-3/15/12	Bond - Recorder (J. Demming)	385,000	1,536
Travelers Insurance Company	104224291	10/1/10-10/1/11	Bond - City Manager (J. Campbell)	5,000	100
Travelers Insurance Company	104476426	12/31/10-12/31/11	Bond - City Judge (J.R. Boatwright)	1,000	100
Western Surety Company	58368775	4/4/11-4/4/12	Blanket Notary Errors and Omissions	25,000	884
<u>Other</u> Stadium General Liability/ Hunter Wright Property - D.B. High School Montgomery Insurance Company	CBP9566738	3/8/11-3/8/12	General Liability/ Scoreboard/ Public Address system	2,000,000	1,339
Total Premium					<u>\$ 425,689</u>

Source: City of Kingsport

THIS PAGE INTENTIONALLY LEFT BLANK

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee (the City), as of and for the fiscal year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 16, 2011. Our report includes a reference to other auditors. As discussed in Note 1.D to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Emergency Communications District (the ECD), a discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting: 2011-01 and 2011-02. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City in a separate letter dated December 16, 2011.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Mayor and Alderman, others within the City, 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 & Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLLC

December 16, 2011

Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133

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 could have a direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Audit Committee, Board of Mayor and Alderman, others within the City, 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 & Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC

December 16, 2011

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011

Section I - Summary of Auditors' Results

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 21 percent, 26 percent, and 11 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. Two significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs. None of these deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the City which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
6. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were as follows:

<u>Program</u>	<u>CFDA Number</u>
Community Development Block Grants / Entitlement Grants	14.218
Community Development Block Grants / Section 108 Loan Guarantee	14.248
ARRA - Community Development Block Grants	14.253
ARRA - COPS Hiring Program	16.710
Urban Mass Transit Authority	20.507
ARRA - Urban Mass Transit Authority	20.507
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458
Title I Grants to Local Educational Agencies, Part A	84.010
IDEA Special Education Grants to States, Part B	84.027
Special Education Preschool Grants	84.173
ARRA - Title I Grants to Local Educational Agencies, Part A	84.389
ARRA - IDEA Special Education Grants to States, Part B	84.391
ARRA - Special Education Preschool Grants	84.392
ARRA - State Fiscal Stabilization Funds - Educational	84.394
ARRA - State Fiscal Stabilization Funds - Government Services	84.397

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011**

Section I - Summary of Auditors' Results (Continued)

8. The threshold for distinguishing Types A and B programs was \$462,340.
9. The City was determined to be a low-risk auditee.

Section II - Findings – Financial Statement Audit

Current Year Findings

2011-01 Significant Deficiency: Excessive Water Loss Percentage

Condition: For fiscal year 2011 (FY2011), the City's water loss percentage (36.94%) exceeds the threshold for excessive water loss of 35%, as established in accordance with Tennessee Code Annotated (TCA) 7-82-702 and 68-221-1009(a) by the Tennessee Utility Management Review Board (UMRB) and Water and Wastewater Financing Board (WWFB).

Criteria: As of October 7, 2010, the Tennessee UMRB and WWFB have established the threshold for excessive water loss at 35%.

Cause: The City's water loss percentage has continued to grow over the past few years; however FY2011 is the first year which exceeded the above-mentioned threshold. It was also noted that the portion of the City's water loss attributed to unauthorized use has increased significantly in FY2011.

Effect: Any water system reporting a water loss of 35% or higher in its annual financial statements will be referred to the appropriate board for further action.

Recommendation: We recommend that the City implement measures to reduce the water loss percentage to be within the excessive water loss percentage limits. As a part of that process, we recommend that the City investigate the increase in water loss attributable to unauthorized use and implement internal controls as necessary to reduce losses.

Views of Responsible Officials and Planned Corrective Actions: The City's water loss percentage exceeds the acceptable threshold when using the current acceptable methodology for computing unaccounted for water loss by the State of Tennessee Comptroller's Office. However, when allowed to include deductions for line breaks, meter inaccuracies, and unauthorized use, the City's unaccounted for water loss is reduced to 14.55%.

It should also be noted that in October 2010, the UMRB and WWFB adopted the American Water Works Association (AWWA) water loss methodology for any audited financial reports received by the Comptroller of the Treasury after January 1, 2013. With this change in methodology, the City anticipates that unaccounted for water loss will be well within the acceptable standards of the AWWA and the State of Tennessee.

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011**

Section II - Findings – Financial Statement Audit (Continued)

Current Year Findings (Continued)

2011-01 Significant Deficiency: Excessive Water Loss Percentage (Continued)

Views of Responsible Officials and Planned Corrective Actions (Continued): It should especially be noted that the increase in unauthorized use shown in the other information box of the Schedule of Unaccounted for Water in no way means that there has in fact been an increase in unauthorized use of water. It means that the City has identified more unauthorized use of water. The City has been making a concentrated effort to identify and reduce unauthorized water usage (UWU). There are several factors that influence UWU in the City's water system including: unauthorized use of fire hydrants; consumers removing their water meters and "straight piping" to avoid a water bill; and usage on unmetered fire lines. The City has recently been in contact with chronic users of water through unmetered fire lines. We are working with these customers to assist them in eliminating their usage. We are also making an effort to replace detector meters on fire lines within the system which will allow the City to more accurately estimate usage on these sources of unmetered usage.

2011-02 Significant Deficiency: Real Property Transactions

Condition: During FY2011, the City sold a parcel of real property which was originally acquired by donation several years ago. At that time, the property was recorded at full market value based on an appraisal provided by the donor. The appraisal specified that it was based on the assertion that the property would be used for its highest and best use, which it listed as being manufacturing. The City incurred a large loss on the sale of this property in FY2011, which was based on the original market value at the time of acquisition (donation). However, since an updated appraisal was not obtained for the FY2011 sale, it is difficult to determine whether the property was sold for a reasonable price that would approximate market value. Based on this information, it appears that the agreed-upon sales price and demolition credit were based on estimation rather than on a documented value. Furthermore, since the FY2011 sale of the property was for retail development and the original appraisal was based on the property being used for manufacturing, the overall relevance of the appraisal is subject to interpretation. In accordance with GASB guidance, the value of the property should have been evaluated for possible impairment when the City determined that it would not be used for the purpose specified in the appraisal.

In addition, the City acquired a parcel of real property by donation during FY2011. Based on review of supporting documentation and agreements, it is unclear what basis was used to establish the market value of the land due to the lack of an appraisal or documented communication from the donor regarding value at the time of donation. The City of Kingsport Code of Ordinances (the Code) does not address the valuation or appraisal of real property acquired by donation. However, the Code does specify that an appraisal should be obtained for the purchase of real property in excess of \$20,000; and the City's Fixed Asset Management Policy states that "land acquired as a gift should be recorded at appraised value when acquired."

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011**

Section II - Findings – Financial Statement Audit (Continued)

Current Year Findings (Continued)

2011-02 Significant Deficiency: Real Property Transactions (Continued)

Criteria: In consideration of the macro-economic conditions affecting the real estate market and in accordance with Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, we consider it the City's responsibility to obtain timely, relevant appraisals for any acquisition or disposition of substantial real estate. Due to the increased difficulty and complexity in determining the market value of real estate, the City should be conscientious of performing their due diligence when determining the proper method of assigning value to real property transactions.

Cause: Based on discussion during the audit, it appears that both City management and the Board of Mayor and Aldermen do consider each real estate transaction in light of the needs of the City. However, this consideration is not always supported by adequate documentation or timely appraisals.

Effect: The lack of supporting documentation or timely appraisals increases the difficulty and complexity of determining whether real property transactions were executed at reasonable prices that would approximate market value.

Recommendation: In accordance with GASB guidance, we recommend that the City obtain timely appraisals for all substantial acquisitions, donations, and sales of real property for the purpose of recording that property at market value. This should increase the City's ability to achieve maximum return on real property transactions and should improve the accuracy of market value estimations. We further recommend that, in the event that a donor of real property provides a timely valuation of the property, the City Finance and Legal Departments obtain and retain supporting documentation for that assigned value.

Views of Responsible Officials and Planned Corrective Actions: The City agrees that the need for an appraisal should always be considered before entering into real property transactions. However when the outcome of the appraisal is unlikely to affect management's decision, there may be no need to incur the expense of an appraisal. These comments have brought to our attention that land and buildings classified as general government, and therefore not assigned to a specific department, have been left out of the annual review and consideration for impairment. We intend to correct this in the future by having the annual listing of general government assets directed to the City Recorder for discussion at a monthly Leadership Team meeting to determine if any impairments should be considered or recorded.

Prior Year Findings Not Implemented

There were no prior year findings.

Prior Year Findings Implemented

There were no prior year findings.

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011**

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

Current Year Findings

There were no findings.

Prior Year Findings Not Implemented

There were no prior year findings.

Prior Year Findings Implemented

There were no prior year findings.