

City of Kingsport
Tennessee
Comprehensive Annual
Financial Report



Fiscal Year Ended June 30, 2016



City of Kingsport, Tennessee
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2016

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

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2016

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January 13, 2017

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, 2016.

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.

Brown, Edwards & Company, L.L.P., a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the City of Kingsport's financial statements for the fiscal year ended June 30, 2016. 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 53 square miles and serves a population of 53,028. 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 able to extend its corporate limits by annexation; however, recent changes by the state legislature are expected to significantly slow annexation initiatives. Kingsport has a long track record of planning, budgeting and providing services to newly-annexed properties within the committed time frame. In the past 10 years, the City of Kingsport has invested \$50,000,000 to provide services to annexed areas. Current commitments will be completely fulfilled within 5 years, freeing-up capital to meet other needs within the existing city limits.

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, storm water management, solid waste collection, aquatic center, 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 34 through 36 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 Kingsport is the largest City in the Kingsport - Bristol, TN – Bristol, VA Metropolitan Statistical Area which has a population of 307,120.

Kingsport is a regional retail center for Northeast Tennessee, Southwest Virginia and Southeast Kentucky. In 2015, retail sales totaled \$1.657 billion, up from \$1.408 billion in 2007. Retail incentives initiated in 2005 and 2007 are now paid in full.

The Metropolitan Statistical Area (MSA) including Kingsport/Bristol TN/VA rounds out the top three U.S. Metropolitan Export areas in the Tennessee according to a report released in October 2016. The MSA exported goods worth \$4.6 billion, According to the International Trade Administration of the U.S. Department of Commerce, the Kingsport Bristol MSA is now the 57th largest exporting area in the country, in 2015.

Unemployment continued to decline with the June 2016 Kingsport unemployment rate down to 4.7%. Compared to the same quarter in 2015, Kingsport employment is up 1,271 jobs in June 2016.

The largest building permit issued in 2015 was for the new Watauga Orthopedics office on Larry Neil Way, valued at \$2,900,000. Additionally, Eastman built four new industrial buildings with a combined construction value of \$3,131,255.

Kingsport issued 534 residential permits and 145 commercial building permits for a combined value of \$79.34 million in calendar year 2015. Residential development grew in value of construction by about 15.0% in calendar year 2015. There were 76 new single family housing starts valued at \$18.96 million. Average construction cost was also up to around \$249,584 per unit.

Kingsport's economic stability, sound budgeting and solid financial practices were recognized in 2016 with Standard & Poor's reaffirming its AA bond rating for the City, and Moody's Investors Services reaffirming an equivalent Aa2 rating.

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. The CIP currently includes plans for several significant projects scheduled over the next few years. These include improvements to the City's Library, Parks and Recreational facilities (\$8M), improvements to local roads and bridges (\$21M), improvements to General Government and Educational facilities (\$20M), improvements to the Water System (\$18M), and improvements and expansion of the Wastewater System (\$31M). While the CIP generally looks out over a 5 year period, the plan for the water and sewer utility systems encompass a 10 year period. 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 Unassigned minimum balance policy of 15% of General Fund expenditures, 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 recent ONEKingsport Mayor's Summit resulted in 7 major categories for future initiatives: jobs/entrepreneurship, higher education innovation, downtown revitalization, arts/entertainment, destination city investments, housing and health/wellness. Work has just begun, but exciting outcomes are anticipated.

Downtown Kingsport continues to be an area of focus with \$82.3 million of new taxable investment since 1999.

The latest enrollment figures at the downtown Academic Village now stands at between 3,000 and 3,500 students, with five public and private colleges and universities offering course work at 155,000 square feet of dedicated higher education space.

The "Move to Kingsport" program has also continued to generate returns. Each newcomer to Kingsport is estimated to generate \$25,000 in annual economic activity. Since 2006, Kingsport has attracted 4,305 new families from 50 states. Netting 394 new families after discounting for those who moved away, these new families created an estimated annual sales impact of \$22.66 million.

Another major initiative, the Kingsport Aquatic Center is designed to meet the community's immediate needs as well as serve as a new tourism generator for the region. The Aquatic Center is the only facility within a 120 mile radius featuring three indoor pools, including a 50 meter lap pool, and an outdoor waterpark. The project is collocated with a YMCA fitness facility.

The lack of new, market rate multi-family housing for young professionals continues to be of paramount importance. In September 2015, the Board of Mayor and Aldermen approved two redevelopment plans and tax increment financing incentives (TIF) for new apartment complexes, the Riverbend Villas and the Overlook at Indian Trail.

The Riverbend Villas project will include 265 units with an estimated construction cost of \$20.4 million. The project is located adjoining a future municipal park with more than 26 acres of riverfront access.

The Overlook at Indian Trail project will include 168 units in a mix of one, two and three bedroom units. Amenities will also include garages, clubhouse and pool facilities. The estimated construction cost is \$17.6 million.

Another multi-family housing development is currently under construction along the Meadowview corridor. The Retreat at Meadowview is building phase one (75 units) of a 150 total unit complex of one, two and three bedroom units.

In March 2016, the City approved a new franchise agreement with Kingsport Power Company (dba AEP Appalachian Power). This agreement has a 20-year term and included a provision to establish a franchise fee. The City subsequently adopted a new franchise fee which is expected to result in approximately \$3,000,000 annually beginning in FY2017. The new franchise agreement replaces the original agreement with the power company adopted in 1917.

In June 2016, the City approved its first sanitation fee which is expected to generate \$2,400,000 annually beginning in FY2017. The expense of sanitation and solid waste services have been borne by the property tax throughout the City's history. It is estimated that the standard fee of \$8 per month will cover 62% of the cost of solid waste management with the potential to incrementally shift to a fully funded enterprise fund in future years.

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, 2015. This was the 16th 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.

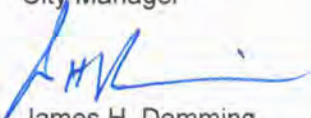
In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2015. The annual budget document dated July 1, 2016 has been submitted to the GFOA for review and it is anticipated that it will also receive this award. In order to qualify 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,



Tilden J. Fleming
City Manager



James H. Demming
City Recorder/CFO



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Kingsport
Tennessee**

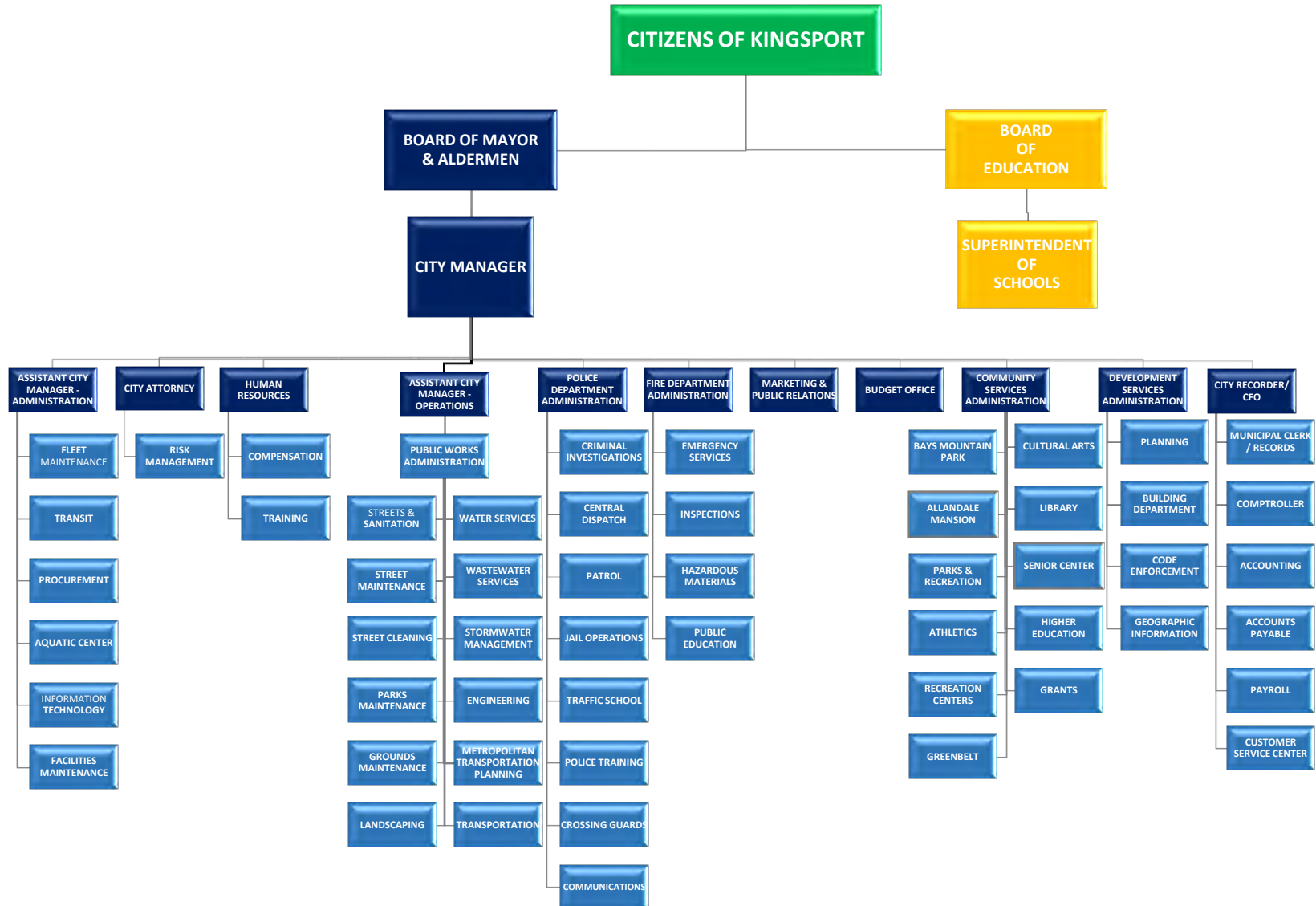
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



Organizational Chart





CITY OF KINGSPORT, TENNESSEE

HISTORY AND ORGANIZATION

The City of Kingsport incorporated in 1917 and has 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, 2016

BOARD OF MAYOR AND ALDERMEN

John Clark	Mayor
Mike McIntire	Vice-Mayor
Darrell Duncan	Alderman
Colette George	Alderman
Michele Mitchell	Alderman
Tommy Olterman	Alderman
Tom C. Parham	Alderman

CHARTER OFFICERS

T. Jeffrey Fleming	City Manager
James H. Demming	City Recorder/Chief Financial Officer
J. Michael Billingsley	City Attorney
David A. Quillin	Police Chief
William K. Rogers	City Judge
Dr. Lyle C. Ailshie	Superintendent of Schools

DEPARTMENT HEADS

Christopher W. McCartt	Assistant City Manager Administration
Ryan O. McReynolds	Assistant City Manager Operations
Craig T. Dye	Fire Chief
Judy A. Smith	Budget Officer

CITY OF KINGSFORT, TENNESSEE

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2016

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Board of Aldermen
City of Kingsport, Tennessee
Kingsport, Tennessee 37600

Report on the Financial Statements

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 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Emergency Communications District (the ECD), which represents 15 percent, 39 percent, and 19 percent, respectively, of the assets, net positions, and revenues of the aggregate discretely presented component units.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 represents 15 percent, 39 percent, and 19 percent, respectively, of the assets, net positions, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the ECD, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the 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 of Kingsport, Tennessee, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the General Purpose School Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and other required schedules related to pension and insurance be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 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 about 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kingsport, Tennessee's basic financial statements. The introductory section, combining and individual non-major 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 basic financial statements. The schedule of expenditures of federal awards, included in the supplemental information section, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The combining and individual non-major fund financial statements and schedules, 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, the combining and individual non-major fund financial statements and schedules, supplemental information, including the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, on our consideration of the City of Kingsport, Tennessee'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* in considering the City of Kingsport, Tennessee's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
January 13, 2017

A. MANAGEMENT'S DISCUSSION AND ANALYSIS



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(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, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 through 5 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$368,689 (net position).
- The City's total net position increased by \$895 for the fiscal year ended June 30, 2016.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$33,737, a decrease of \$5,533. The decrease primarily relates to current year expenditures of prior year bond proceeds reported in capital projects. Approximately 39% of this total fund balance, \$13,131, 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 \$13,131 or approximately 18% of total general fund expenditures including transfers out.
- The City's total gross debt decreased by \$2,107 (1%) during the current fiscal year. The decrease is primarily the result of new refunding bonds issued in fiscal year 2016 which included significant premiums. In October 2015, the City issued \$15,105 General Obligation Refunding and Public Improvement Bonds, Series 2015A. In June 2016, the City issued \$16,580 General Obligation Refunding Bonds Series 2016A and \$13,360 General Obligation Refunding Bonds Series 2016B.

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

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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.).

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, storm water management, aquatic center, conference center and golf course. The government-wide financial statements can be found on pages 26 and 27 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 28-38 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, 2016
(amounts expressed in thousands)**

Proprietary funds

The City maintains thirteen (13) 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 management, storm water management, aquatic center, 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. During 2015 the Kingsport City Schools became self-insured for employees and retirees which resulted in two new internal service funds. 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, aquatic center, and convention center activities, which are considered to be major funds of the City. In addition the proprietary fund financial statements include a column for other enterprise funds. This column presents the information for the City's solid waste management, storm water management, and golf course activities. Individual fund data for these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report. 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 39-43 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 43-159 of this report.

Other information

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise 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 166-198 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceed liabilities by \$368,689 at the close of the most recent fiscal year.

By far the largest portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, and 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, 2016
(amounts expressed in thousands)

City of Kingsport's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 111,975	\$ 115,484	\$ 41,419	\$ 39,554	\$ 153,394	\$ 155,038
Capital Assets	328,423	331,078	282,724	274,913	611,147	605,991
Total Assets	<u>440,398</u>	<u>446,562</u>	<u>324,143</u>	<u>314,467</u>	<u>764,541</u>	<u>761,029</u>
Total Deferred Outflows of Resources	24,688	11,004	4,128	1,333	28,816	12,337
Long-term Liabilities Outstanding	191,862	183,945	126,914	120,110	318,776	304,055
Other Liabilities	18,549	18,583	7,068	3,855	25,617	22,438
Total Liabilities	<u>210,411</u>	<u>202,528</u>	<u>133,982</u>	<u>123,965</u>	<u>344,393</u>	<u>326,493</u>
Total Deferred Inflows of Resources	78,650	76,935	1,625	2,144	80,275	79,079
Net Position:						
Net Investment in Capital Assets	215,147	220,670	188,268	183,084	403,415	403,754
Restricted	173	216	605	406	778	622
Unrestricted	(39,295)	(42,783)	3,791	6,201	(35,504)	(36,582)
Total Net Position	<u>\$ 176,025</u>	<u>\$ 178,103</u>	<u>\$ 192,664</u>	<u>\$ 189,691</u>	<u>\$ 368,689</u>	<u>\$ 367,794</u>

A portion of the City's net position, \$778 (less than 1%) represents resources that are subject to external restrictions on how they may be used.

During the current fiscal year, the government's net position increased by \$895. Net position for governmental activities decreased by \$2,078 while net position for business-type activities increased by \$2,973.

The \$2,078 current year decrease in net position for governmental activities was primarily a result of accruing pension liabilities in accordance with GASB 68, accruing OPEB liabilities in accordance with GASB 45, and recording depreciation on general fixed assets in accordance with GASB 34.

The primary reason for the increase in net position in the business-type activities is due to the increase in water and sewer user rates.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

The following is a summary of activities for the City during the fiscal year ended June 30, 2016:

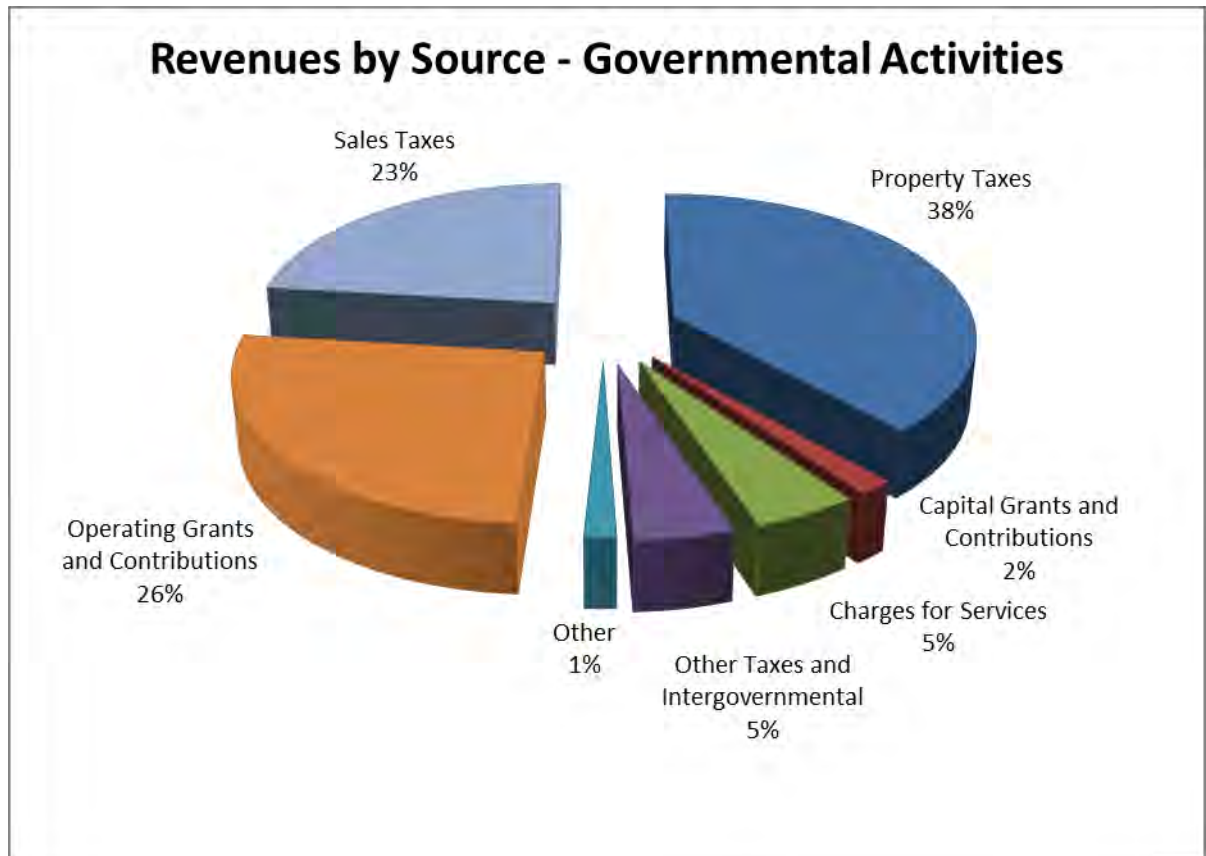
City of Kingsport's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 7,118	\$ 6,207	\$ 32,691	\$ 31,819	\$ 39,809	\$ 38,026
Operating Grants and Contributions	38,590	38,082	175	181	38,765	38,263
Capital Grants and Contributions	2,411	3,352	1,495	869	3,906	4,221
General Revenues						
Property Taxes	57,058	55,935	0	0	57,058	55,935
Sales Taxes	34,387	32,690	0	0	34,387	32,690
Other Taxes and Intergovernmental	6,774	6,596	0	0	6,774	6,596
Unrestricted Investment Earnings	212	158	179	77	391	235
Grants and Contributions Not Restricted to Specific Programs	995	1,126	0	0	995	1,126
Other	940	1,048	0	0	940	1,048
Total Revenues	148,485	145,194	34,540	32,946	183,025	178,140
Expenses:						
General Government	10,413	10,576	0	0	10,413	10,576
Public Safety	21,663	21,216	0	0	21,663	21,216
Public Works	15,579	14,606	0	0	15,579	14,606
Highway Transportation Planning	4,428	5,319	0	0	4,428	5,319
Economic and Physical Development	4,327	4,358	0	0	4,327	4,358
Culture and Recreation	7,784	7,348	0	0	7,784	7,348
Education	78,181	74,368	0	0	78,181	74,368
Interest on Long-term Debt	4,008	4,190	0	0	4,008	4,190
Water	0	0	11,030	10,690	11,030	10,690
Sewer	0	0	11,853	11,281	11,853	11,281
Solid Waste Management	0	0	4,424	4,250	4,424	4,250
Storm Water Management	0	0	1,458	1,347	1,458	1,347
Aquatic Center	0	0	2,985	3,058	2,985	3,058
MeadowView Conference Resort and Convention Center	0	0	2,685	2,945	2,685	2,945
Cattails at MeadowView Golf Course	0	0	1,312	1,288	1,312	1,288
Total Expenses	146,383	141,981	35,747	34,859	182,130	176,840
Increase (Decrease) in Net Position before Transfers	2,102	3,213	(1,207)	(1,913)	895	1,300
Transfers	(4,180)	(4,539)	4,180	4,539	0	0
Change in Net Position	(2,078)	(1,326)	2,973	2,626	895	1,300
Net Position, beginning of period	178,103	220,274	189,691	196,186	367,794	416,460
Implementation of GASB 68	0	(39,211)	0	(5,182)	0	(44,393)
Corrections Related to Closing Projects	0	(1,634)	0	(3,939)	0	(5,573)
Net Position, end of period	\$ 176,025	\$ 178,103	\$ 192,664	\$ 189,691	\$ 368,689	\$ 367,794

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

Governmental Activities - Revenue

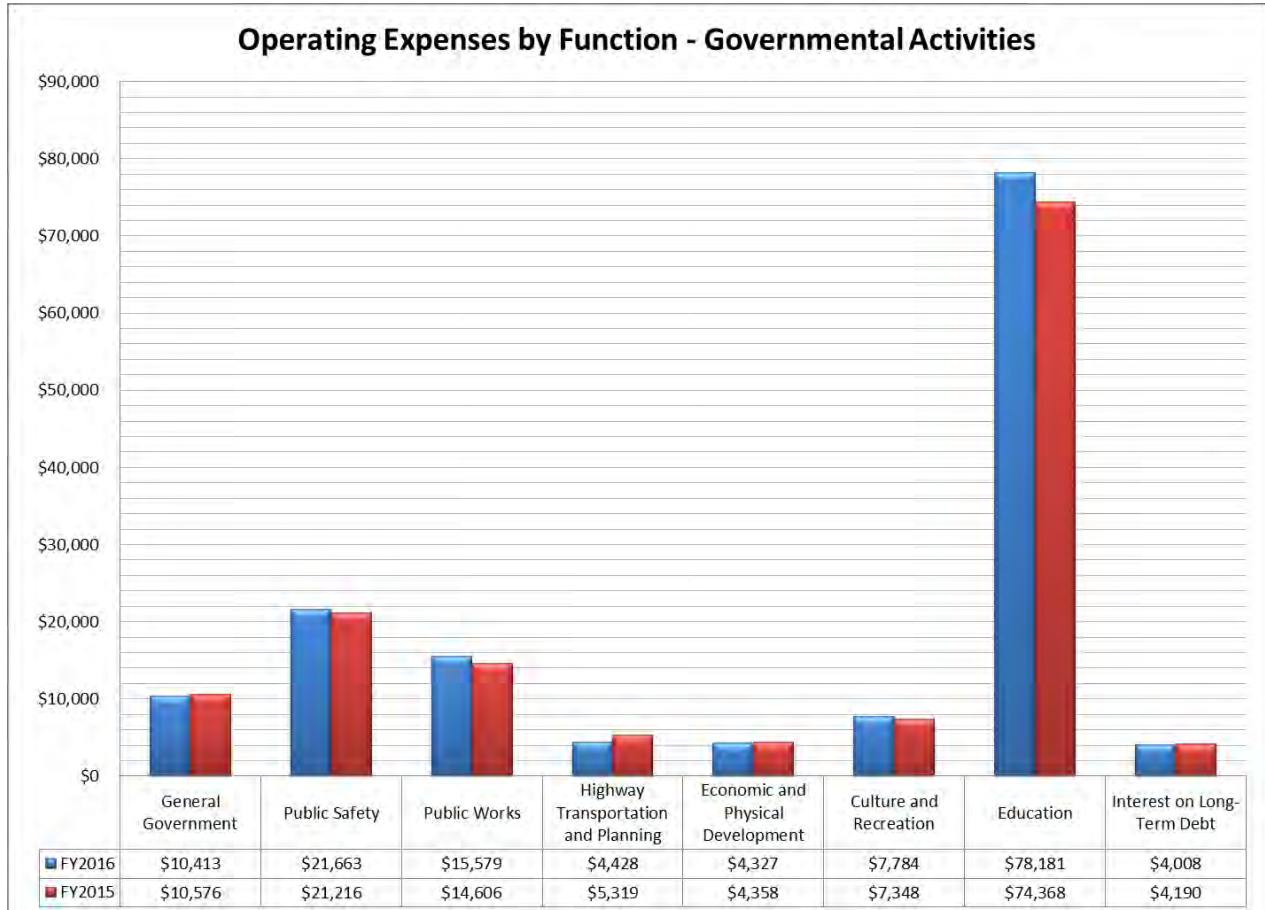
The City's governmental revenues totaling \$148,485 were more than the prior year by \$3,291. Property taxes were more than the prior year by \$1,123 and sales taxes were more than the prior year by \$1,697.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

Governmental Activities – Operating Expenses

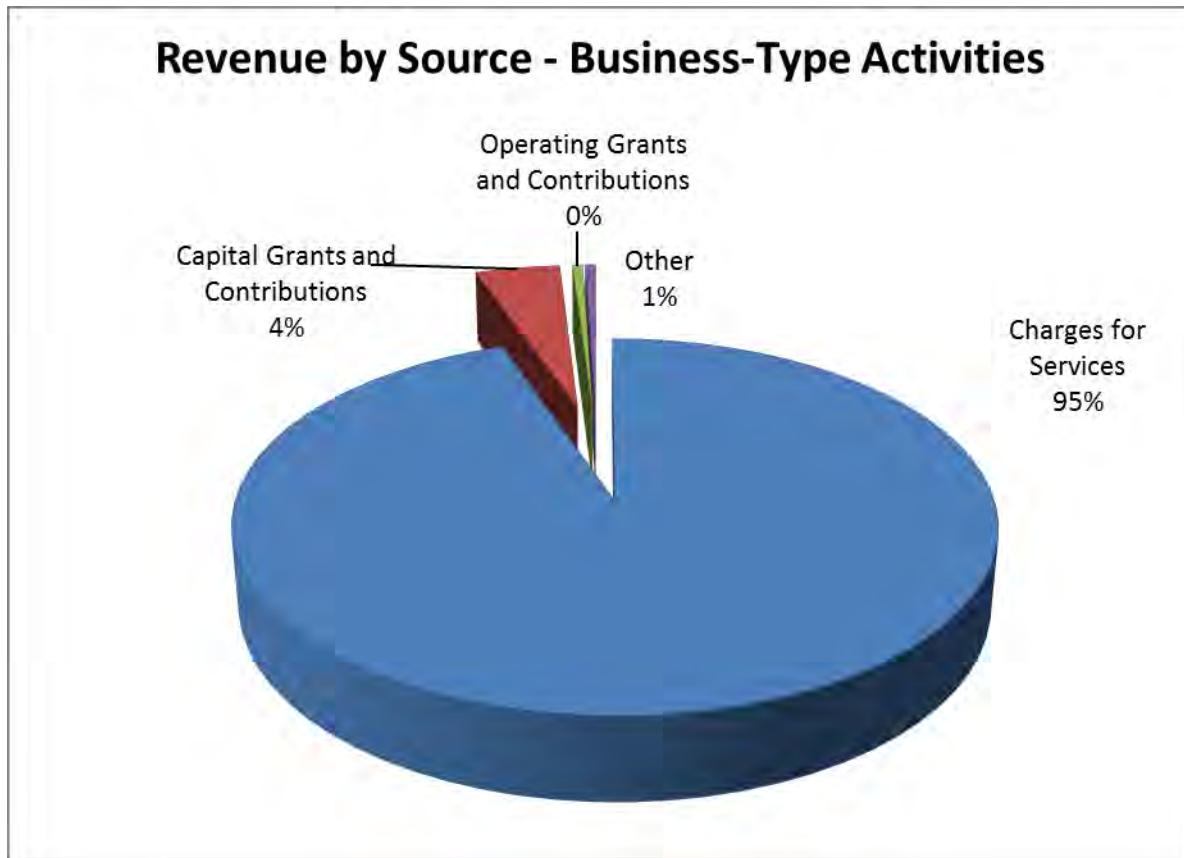
Operating expenses for governmental activities were more than the prior year by \$4,402. Operating expenses for the public works function were more than the prior year by \$973 while operating expenses for the education function were more than the prior year by \$3,813.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

Business-Type Activities - Revenue

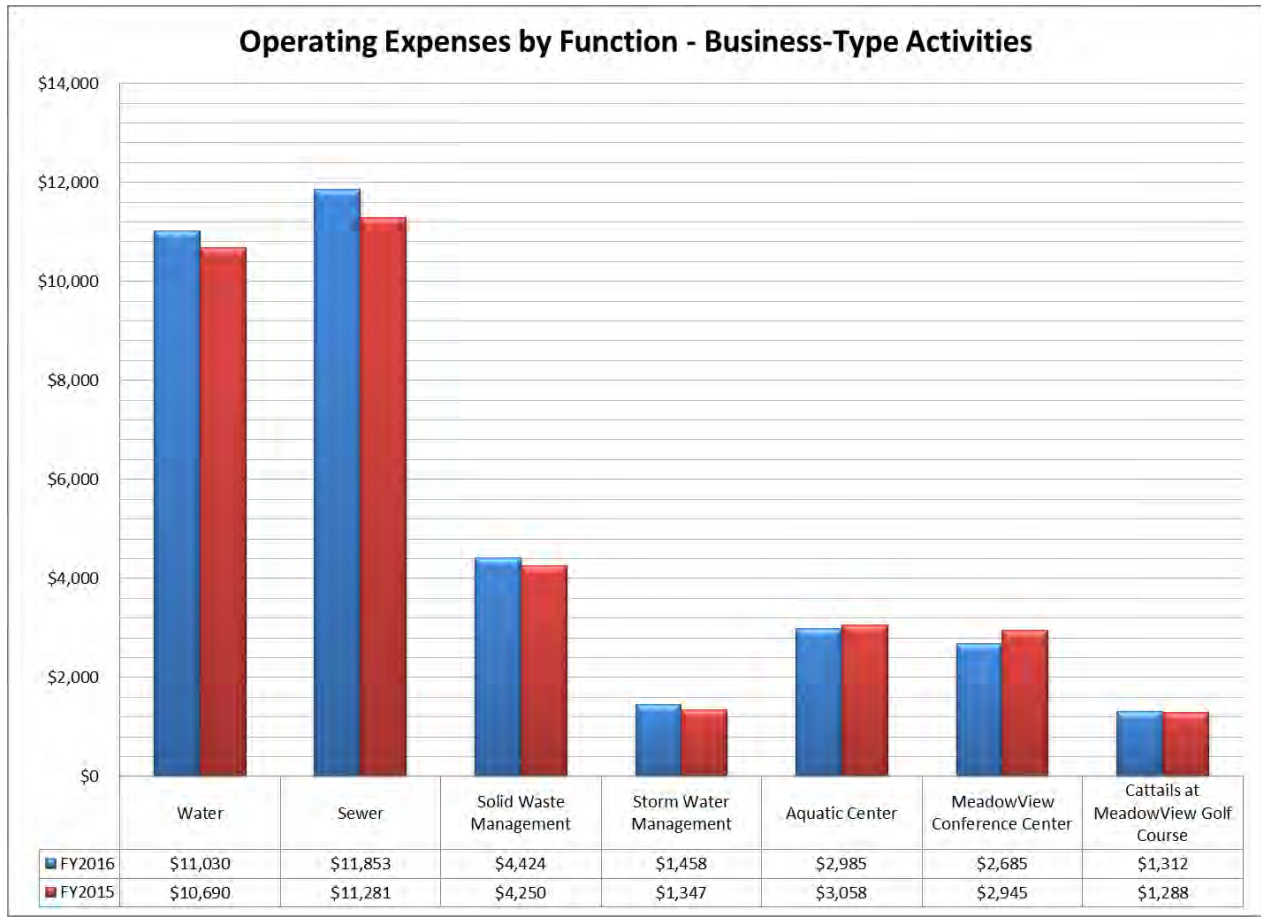
The City's business-type revenues totaling \$34,540 were more than the prior year by \$1,594. A primary factor in the increased revenue was the 2% increase for inside water rates and a 2% increase for all sewer rates. Additional factors include grant revenue from EDA related to the raw water intake project.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

Business-Type Activities – Operating Expenses

Operating expenses for business-type activities were more than the prior year by \$888. The primary factor of this increase is the increase of expenses in the sewer fund totaling \$572. The water fund expenses increased by \$340.



**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

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 \$33,737 a decrease of \$5,533 in comparison with the prior year. Approximately 39% of this total amount, \$13,131 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance consists of \$373 nonspendable primarily attributed to inventories and a perpetual care trust, \$8,264 restricted primarily for capital projects, \$15 committed for specific projects, and \$11,954 assigned primarily to the City's various governmental funds most significantly for education, capital projects, and debt service.

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 \$13,131 while total fund balance was \$13,249. Of the total fund balance \$23 is considered nonspendable while \$95 is considered assigned. The majority of the assigned fund balance represents encumbrance carryovers from fiscal year 2016 to fiscal year 2017. 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 18% of that same amount. During fiscal year 2016, the fund balance of the City's General Fund increased by \$352.

The general purpose school fund has a total fund balance of \$5,797, of which most is uncommitted. The net decrease in fund balance during the current year in the general purpose school fund was \$286. This decrease was driven by a project to purchase laptops for students.

The capital project fund has a total fund balance of \$9,547. Of this amount, \$8,139 represents unspent bond proceeds restricted for capital projects. The remainder of \$1,408 is assigned to the capital project fund. The net decrease in this fund balance of \$5,834 was primarily due to bond proceeds received during the prior fiscal year being spent in the current fiscal year.

The debt service fund has a total fund balance of \$44. Debt service expenditures (principal and interest) totaled \$12,054 for fiscal year 2016. This was \$5 more than the debt service expenditures paid in fiscal year 2015.

Nonmajor (other) governmental funds have a fund balance of \$5,100. The net increase in fund balance during the current year in nonmajor governmental funds was \$290.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

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 position of the water and sewer funds at the end of the fiscal year amounted to \$1,263 and \$4,120 respectively. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original revenue budget and the final amended revenue budget represent a \$2,017 increase and are detailed as follows:

\$	737	Appropriate additional state and county sales tax revenue to cover additional transfers
	368	Appropriate additional Hall Income tax to cover additional transfers
	399	Appropriate additional engineering charges to cover transfers and other expenditures
	388	Appropriate other revenue received to cover miscellaneous expenditures
	<u>125</u>	Provide funding for prior year encumbrances
<u>\$</u>	<u>2,017</u>	

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, 2016, amounts to \$611,147 (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 project during fiscal year 2016 was a \$16,500 water intake project to upgrade the water treatment plant. This project is being funded primarily by a state revolving loan. Business-type construction in progress at the close of the fiscal year was \$20,725.
- Construction continued and/or began on a variety of general governmental projects including various road improvement projects. Sullivan Street improvements was one of the more significant of the governmental projects during FY2016. Governmental construction in progress at the close of the fiscal year was \$18,271.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

Additional information on the City's capital assets can be found in Note 4.C on pages 64-69 of this report.

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 32,227	\$ 30,055	\$ 8,048	\$ 7,875	\$ 40,275	\$ 37,930
Buildings and Systems	98,118	97,175	246,696	251,032	344,814	348,207
Improvements other than Buildings	10,584	9,819	4,522	4,913	15,106	14,732
Machinery and Equipment	19,511	17,398	2,538	2,253	22,049	19,651
Software	293	174	195	10	488	184
Infrastructure	149,419	152,490	0	0	149,419	152,490
Construction in Progress	18,271	23,967	20,725	8,830	38,996	32,797
Total Capital Assets	<u>\$ 328,423</u>	<u>\$ 331,078</u>	<u>\$ 282,724</u>	<u>\$ 274,913</u>	<u>\$ 611,147</u>	<u>\$ 605,991</u>

Long-term debt

At the end of the current fiscal year, the City had total gross debt outstanding of \$227,226. 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	
	2016	2015	2016	2015	2016	2015
Notes Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Obligation Bonds	107,558	112,003	109,182	109,882	216,740	221,885
Loans from Other Governments	6,592	7,448	3,894	0	10,486	7,448
Total Long-term Debt	<u>\$ 114,150</u>	<u>\$ 119,451</u>	<u>\$ 113,076</u>	<u>\$ 109,882</u>	<u>\$ 227,226</u>	<u>\$ 229,333</u>

During the current fiscal year, the City's total gross debt decreased by \$2,107 (1%). The governmental activities long-term debt decreased by \$5,301 while business-type activities long-term debt increased by \$3,194.

The current year decrease in long-term debt for governmental activities can be attributed to refunding bonds issued with significant premiums during the fiscal year. In October 2015, the City issued \$15,105 General Obligation Refunding and Public Improvement Bonds Series 2015A. In June 2016, the City issued \$16,580 General Obligation Refunding Bonds Series 2016A and \$13,360 General Obligation Refunding Bonds Series 2016B.

The current year increase in long term debt for business-type activities can be attributed to the water fund's draws on the state revolving loan being used to fund the City's new raw water intake project. In 2016, the City's Water Fund received \$3,894 in draws from the state revolving loan.

**CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)**

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 the Standard & Poor's rating and the Moody's rating were reaffirmed in November 2016 in conjunction with a recent bond sale.

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.

Additional information on the City's long-term debt can be found in Note 4.E on pages 73-122 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 4.7%, which is a decrease of 1.2% from a year ago. Kingsport employment is up by 1271 jobs in June 2016.
- Inflationary trends in the region are comparable to national indices.
- 606 building permits with an estimated value of \$87,070 were issued during this fiscal year, compared to 1,367 building permits with an estimated value of \$82,340 for the previous year.

Short term interest rates on investments for the City's operating funds increased to approximately 0.33% in fiscal year 2016. The City has been able to obtain 1.08% rates with one year commitments.

All of these factors were considered in preparing the City's budget for the 2017 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund increased to \$13,131. The City has assigned fund balance of \$95 to cover encumbrances remaining from FY2016.

For the FY2017 budget year, water rates were increased by 2% for all inside customers while sewer rates were increased by 2% for both inside and outside customers.

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 POSITION
June 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	Industrial Development Board	Emergency Communications District
ASSETS:					
Cash	\$ 1,727,465	\$ 17,403	\$ 1,744,868	\$ 1,882,753	\$ 1,160,500
Equity in Pooled Cash and Investments	29,618,257	9,682,709	39,300,966	0	0
Long Term Certificates of Deposit	250,691	0	250,691	0	0
Investments	360,588	0	360,588	0	0
Accounts Receivable, Net	39,098,441	3,879,138	42,977,579	12,631	14,798
Accrued Interest Receivable	4,025	17,593	21,618	0	0
Due from Other Governments	28,261,031	915,261	29,176,292	0	0
Due from Primary Government	0	0	0	143,760	0
Internal Balances	0	0	0	0	0
Inventories	603,762	634,893	1,238,655	0	0
Prepays	219,100	39,322	258,422	26,805	49,541
Land Held for Sale or Development	0	0	0	7,451,354	0
Net Pension Asset	16,828	0	16,828	0	0
Restricted Assets:					
Cash	8,188,159	25,527,724	33,715,883	0	0
Long Term Certificates of Deposit	1,000,000	0	1,000,000	0	0
Investments	2,428,828	417,032	2,845,860	319,180	0
Receivables	0	0	0	499,216	0
Capital Assets:					
Land	32,226,534	8,048,082	40,274,616	2,063,238	242,010
Buildings and Systems	186,473,472	383,532,034	570,005,506	10,433,063	2,022,110
Improvements Other Than Buildings	25,595,304	10,610,708	36,206,012	317,928	0
Machinery and Equipment	55,086,922	6,768,167	61,855,089	0	1,070,504
Software	908,338	304,672	1,213,010	0	0
Infrastructure	292,617,695	0	292,617,695	0	0
Construction in Progress	18,271,076	20,724,790	38,995,866	187,450	0
Less: Accumulated Depreciation	(282,755,846)	(147,264,068)	(430,019,914)	(599,882)	(623,280)
Other Assets, Net	198,000	287,902	485,902	0	0
Total Assets	440,398,670	324,143,362	764,542,032	22,737,496	3,936,183
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred Outflows Related to Refunding	3,917,376	2,159,391	6,076,767	0	0
Deferred Outflows Related to Pensions	20,770,138	1,968,905	22,739,043	0	0
Total Deferred Outflows of Resources	24,687,514	4,128,296	28,815,810	0	0
LIABILITIES:					
Accounts Payable and Other Current Liabilities	13,797,028	4,707,105	18,504,133	312,827	9,185
Due to Primary Government	0	0	0	0	0
Due to Other Governments	5,487	244,148	249,635	0	0
Due to Component Units	23,760	0	23,760	0	0
Compensated Absences Payable	3,473,806	620,113	4,093,919	0	0
Accrued Interest Payable	1,175,469	854,237	2,029,706	39,924	0
Unearned Revenue	73,163	32,436	105,599	325,528	0
Liabilities Payable from Restricted Assets	0	610,198	610,198	0	0
Noncurrent Liabilities:					
Due Within One Year	8,116,385	8,389,084	16,505,469	89,501	0
Due in More Than One Year	113,419,910	110,861,732	224,281,642	15,756,770	0
Pension Liability	26,167,008	4,690,733	30,857,741	0	0
OPEB Liability	44,159,194	2,972,548	47,131,742	0	0
Post Closure Liability	0	0	0	0	0
Total Liabilities	210,411,210	133,982,334	344,393,544	16,524,550	9,185
DEFERRED INFLOWS OF RESOURCES:					
Deferred Inflows Related to Property Taxes	55,104,633	0	55,104,633	0	0
Deferred Inflows Related to Other Taxes	445,146	0	445,146	0	0
Deferred Inflows Related to Pensions	23,100,231	1,624,812	24,725,043	0	0
Total Deferred Inflows of Resources	78,650,010	1,624,812	80,274,822	0	0
NET POSITION:					
Net Investment in Capital Assets	215,146,670	188,268,413	403,415,083	1,137,364	2,711,344
Restricted for Debt Service	0	311,026	311,026	0	0
Restricted for Capital Improvements	20,250	293,769	314,019	0	0
Restricted for Perpetual Care (Nonexpendable)	152,691	0	152,691	0	0
Unrestricted	(39,294,647)	3,791,304	(35,503,343)	5,075,582	1,215,654
Total Net Position	\$ 176,024,964	\$ 192,664,512	\$ 368,689,476	\$ 6,212,946	\$ 3,926,998

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		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	\$ 10,413,192	\$ 1,097,954	\$ 386,187	\$ 2,243,906	\$ (6,685,145)	\$ 0	\$ (6,685,145)		
Public Safety	21,663,334	1,259,977	346,614	0	(20,056,743)	0	(20,056,743)		
Public Works	15,579,088	0	0	0	(15,579,088)	0	(15,579,088)		
Highways and Transportation	4,428,006	117,862	2,998,433	167,329	(1,144,382)	0	(1,144,382)		
Economic and Physical Development	4,326,769	900,416	529,814	0	(2,896,539)	0	(2,896,539)		
Culture and Recreation	7,784,401	1,324,523	171,478	0	(6,288,400)	0	(6,288,400)		
Education	78,180,717	2,417,198	34,157,864	0	(41,605,655)	0	(41,605,655)		
Interest on Long Term Debt	4,008,351	0	0	0	(4,008,351)	0	(4,008,351)		
Total Governmental Activities	146,383,858	7,117,930	38,590,390	2,411,235	(98,264,303)	0	(98,264,303)		
Business - Type Activities:									
Water	11,029,910	13,575,659	56,182	964,471	0	3,566,402	3,566,402		
Sewer	11,853,057	13,750,057	84,273	530,755	0	2,512,028	2,512,028		
Solid Waste Management	4,424,383	872,231	4,214	0	0	(3,547,938)	(3,547,938)		
Storm Water Management	1,457,499	1,860,884	8,427	0	0	411,812	411,812		
Aquatic Center	2,984,965	1,348,766	7,696	0	0	(1,628,503)	(1,628,503)		
MeadowView Conference Resort and Convention Center	2,685,147	384,717	14,111	0	0	(2,286,319)	(2,286,319)		
Cattails at MeadowView Golf Course	1,311,917	898,760	0	0	0	(413,157)	(413,157)		
Total Business - Type Activities	35,746,878	32,691,074	174,903	1,495,226	0	(1,385,675)	(1,385,675)		
Total Primary Government	\$ 182,130,736	\$ 39,809,004	\$ 38,765,293	\$ 3,906,461	(98,264,303)	(1,385,675)	(99,649,978)		
Component Units:									
Industrial Development Board	\$ 1,707,342	\$ 1,417,005	\$ 422,419	\$ 1,228,500				\$ 1,360,582	\$ 0
Emergency Communications District	584,711	712,182	13,721	0				0	141,192
Total Component Units	\$ 2,292,053	\$ 2,129,187	\$ 436,140	\$ 1,228,500				1,360,582	141,192
General Revenues:									
Property Taxes					57,058,121	0	57,058,121	0	0
Sales Taxes					34,386,506	0	34,386,506	0	0
Alcoholic Beverage Taxes					1,924,223	0	1,924,223	0	0
Occupational Licenses and Business Taxes					2,103,921	0	2,103,921	0	0
Hotel / Motel Taxes					1,677,591	0	1,677,591	0	0
Income Taxes					1,068,350	0	1,068,350	0	0
Grants and Contributions Not Restricted to Specific Programs					995,380	0	995,380	0	0
Unrestricted Investment Earnings					211,962	179,251	391,213	11,330	277
Miscellaneous					939,546	0	939,546	0	14,798
Transfers					(4,179,563)	4,179,563	0	0	0
Total General Revenues and Transfers					96,186,037	4,358,814	100,544,851	11,330	15,075
Change in Net Position					(2,078,266)	2,973,139	894,873	1,371,912	156,267
Net Position - Beginning					178,103,230	189,691,373	367,794,603	4,841,034	3,770,731
Net Position - Ending					\$ 176,024,964	\$ 192,664,512	\$ 368,689,476	\$ 6,212,946	\$ 3,926,998

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash	\$ 73,565	\$ 0	\$ 0	\$ 0	\$ 1,653,900	\$ 1,727,465
Equity in Pooled Cash and Investments	9,257,907	7,655,633	29,281	1,834,781	2,046,728	20,824,330
Long-Term Certificates of Deposit	0	0	0	0	250,691	250,691
Investments	0	0	0	0	360,588	360,588
Taxes Receivable, net	38,203,115	0	0	0	0	38,203,115
Accounts Receivable, net	705,218	24,424	0	0	41,049	770,691
Accrued Interest Receivable	0	0	3,793	0	69	3,862
Due from Other Governments	5,484,372	20,740,393	0	50,402	1,985,864	28,261,031
Due from Other Funds	1,004,985	446,325	0	0	0	1,451,310
Due from Component Units	0	0	0	0	0	0
Inventories	3,071	2,452	0	0	193,069	198,592
Prepays	19,856	1,370	0	0	527	21,753
Cash - Restricted	0	0	11,044	8,177,115	0	8,188,159
Investments - Restricted	0	0	0	48,441	20,250	68,691
Total Assets	\$ 54,752,089	\$ 28,870,597	\$ 44,118	\$ 10,110,739	\$ 6,552,735	\$ 100,330,278
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 688,237	\$ 424,692	\$ 0	\$ 528,781	\$ 440,832	\$ 2,082,542
Compensated Absences Payable	72,060	96,880	0	0	0	168,940
Due to Other Governments	5,454	0	0	0	33	5,487
Due to Other Funds	0	0	0	0	927,524	927,524
Due to Component Units	23,635	0	0	125	0	23,760
Contracts Payable	0	0	0	34,474	0	34,474
Other Liabilities	2,293,539	4,342,239	0	0	21,447	6,657,225
Advances from Other Funds	0	0	0	0	0	0
Unearned Revenue	20	10,215	0	0	62,928	73,163
Total Liabilities	3,082,945	4,874,026	0	563,380	1,452,764	9,973,115

(continued)

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Deferred Inflows of Resources:						
Unavailable Revenue - Property Taxes	37,975,213	18,200,000	0	0	0	56,175,213
Unavailable Revenue Other	445,146	0	0	0	0	445,146
Total Deferred Inflows of Resources	38,420,359	18,200,000	0	0	0	56,620,359
Fund Balances:						
Nonspendable:						
Inventory	3,071	2,452	0	0	193,069	198,592
Prepays	19,856	1,370	0	0	0	21,226
Allandale Trust Principal	0	0	0	0	152,691	152,691
Restricted for:						
Unspent Federal Forfeitures	0	0	0	0	20,250	20,250
Unspent Bond Proceeds	0	0	0	8,139,470	0	8,139,470
Unspent Hotel Tax	0	0	0	0	104,497	104,497
Committed to:						
DB Track Maintenance Project	0	15,000	0	0	0	15,000
Assigned to:						
Fund Balance Allocations	73,978	0	0	0	0	73,978
Future Industrial Park	20,927	0	0	0	0	20,927
Education	0	5,777,749	0	0	2,196,362	7,974,111
Debt Service	0	0	44,118	0	0	44,118
Capital Projects	0	0	0	1,407,889	0	1,407,889
Community Development	0	0	0	0	16,471	16,471
Other Projects	0	0	0	0	745,840	745,840
Public Safety	0	0	0	0	323,643	323,643
Transportation	0	0	0	0	670,313	670,313
Culture and Recreation	0	0	0	0	632,970	632,970
Allandale	0	0	0	0	43,865	43,865
Unassigned	13,130,953	0	0	0	0	13,130,953
Total Fund Balances	13,248,785	5,796,571	44,118	9,547,359	5,099,971	33,736,804
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 54,752,089</u>	<u>\$ 28,870,597</u>	<u>\$ 44,118</u>	<u>\$ 10,110,739</u>	<u>\$ 6,552,735</u>	<u>\$ 100,330,278</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2016

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

Total Fund Balance of Governmental Funds	\$ 33,736,804
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	317,392,433
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 unearned revenue until paid by property owners.	1,070,580
Net pension asset related to the teacher retirement plan is reported on statement of net position.	16,828
Deferred outflows related to refunding is reported is on statement of net position.	3,917,376
Deferred outflows related to pensions is reported on the statement of net position.	20,770,138
Deferred inflows related to pensions is reported on the statement of net position.	(23,100,231)
Internal service funds are used by management to charge the costs of fleet maintenance, liability insurance, city employee health insurance, city retiree's insurance, school employee health insurance and school 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 position.	18,454,368
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(196,233,332)</u>
Net Position of Governmental Activities	<u><u>\$ 176,024,964</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, 2016

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 43,231,684	\$ 28,091,274	\$ 0	\$ 0	\$ 4,226,589	\$ 75,549,547
Licenses and Permits	456,360	0	0	0	0	456,360
Intergovernmental	24,706,071	26,520,503	191,945	684,849	10,749,596	62,852,964
Charges for Services	2,447,112	1,364,228	0	0	1,282,004	5,093,344
Fines and Forfeitures	842,116	0	0	0	183,165	1,025,281
Investment Earnings	44,714	0	138,668	41	4,071	187,494
Contributions and Donations	126,661	0	0	52,376	292,286	471,323
Miscellaneous	94,985	364,448	0	0	250	459,683
Total Revenues	71,949,703	56,340,453	330,613	737,266	16,737,961	146,095,996
EXPENDITURES:						
Current:						
General Government	8,609,982	0	0	0	685,416	9,295,398
Public Safety	20,272,421	0	0	0	107,075	20,379,496
Public Works	7,343,759	0	0	0	0	7,343,759
Economic and Physical Development	3,432,304	0	0	0	529,814	3,962,118
Transportation	0	0	0	0	4,428,006	4,428,006
Culture and Recreation	5,411,743	0	0	0	181,039	5,592,782
Education	0	65,845,545	0	0	8,041,128	73,886,673
Miscellaneous	769,025	0	0	0	0	769,025
Debt Service:						
Principal	0	0	7,697,555	0	0	7,697,555
Interest	0	0	4,356,358	0	0	4,356,358
Bond Issuance Costs	0	0	0	242,887	0	242,887
Other Costs	0	0	17,311	0	0	17,311
Capital Outlay	56,022	374,169	0	10,534,055	703,482	11,667,728
Total Expenditures	45,895,256	66,219,714	12,071,224	10,776,942	14,675,960	149,639,096
Excess (Deficiency) of Revenues Over (Under) Expenditures	26,054,447	(9,879,261)	(11,740,611)	(10,039,676)	2,062,001	(3,543,100)

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES):						
Transfers In	3,435,818	13,552,898	11,685,371	1,979,516	2,364,048	33,017,651
Transfers Out	(29,137,892)	(3,959,926)	0	(319,406)	(4,136,222)	(37,553,446)
Debt Transferred to Solid Waste Fund	0	0	0	(1,362,955)	0	(1,362,955)
Premiums Transferred to Solid Waste Fund	0	0	0	(116,897)	0	(116,897)
Issuance of Debt	0	0	0	19,313,751	0	19,313,751
Premiums on Debt Issued	0	0	0	1,802,565	0	1,802,565
Payments to Refunded Bond Escrow	0	0	0	(17,090,711)	0	(17,090,711)
Total Other Financing Sources (Uses)	(25,702,074)	9,592,972	11,685,371	4,205,863	(1,772,174)	(1,990,042)
Net Change in Fund Balances	352,373	(286,289)	(55,240)	(5,833,813)	289,827	(5,533,142)
Fund Balances, July 1, 2015	12,896,412	6,082,860	99,358	15,381,172	4,810,144	39,269,946
Fund Balances, June 30, 2016	<u>\$ 13,248,785</u>	<u>\$ 5,796,571</u>	<u>\$ 44,118</u>	<u>\$ 9,547,359</u>	<u>\$ 5,099,971</u>	<u>\$ 33,736,804</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, 2016

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

Net Change in Fund Balance of Governmental Funds	\$ (5,533,142)
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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 were less than depreciation of capital assets.	(2,673,221)
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The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is a decrease to net position.	(959,082)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	79,413
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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 expense of certain activities of internal service funds is reported with governmental activities.	1,309,947
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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:	
Increase in Compensated Absences	(116,221)
Increase in OPEB Liability	(5,041,543)
Decrease in Accrued Interest	146,502
Decrease in Pension Liabilities and Deferrals net of pension asset	5,192,774

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.	5,516,307
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Change in Net Position of Governmental Activities	<u><u>\$ (2,078,266)</u></u>
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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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Taxes:				
General Property	\$ 38,015,900	\$ 37,844,461	\$ 37,881,454	\$ 36,993
Gross Receipts	5,058,100	5,290,278	5,350,230	59,952
Licenses and Permits	486,100	452,521	456,360	3,839
Intergovernmental:				
Federal	18,900	39,254	26,335	(12,919)
State	5,894,600	6,561,139	6,593,663	32,524
County	17,221,200	17,750,689	17,865,518	114,829
Local	220,800	231,255	220,555	(10,700)
Charges for Services	1,800,500	2,393,914	2,447,112	53,198
Fines and Forfeitures	757,500	835,700	842,116	6,416
Investment Earnings	10,500	44,699	44,714	15
Contributions and Donations	125,000	126,662	126,661	(1)
Miscellaneous	90,000	93,121	94,985	1,864
	<u>69,699,100</u>	<u>71,663,693</u>	<u>71,949,703</u>	<u>286,010</u>
EXPENDITURES:				
General Government:				
Board of Mayor and Aldermen	129,250	146,258	146,250	8
Judicial	30,950	28,896	28,894	2
City Attorney	423,000	383,039	383,030	9
City Manager	409,800	404,011	404,002	9
Assistant City Manager	161,200	120,846	120,840	6
Budget Office	185,700	187,006	186,999	7
Special Programs	2,597,400	2,493,375	2,488,904	4,471
Public Information Office	185,400	172,195	172,188	7
Personnel	1,128,900	1,161,605	1,161,542	63
Purchasing	280,550	252,404	252,395	9
Finance Administration	1,667,400	1,635,573	1,635,556	17
Records Administration	90,200	84,788	84,782	6
Information Services	1,011,550	1,005,336	1,005,328	8
Geographic Information	355,900	347,918	347,913	5
Grant Office	185,000	191,368	191,359	9
	<u>8,842,200</u>	<u>8,614,618</u>	<u>8,609,982</u>	<u>4,636</u>
Total General Government				

(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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Public Safety:				
Police Administration	1,736,200	1,745,326	1,745,309	17
Jail Operations	435,800	406,409	406,399	10
Training	347,000	350,841	350,834	7
Traffic School	11,600	14,633	14,629	4
Investigations	1,636,700	1,533,603	1,533,593	10
Patrol Division	5,867,200	5,659,174	5,659,164	10
Central Dispatch	1,175,800	1,146,364	1,146,353	11
Communications	399,200	289,205	289,194	11
Fire Control and Prevention	8,849,900	9,127,566	9,126,946	620
Total Public Safety	20,459,400	20,273,121	20,272,421	700
Public Works:				
Administration	177,900	180,411	180,402	9
Streets and Sanitation Administration	289,400	292,831	292,821	10
Street Cleaning	418,800	464,956	464,947	9
Street Maintenance	1,808,600	2,227,591	2,200,007	27,584
Building Maintenance	1,699,000	1,720,161	1,720,145	16
Grounds Maintenance	1,151,200	1,205,598	1,205,588	10
Park Maintenance	679,500	703,738	703,728	10
Inter Local Agreements	1,000	0	0	0
Landscaping	643,700	576,129	576,121	8
Total Public Works	6,869,100	7,371,415	7,343,759	27,656
Economic and Physical Development:				
Administration	414,000	462,272	462,261	11
Planning	306,500	304,364	304,352	12
Transportation	1,301,000	1,281,515	1,281,500	15
Charter Bus Service	10,400	10,491	10,490	1
Engineering	1,119,700	1,005,630	1,005,619	11
Code Enforcement	368,300	368,092	368,082	10
Total Economic and Physical Development	3,519,900	3,432,364	3,432,304	60

(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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Culture and Recreation:				
Administration	416,700	372,916	372,904	12
Adult Education	4,800	4,866	4,864	2
Parks and Recreation Centers	383,500	352,678	352,669	9
Lynn View	53,500	42,731	42,727	4
Farmers Market	18,300	18,355	18,352	3
Carousel	53,800	50,305	50,300	5
Swimming Pools	19,400	19,981	19,978	3
Athletics	964,400	1,020,555	1,020,545	10
Cultural Arts	221,800	209,605	209,597	8
Allandale	245,000	236,766	236,754	12
Senior Citizens Center	679,500	624,870	623,796	1,074
Bays Mountain Park	1,235,700	1,226,403	1,226,384	19
Library	1,245,700	1,232,890	1,232,873	17
Total Culture and Recreation	5,542,100	5,412,921	5,411,743	1,178
Miscellaneous	287,917	769,853	769,025	828
Capital Outlay	80,100	68,294	56,022	12,272
Total Expenditures	45,600,717	45,942,586	45,895,256	47,330
Excess of Revenues Over Expenditures	24,098,383	25,721,107	26,054,447	333,340
Other Financing Sources (Uses):				
Transfers In	3,444,900	3,419,700	3,435,818	16,118
Transfers Out	(27,493,283)	(29,218,609)	(29,137,892)	80,717
Net Other Financing Sources (Uses)	(24,048,383)	(25,798,909)	(25,702,074)	96,835
Net Change in Fund Balances	50,000	(77,802)	352,373	430,175
Fund Balances, July 1, 2015	(50,000)	77,802	12,896,412	12,818,610
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 13,248,785	\$ 13,248,785

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, 2016

	<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	\$ 17,655,000	\$ 18,855,000	\$ 19,093,428	\$ 238,428
Gross Receipts Taxes	8,432,000	8,432,000	8,957,183	525,183
Other Taxes	42,000	42,000	40,663	(1,337)
Intergovernmental:				
Federal	324,000	324,000	314,629	(9,371)
State	26,515,000	26,521,321	26,205,874	(315,447)
Charges for Services	1,425,000	1,425,000	1,364,228	(60,772)
Miscellaneous	206,500	237,588	364,448	126,860
Total Revenues	<u>54,599,500</u>	<u>55,836,909</u>	<u>56,340,453</u>	<u>503,544</u>
EXPENDITURES:				
Instruction:				
Regular	33,386,419	36,264,330	36,188,511	75,819
Special Education	5,147,300	5,226,361	5,090,984	135,377
Vocational	1,409,800	1,450,968	1,443,943	7,025
Adult Education	222,750	223,584	218,955	4,629
Total Instruction	<u>40,166,269</u>	<u>43,165,243</u>	<u>42,942,393</u>	<u>222,850</u>
Student Support Services:				
Attendance	62,200	63,765	60,751	3,014
Health Services	741,172	801,035	798,492	2,543
Other	2,266,600	2,290,948	2,167,727	123,221
Total Student Support Services	<u>3,069,972</u>	<u>3,155,748</u>	<u>3,026,970</u>	<u>128,778</u>
Instructional Staff Support Services:				
Regular	4,249,931	4,420,818	4,265,358	155,460
Special Education	467,900	475,000	466,790	8,210
Vocational	176,300	186,500	183,743	2,757
Adult Education	28,250	28,250	25,247	3,003
Total Instructional Staff Support Services	<u>4,922,381</u>	<u>5,110,568</u>	<u>4,941,138</u>	<u>169,430</u>
General Administrative Support Services:				
Board of Education	1,173,700	1,188,700	1,171,594	17,106
Office of Superintendent	737,350	799,044	771,824	27,220
Total General Administrative Support Services	<u>1,911,050</u>	<u>1,987,744</u>	<u>1,943,418</u>	<u>44,326</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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
School Administrative Support Services	3,080,110	3,224,146	3,205,977	18,169
Business Administrative Support Services	398,700	423,099	422,938	161
Operations and Maintenance Support Services:				
Operations	4,317,286	4,209,329	4,105,377	103,952
Plant Maintenance	1,998,742	2,629,073	2,590,300	38,773
Total Operations and Maintenance Support Services	6,316,028	6,838,402	6,695,677	142,725
Student Transportation Support Services	1,884,400	1,803,200	1,684,214	118,986
Noninstructional Services:				
After School Programs	476,550	493,838	453,750	40,088
Community Service	548,900	550,730	529,070	21,660
Total Noninstructional Services	1,025,450	1,044,568	982,820	61,748
Capital Outlay	1,754,007	1,485,661	374,169	1,111,492
Total Expenditures	64,528,367	68,238,379	66,219,714	2,018,665
Deficiency of Revenues Under Expenditures	(9,928,867)	(12,401,470)	(9,879,261)	2,522,209
OTHER FINANCING SOURCES (USES):				
Transfers In	13,700,400	13,600,400	13,552,898	(47,502)
Transfers Out	(4,088,200)	(4,019,288)	(3,959,926)	59,362
Total Other Financing Sources (Uses)	9,612,200	9,581,112	9,592,972	11,860
Net Change in Fund Balances	(316,667)	(2,820,358)	(286,289)	2,534,069
Fund Balances, July 1, 2015	316,667	2,820,358	6,082,860	3,262,502
Fund Balances, June 30, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,796,571</u>	<u>\$ 5,796,571</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	Business - Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Aquatic Center Fund	MeadowView Conference Resort and Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds	
ASSETS:							
Current Assets:							
Cash	\$ 0	\$ 0	\$ 16,943	\$ 0	\$ 460	\$ 17,403	\$ 0
Equity in Pooled Cash and Investments	3,091,493	5,545,887	90,714	19,887	934,728	9,682,709	8,793,927
Accounts Receivable, Net	1,655,561	1,673,828	93,813	89,186	366,750	3,879,138	124,635
Accrued Interest Receivable	5,241	11,769	0	0	583	17,593	163
Due from Other Governments	594,712	320,549	0	0	0	915,261	0
Due from Other Funds	2,425,283	0	0	0	0	2,425,283	0
Inventories	519,422	0	8,724	0	106,747	634,893	405,170
Prepays	39,322	0	0	0	0	39,322	197,347
Total Current Assets	8,331,034	7,552,033	210,194	109,073	1,409,268	17,611,602	9,521,242
Noncurrent Assets:							
Restricted Assets:							
Cash	460,894	48,186	0	85,000	138,800	732,880	0
Cash from Unspent Bonds	6,653,325	16,614,334	0	0	1,527,185	24,794,844	0
Long Term Certificates of Deposit	0	0	0	0	0	0	1,000,000
Investments	145,928	156,987	0	105,929	8,188	417,032	2,360,137
Total Restricted Assets	7,260,147	16,819,507	0	190,929	1,674,173	25,944,756	3,360,137
Capital Assets:							
Land	843,351	1,167,851	845,711	1,515,497	3,675,672	8,048,082	14,695
Buildings and Systems	115,863,905	206,453,140	19,272,330	39,471,162	2,471,497	383,532,034	14,897
Improvements Other Than Buildings	0	0	0	2,865,257	7,745,451	10,610,708	0
Software	141,493	88,304	0	0	74,875	304,672	0
Machinery and Equipment	1,107,616	1,363,989	150,120	1,220,856	2,925,586	6,768,167	30,558,906
Construction in Progress	13,301,192	5,498,787	0	70,488	1,854,323	20,724,790	0
Less: Accumulated Depreciation	(46,598,950)	(77,720,886)	(1,980,120)	(13,735,744)	(7,228,368)	(147,264,068)	(19,557,436)
Total Capital Assets	84,658,607	136,851,185	18,288,041	31,407,516	11,519,036	282,724,385	11,031,062
Other Assets:							
Prepaid Landfill Closure Costs	0	0	0	0	287,902	287,902	0
Deposits	0	0	0	0	0	0	198,000
Total Other Assets	0	0	0	0	287,902	287,902	198,000
Total Noncurrent Assets	91,918,754	153,670,692	18,288,041	31,598,445	13,481,111	308,957,043	14,589,199
Total Assets	100,249,788	161,222,725	18,498,235	31,707,518	14,890,379	326,568,645	24,110,441
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows Related to Refunding	131,472	280,268	763,526	931,132	52,993	2,159,391	0
Deferred Outflows Related to Pensions	885,242	576,052	22,649	0	484,962	1,968,905	0
Total Deferred Outflows of Resources	1,016,714	856,320	786,175	931,132	537,955	4,128,296	0

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	Business - Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Aquatic Center Fund	MeadowView Conference Resort and Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds	
LIABILITIES:							
Current Liabilities:							
Accounts Payable	2,895,318	825,667	94,221	121,332	418,782	4,355,320	425,782
Due to Other Governments	139,224	97,473	7,451	0	0	244,148	0
Due to Other Funds	0	0	1,133,193	43,050	1,249,040	2,425,283	523,786
Compensated Absences Payable	270,738	191,796	16,854	0	140,725	620,113	109,500
Retainages Payable	460,894	64,379	0	0	84,925	610,198	0
Accrued Interest Payable	198,024	464,838	92,253	53,875	45,247	854,237	0
General Obligation Bonds - Current	2,056,050	4,235,337	879,664	735,198	482,835	8,389,084	0
Unearned Revenue	0	0	32,436	0	0	32,436	0
Other Payables	337,146	14,639	0	0	0	351,785	4,597,005
Total Current Liabilities	6,357,394	5,894,129	2,256,072	953,455	2,421,554	17,882,604	5,656,073
Noncurrent Liabilities:							
General Obligation Bonds Payable (Net of Discounts and Premiums)	22,266,939	49,439,270	16,890,003	12,664,395	5,706,815	106,967,422	0
State Revolving Loan Payable	3,894,310	0	0	0	0	3,894,310	0
OPEB Liability	1,404,056	852,281	36,068	0	680,143	2,972,548	0
Post Closure Liability	0	0	0	0	0	0	0
Pension Liability	2,109,212	1,361,370	58,607	0	1,161,544	4,690,733	0
Total Noncurrent Liabilities	29,674,517	51,652,921	16,984,678	12,664,395	7,548,502	118,525,013	0
Total Liabilities	36,031,911	57,547,050	19,240,750	13,617,850	9,970,056	136,407,617	5,656,073
DEFERRED INFLOWS OF RESOURCES:							
Deferred Inflows Related to Pensions	730,747	463,990	23,494	0	406,581	1,624,812	0
Total Deferred Inflows of Resources	730,747	463,990	23,494	0	406,581	1,624,812	0
NET POSITION:							
Net Investment in Capital Assets	63,094,633	99,790,912	518,374	18,007,923	6,856,571	188,268,413	11,031,062
Restricted for Debt Service	145,928	156,987	0	0	8,111	311,026	0
Restricted for Capital Improvements	0	0	0	207,034	86,735	293,769	0
Unrestricted	1,263,283	4,120,106	(498,208)	805,843	(1,899,720)	3,791,304	7,423,306
Total Net Position	\$ 64,503,844	\$ 104,068,005	\$ 20,166	\$ 19,020,800	\$ 5,051,697	\$ 192,664,512	\$ 18,454,368

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2016

	Business - Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Aquatic Center Fund	MeadowView Conference Resort and Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
OPERATING REVENUES:							
Charges and Fees	\$ 12,892,823	\$ 13,595,237	\$ 1,280,395	\$ 384,717	\$ 3,627,312	\$ 31,780,484	\$ 28,376,309
Penalties and Fines	627,743	146,293	0	0	300	774,336	0
Miscellaneous	55,093	8,527	68,371	0	4,263	136,254	804,599
Total Operating Revenue	<u>13,575,659</u>	<u>13,750,057</u>	<u>1,348,766</u>	<u>384,717</u>	<u>3,631,875</u>	<u>32,691,074</u>	<u>29,180,908</u>
OPERATING EXPENSES:							
Operating Costs	7,507,609	5,346,123	1,721,750	810,093	6,465,207	21,850,782	26,236,855
Depreciation	3,023,226	4,876,115	674,946	1,360,532	567,212	10,502,031	2,014,956
Total Operating Expenses	<u>10,530,835</u>	<u>10,222,238</u>	<u>2,396,696</u>	<u>2,170,625</u>	<u>7,032,419</u>	<u>32,352,813</u>	<u>28,251,811</u>
Operating Income (Loss)	<u>3,044,824</u>	<u>3,527,819</u>	<u>(1,047,930)</u>	<u>(1,785,908)</u>	<u>(3,400,544)</u>	<u>338,261</u>	<u>929,097</u>
NONOPERATING REVENUES:							
Investment Earnings	52,734	118,379	0	181	7,957	179,251	24,468
Federal Interest Subsidy	56,182	84,273	7,696	14,111	12,641	174,903	0
Interest Expense	(459,902)	(1,538,977)	(498,951)	(416,948)	(156,829)	(3,071,607)	0
Gain (Loss) on Disposal of Capital Assets	0	0	0	0	0	0	150
Bond Issue Cost	(39,173)	(91,842)	(89,318)	(97,574)	(4,551)	(322,458)	0
Total Nonoperating Revenues	<u>(390,159)</u>	<u>(1,428,167)</u>	<u>(580,573)</u>	<u>(500,230)</u>	<u>(140,782)</u>	<u>(3,039,911)</u>	<u>24,618</u>
Income (Loss) Before Capital Contributions and Transfers	2,654,665	2,099,652	(1,628,503)	(2,286,138)	(3,541,326)	(2,701,650)	953,715
Capital Contributions	964,471	530,755	0	0	0	1,495,226	0
Transfers In	145,130	0	1,589,013	1,879,990	3,767,505	7,381,638	356,232
Transfers Out	<u>(1,563,958)</u>	<u>(1,500,346)</u>	<u>(41,557)</u>	<u>0</u>	<u>(96,214)</u>	<u>(3,202,075)</u>	<u>0</u>
Change in Net Position	2,200,308	1,130,061	(81,047)	(406,148)	129,965	2,973,139	1,309,947
Net Position, July 1, 2015	<u>62,303,536</u>	<u>102,937,944</u>	<u>101,213</u>	<u>19,426,948</u>	<u>4,921,732</u>	<u>189,691,373</u>	<u>17,144,421</u>
Net Position, June 30, 2016	<u>\$ 64,503,844</u>	<u>\$ 104,068,005</u>	<u>\$ 20,166</u>	<u>\$ 19,020,800</u>	<u>\$ 5,051,697</u>	<u>\$ 192,664,512</u>	<u>\$ 18,454,368</u>

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, 2016

	Business - Type Activities - Enterprise Funds						
	Water Fund	Sewer Fund	Aquatic Center	MeadowView Conference Resort and Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers and Users	\$ 13,582,473	\$ 13,484,033	\$ 1,330,030	\$ 323,731	\$ 3,448,450	\$ 32,168,717	\$ 0
Receipts from Interfund Services Provided	169,583	327,068	9,362	0	121,861	627,874	29,317,601
Payments to Suppliers	(438,054)	(2,063,699)	(1,131,340)	(748,326)	(3,644,733)	(8,026,152)	(24,846,494)
Payments to Employees	(4,102,538)	(2,874,253)	(584,033)	0	(2,666,634)	(10,227,458)	(1,554,038)
Net Cash Provided (Used) by Operating Activities	9,211,464	8,873,149	(375,981)	(424,595)	(2,741,056)	14,542,981	2,917,069
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers from Other Funds	145,130	0	1,589,013	1,879,990	3,767,505	7,381,638	356,232
Transfers to Other Funds	(1,563,958)	(1,500,346)	(41,557)	0	(96,214)	(3,202,075)	0
Advances From Other Funds	(824,706)	0	427,147	(32,387)	429,946	0	496,505
Net Cash Provided (Used) by Noncapital Financing Activities	(2,243,534)	(1,500,346)	1,974,603	1,847,603	4,101,237	4,179,563	852,737
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Proceeds from Capital Debt	5,624,310	4,900,000	0	0	1,479,852	12,004,162	0
Capital Transfers from Other Funds	0	0	0	0	0	0	0
County Revenue for Capital Projects	162,336	0	0	0	0	162,336	0
Acquisition and Construction of Capital Assets	(11,683,837)	(4,341,326)	(11,050)	(89,247)	(1,598,543)	(17,724,003)	(2,992,904)
Principal Paid on Capital Debt	(2,036,920)	(4,478,348)	(853,783)	(713,854)	(457,188)	(8,540,093)	0
Interest Paid on Capital Debt	(444,310)	(1,612,029)	(644,518)	(546,406)	(171,973)	(3,419,236)	0
Proceeds from Sales of Capital Assets	0	0	0	0	0	0	150
Net Cash Used by Capital and Related Financing Activities	(8,378,421)	(5,531,703)	(1,509,351)	(1,349,507)	(747,852)	(17,516,834)	(2,992,754)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from Sales and Maturities of Investments	0	0	0	0	364	364	87,504
Purchase of Investments	(40,862)	(96,711)	0	(53,795)	(6,470)	(197,838)	0
Interest Received	52,711	118,396	0	181	7,583	178,871	25,088
Net Cash Provided (Used) by Investing Activities	11,849	21,685	0	(53,614)	1,477	(18,603)	112,592
Net Increase (Decrease) In Cash and Cash Equivalents	(1,398,642)	1,862,785	89,271	19,887	613,806	1,187,107	889,644
Cash and Cash Equivalents, July 1, 2015	11,604,354	20,345,622	18,386	85,000	1,987,367	34,040,729	7,904,283
Cash and Cash Equivalents, June 30, 2016	\$ 10,205,712	\$ 22,208,407	\$ 107,657	\$ 104,887	\$ 2,601,173	\$ 35,227,836	\$ 8,793,927

(continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2016

	Business - Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Aquatic Center	MeadowView Conference Resort and Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Operating Income (Loss)	\$ 3,044,824	\$ 3,527,819	\$ (1,047,930)	\$ (1,785,908)	\$ (3,400,544)	\$ 338,261	\$	929,097
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:								
Depreciation	3,023,226	4,876,115	674,946	1,360,532	567,212	10,502,031		2,014,956
(Increase) Decrease in Assets:								
Accounts Receivable	139,751	48,641	(15,931)	(60,986)	(61,563)	49,912		136,694
Due From Component Units	10,715	14,796	0	0	0	25,511		0
Inventory	(51,739)	0	324	0	10,561	(40,854)		38,342
Prepays	74,769	87,673	0	0	65,960	228,402		27,021
Increase (Decrease) in Liabilities:								
Accounts Payable	2,588,647	325,099	(3,265)	61,767	16,056	2,988,304		83,051
Claims Payable	0	0	0	0	0	0		(283,548)
Benefits Payable	0	0	0	0	0	0		(33,531)
Pension Liabilities and Deferrals	(170,112)	(112,048)	(3,791)	0	(92,458)	(378,409)		0
Compensated Absences Payable	6,483	9,215	1,649	0	1,871	19,218		4,987
OPEB Liability	131,494	89,602	11,500	0	84,236	316,832		0
Other Payables	(11,068)	(13,652)	0	0	0	(24,720)		0
Unearned Revenue	0	0	6,517	0	0	6,517		0
Retainages Payable	424,474	19,889	0	0	67,613	511,976		0
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,211,464</u>	<u>\$ 8,873,149</u>	<u>\$ (375,981)</u>	<u>\$ (424,595)</u>	<u>\$ (2,741,056)</u>	<u>\$ 14,542,981</u>	<u>\$</u>	<u>2,917,069</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET POSITION:								
Cash	\$ 0	\$ 0	\$ 16,943	\$ 0	\$ 460	\$ 17,403	\$	0
Equity in Pooled Cash and Investments	3,091,493	5,545,887	90,714	19,887	934,728	9,682,709		8,793,927
Restricted Cash from Unspent Bonds	6,653,325	16,614,334	0	0	1,527,185	24,794,844		0
Restricted Cash	460,894	48,186	0	85,000	138,800	732,880		0
Cash and Cash Equivalents, June 30, 2016	<u>\$ 10,205,712</u>	<u>\$ 22,208,407</u>	<u>\$ 107,657</u>	<u>\$ 104,887</u>	<u>\$ 2,601,173</u>	<u>\$ 35,227,836</u>	<u>\$</u>	<u>8,793,927</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:								
Capital Assets Contributed by Developers	\$ 369,759	\$ 382,005	\$ 0	\$ 0	\$ 0	\$ 751,764	\$	0
Federal Interest Subsidy Paid Directly to Bank	<u>\$ 56,182</u>	<u>\$ 84,273</u>	<u>\$ 7,696</u>	<u>\$ 14,111</u>	<u>\$ 12,641</u>	<u>\$ 174,903</u>	<u>\$</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, 2016

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity 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 accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting entity

Primary Government

The City is a Tennessee municipal corporation governed by a Board of Mayor and Aldermen (BMA). A mayor is elected every two years and six aldermen are elected every four years. A vice mayor is appointed by the BMA from within its membership. 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.

Discretely Presented Component Units

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.

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. A significant amount of the IDBK's revenue is derived from the City. Additionally, City employees provide significant oversight of IDBK projects. 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 services. Their Board consists of nine members, all of whom are appointed by the City's BMA. The operations of the ECD are managed directly by employees of the City. 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting entity (continued)

Discretely Presented Component Units

Proprietary Fund Type

Separately issued financial statements may be requested from, the ECD administrative offices.

Emergency Communications District of the City of Kingsport
P O Box 1326
141 Unicoi Street
Kingsport, Tennessee 37662

Joint Ventures and Jointly Governed Organizations

The IDBK is a participant with the Hawkins County Industrial Development Board (HCIDB) in a joint venture to purchase and develop land for industrial purposes known as the Phipps Bend Venture. The IDBK holds a 20% interest in the venture while the HCIDB holds an 80% interest.

Jointly governed organizations of the City include the Tri-Cities Airport Authority.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. As a general rule the effect of inter-fund 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*.

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 non-major 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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. Federal revenue is restricted in use for the purchase of equipment.

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 Aquatic 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 restricted in use for tourism purposes.

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 *aquatic center fund* accounts for the activities related to the City's operation of an aquatic facility offering indoor and outdoor recreational swimming for the region.

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 City reports the following non-major proprietary funds:

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 *storm water management fund* accounts for the activities of the City's management of storm water run-off, efforts to improve the water quality of rivers and streams and to reduce incidences of flooding.

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, school self-insured health insurance, school 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, non-expendable assets left to the City by the late Harvey Brooks, consisting of his home (Allandale Mansion) and other tangible and intangible assets.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 non-operating revenues and expenses.

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

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

D. Assets, deferred outflows, liabilities, deferred inflows, and net position or fund 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; non-convertible 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, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, deferred outflows, liabilities, deferred inflows, and net position or fund equity (continued)

2. Receivables and payables

Activities 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 shown are net of an allowance for un-collectibles. 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 escrow for construction contractors established to fund retainage 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.

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, deferred outflows, liabilities, deferred inflows, and net position or fund equity (continued)

5. Capital assets (continued)

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 related to business-type activities is included as part of the capitalized value of the assets constructed. Debt service interest for business-type activities totaled \$3,440,231. The amount expensed was \$3,071,607 and the amount capitalized was \$368,624. The detailed amounts in the respective funds are as follows:

	Water Fund	Sewer Fund	Solid Waste Management Fund	Storm Water Management Fund	Aquatic Center Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Business - Type Activities
Interest Expensed	\$ 459,902	\$ 1,538,977	\$ 106,472	\$ 33,791	\$ 498,951	\$ 416,948	\$ 16,566	\$ 3,071,607
Capitalized Interest	210,250	109,089	24,408	23,706	0	1,171	0	368,624
Debt Service Interest	\$ 670,152	\$ 1,648,066	\$ 130,880	\$ 57,497	\$ 498,951	\$ 418,119	\$ 16,566	\$ 3,440,231

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

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

6. Compensated absences

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

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, deferred outflows, liabilities, deferred inflows, and net position or fund equity (continued)

6. *Compensated absences (continued)*

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 position 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 position as governmental activities will primarily be liquidated from the general fund.

Changes in compensated absences for the fiscal year ending June 30, 2016 are as follows:

Compensated Absences, July 1, 2015	\$ 3,893,146
Compensated Absences Earned - FY 2016	3,449,670
Compensated Absences Used - FY 2016	<u>(3,248,897)</u>
Compensated Absences, June 30, 2016	<u><u>\$ 4,093,919</u></u>

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 position. Bond premiums and discounts, as well as losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are expensed during the current period.

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. *Net position*

The City's net position is classified as follows:

Net Investment in Capital Assets: Consists of capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. When debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position: Restricted net position reflects the resources that are subject to restricted use and have been externally imposed by creditors, grantors or contributors, or by law through constitutional provisions or enabling legislation.

Unrestricted Net Position: Unrestricted net position includes resources that are available for transactions relating to the general operations of the City and may be used at the discretion of the City to meet current expenses for any purpose.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, deferred outflows, liabilities, deferred inflows, and net position or fund equity (continued)

9. *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:

Non-spendable 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 is the highest level of decision making authority for the City that can, by adoption of an ordinance, commit fund balance. Commitments of fund balance can be changed or lifted only by the City taking the same formal action through adoption of an ordinance.

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as non-spendable, restricted, or committed. The Board of Mayor and Aldermen has not authorized a specific party at this time to assign fund balance. Intent to assign fund balance is expressed by formal action of the Board of Mayor and Aldermen through adoption of an ordinance.

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.

10. *Fund Balance Policy*

An appropriate level of Unassigned Fund Balance shall be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls. Such fund balance shall serve cash flow needs, protect against unforeseen emergencies and enhance the credit worthiness of the City. The Fund Balance Policy establishes a minimum General Fund Unassigned Fund Balance equal to 15% of General Fund expenditures.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, deferred outflows, liabilities, deferred inflows, and net position or fund equity (continued)

11. Deferred outflows and inflows of resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense or expenditure) until then. The City has two items that qualify for reporting in this category; deferred outflows related to refunding and deferred outflows related to pensions. Both are reported in the government-wide statement of net position and the statement of net position for proprietary funds. These items result from the differences in the carrying value of refunded debt and its reacquisition price and from the requirements recognized under GASB 68 for pensions. The deferred outflows related to refunding amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions reflect payments made by the City not currently recognized by the pension plans.

In addition to liabilities, the statement of net position and balance sheet report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of deferred inflows. One item occurs only under a modified accrual basis of accounting. The item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes in both the General Fund and General Purpose School Fund, as well as the Hall Income Tax in the General Fund and other receivables not collected within 60 days of year-end and property taxes collected in advance of their due date. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item relates to unearned property taxes recorded in advance of the year in which they are intended to fund operations. This item is a deferred inflow in both the governmental fund balance sheet and the entity wide statement of net position. The third item relates to the recognition of employee pensions as required under GASB 68. This item is a deferred inflow found in the entity wide statement of net position.

	Entity- Wide Statements	Governmental Funds
	<u>Governmental</u>	<u>Statements</u>
Property Taxes Receivable - General Fund (unavailable)	\$ 0	\$ 1,070,580
Property Taxes Receivable - General Fund (unearned / unavailable)	36,904,633	36,904,633
Hall Income Taxes Receivable - General Fund (unearned / unavailable)	445,146	445,146
Property Taxes Receivable - School Fund (unearned / unavailable)	<u>18,200,000</u>	<u>18,200,000</u>
	<u>\$55,549,779</u>	<u>\$56,620,359</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, deferred outflows, liabilities, deferred inflows, and net position or fund equity (continued)

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the City of Kingsport's participation in the Public Employee Retirement Plan, and Kingsport City School's participation in the Teacher Legacy Pension Plan and Teacher Retirement Plan all included in the Tennessee Consolidated Retirement System (TCRS) and additions to / deductions from the plans' fiduciary net position, have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan, Teacher Legacy Pension Plan, and Teacher Retirement Plan. Investments are reported at fair value.

13. 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, 2016

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 position

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. 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 \$317,392,433 difference are as follows:

Governmental funds capital assets	\$ 580,590,843
Less: accumulated depreciation	<u>(263,198,410)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ 317,392,433</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 \$(196,233,332) difference are as follows:

Bonds payable, net of premiums and discounts	\$ (114,824,016)
Notes payable	(6,592,279)
Inter-local cooperative agreements	(120,000)
Compensated absences	(3,195,366)
OPEB liability	(44,159,194)
Accrued interest payable	(1,175,469)
Pension liability	<u>(26,167,008)</u>
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ (196,233,332)</u></u>

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 reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position 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 were exceeded by depreciation of general capital assets. The details of this \$(2,673,221) difference are as follows:

Capital outlays	\$ 11,667,728
Depreciation expense	<u>(14,340,949)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><u>\$ (2,673,221)</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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 effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is a decrease to net position." The details of this \$(959,082) difference are as follows:

Capital asset donations reported in statement of activities	\$ 1,480,681
Capital asset roads annexed reported in statement of activities	0
Forfeited vehicles reported in statement of activities	0
Capital project expenditures not meeting capitalization requirements	(2,387,660)
Asset disposals	<u>(52,103)</u>
Net adjustment to reduce <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (959,082)</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 \$79,413 difference are as follows:

Unearned property taxes as of June 30, 2016	\$ 1,070,580
Prior years' unearned property taxes	<u>(991,167)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 79,413</u>

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 \$1,309,947 difference are as follows:

Investment earnings	\$ 24,468
Gain on disposal of capital assets	150
Operating gain	929,097
Net transfers in	<u>356,232</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 1,309,947</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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

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

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of 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 \$5,516,307 difference are as follows:

Principal payments	\$ 7,697,555
Inter-local cooperative agreement payments	120,000
Principal payments on HUD Loan	43,000
Issuance of general obligation bonds and notes payable	(17,950,796)
Premium on issuance of general obligation bonds	(1,685,668)
Amortization of premiums, discounts and refunding costs	201,505
Payments to refunded bond escrow	<u>17,090,711</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><u>\$ 5,516,307</u></u>

CITY OF KINGSFORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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, 2016 are as follows:

	Major Governmental Funds				Other	Total
	General Fund	General Purpose Schools Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds	Governmental Funds
Fund Balances:						
<i>Non-spendable:</i>						
Inventory	\$ 3,071	\$ 2,452	\$ 0	\$ 0	\$ 193,069	\$ 198,592
Prepays	19,856	1,370	0	0	0	21,226
Allandale Trust Principal	0	0	0	0	152,691	152,691
Total Non-spendable	22,927	3,822	0	0	345,760	372,509
<i>Restricted for:</i>						
Unspent Federal Forfeitures	0	0	0	0	20,250	20,250
Unspent Bond Proceeds	0	0	0	8,139,470	0	8,139,470
Unspent Hotel Tax	0	0	0	0	104,497	104,497
Total Restricted	0	0	0	8,139,470	124,747	8,264,217
<i>Committed to:</i>						
DB Track Maintenance Project	0	15,000	0	0	0	15,000
Veterans Memorial	0	0	0	0	0	0
Total Committed	0	15,000	0	0	0	15,000
<i>Assigned to:</i>						
Fund Balance Allocations	73,978	0	0	0	0	73,978
Future Industrial Park	20,927	0	0	0	0	20,927
Debt Service	0	0	44,118	0	0	44,118
Capital Projects	0	0	0	1,407,889	0	1,407,889
Other Projects	0	0	0	0	745,840	745,840
Community Development	0	0	0	0	16,471	16,471
Allandale Fund	0	0	0	0	43,865	43,865
<i>Education:</i>						
General Purpose School Fund	0	5,777,749	0	0	0	5,777,749
School Nutrition Fund	0	0	0	0	2,130,306	2,130,306
School Projects Fund	0	0	0	0	0	0
Palmer Center Fund	0	0	0	0	66,056	66,056
<i>Public Safety:</i>						
Criminal Forfeiture Fund	0	0	0	0	83,450	83,450
Drug Fund	0	0	0	0	240,193	240,193
Justice Assistance Grant Fund	0	0	0	0	0	0
<i>Transportation:</i>						
Federal Transit Fund	0	0	0	0	626,485	626,485
MPO Fund	0	0	0	0	41,146	41,146
State Street Aid Fund	0	0	0	0	2,682	2,682
<i>Culture and Recreation:</i>						
Regional Sales Tax Fund	0	0	0	0	300,554	300,554
Visitors Enhancement Fund	0	0	0	0	0	0
Steadman Cemetary Fund	0	0	0	0	11,763	11,763
Library Commission Fund	0	0	0	0	4,266	4,266
Bays Mountain Park Fund	0	0	0	0	181,359	181,359
Senior Citizens Fund	0	0	0	0	135,028	135,028
Total Assigned	94,905	5,777,749	44,118	1,407,889	4,629,464	11,954,125
<i>Unassigned:</i>	13,130,953	0	0	0	0	13,130,953
Total Fund Balances	\$ 13,248,785	\$ 5,796,571	\$ 44,118	\$ 9,547,359	\$ 5,099,971	\$ 33,736,804

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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 re-appropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2016, there were no instances of expenditures exceeding appropriations in any funds.

C. Deficit fund equity

For the fiscal year ended June 30 2016, the Solid Waste Management Fund reports a deficit total net position in the amount of, \$(497,913). This deficit net position is primarily the result of the City recognizing a pension liability increase of \$229,538 and an OPEB liability increase of \$59,292 within the Solid Waste Management Fund for fiscal year 2016.

Effective July 1, 2016 for the fiscal year ending June 30, 2017, the City implemented an eight dollar per month sanitation fee, for collection and disposal services provided to residential customers of the Solid Water Management Fund. The City will continue to make appropriate revenue enhancements within the Solid Waste Management Fund in addition to transfers from the General Fund to fund this deficit net position, in future fiscal years.

There were no instances of deficit fund equity in any additional funds of the City at June 30, 2016.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of bank failure, deposits may not be returned to the City. The policy for custodial credit risk on deposits is to follow state statutes. As of June 30, 2016, all deposits were insured through FDIC or collateralized as required by Tennessee Code Annotated (TCA) 9-1-118. Total demand deposits and certificates of deposit for the City are held in financial institutions which are members of the Tennessee Bank Collateral Pool (the pool) administered by the State of Tennessee Treasurer. The pool is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the pool if the value of collateral is inadequate to cover a loss.

At June 30, 2016, the City's carrying amount of deposits was \$74,670,702 and the bank balance was \$76,582,070.

The carrying amount of deposits at June 30, 2016 for the IDBK, a discretely presented component unit, was \$1,882,753 and the bank balance was \$1,885,667. The IDBK's deposits in financial institutions were entirely insured through FDIC or collateralized through the Tennessee Bank Collateral Pool at June 30, 2016.

Total demand deposits and certificates of deposit for the ECD, also a discretely presented component unit, were held in financial institutions, which were members of the Tennessee Bank Collateral Pool. The ECD's deposits in financial institutions were entirely insured through FDIC or collateralized through the Tennessee Bank Collateral Pool at June 30, 2016.

The carrying amount of deposits at June 30, 2016 for the ECD was \$1,160,500 and the deposits in financial institutions were \$1,217,085.

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).

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and investments (continued)

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

At June 30, 2016, 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	\$ 1,250,691	1.29
Tennessee Local Government Investment Pool	<u>3,206,448</u>	0.10
Total	<u>\$ 4,457,139</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, 2016.

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, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Receivables

Receivables as of June 30, 2016 for the City's individual major funds, non-major 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	Aquatic Center	MeadowView Conference Resort and Convention Center	Non-Major Governmental	Non-Major Business-Type	Internal Service	Total Primary Government	Component Units
Receivables:												
Taxes	\$ 38,830,838	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$38,830,838	\$ 0
Accounts	1,006,182	77,711	0	1,729,157	1,987,059	93,813	89,186	41,049	481,744	125,155	5,631,056	27,429
Intergovernmental	5,484,372	20,740,393	50,402	594,712	320,549	0	0	1,985,864	0	0	29,176,292	0
Gross receivables	45,321,392	20,818,104	50,402	2,323,869	2,307,608	93,813	89,186	2,026,913	481,744	125,155	73,638,186	27,429
Less: Allowances for uncollectibles	(928,687)	(53,287)	0	(73,596)	(313,231)	0	0	0	(114,994)	(520)	(1,484,315)	0
Net total receivables	<u>\$ 44,392,705</u>	<u>\$20,764,817</u>	<u>\$ 50,402</u>	<u>\$2,250,273</u>	<u>\$1,994,377</u>	<u>\$ 93,813</u>	<u>\$ 89,186</u>	<u>\$2,026,913</u>	<u>\$ 366,750</u>	<u>\$124,635</u>	<u>\$72,153,871</u>	<u>\$ 27,429</u>

Revenues of the general, general purpose school, water, sewer, solid waste management, storm water management, and fleet maintenance 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	\$ (18,648)
Uncollectibles related to general activities	(9,681)
Uncollectibles related to school activities	11,430
Uncollectibles related to water sales	3,794
Uncollectibles related to sewer charges	(1,590)
Uncollectibles related to solid waste charges	(3,185)
Uncollectibles related to storm water management fees	612
Uncollectibles related to internal service funds activities	0
Total uncollectibles of the current fiscal year	<u>\$ (17,268)</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets

Capital asset activity for the year ended June 30, 2016, was as follows:

Primary government

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 30,055,494	\$ 2,221,040	\$ (50,000)	\$ 0	\$ 32,226,534
Construction in Progress	23,966,570	8,709,800	(14,331,461)	(73,833)	18,271,076
Total capital assets, not being depreciated	54,022,064	10,930,840	(14,381,461)	(73,833)	50,497,610
Capital assets, being depreciated:					
Buildings	180,604,298	5,869,174	0	0	186,473,472
Improvements other than buildings	23,640,593	1,954,711	0	0	25,595,304
Equipment	50,580,630	6,261,842	(1,755,550)	0	55,086,922
Software	688,716	219,622	0	0	908,338
Infrastructure	289,685,085	2,932,610	0	0	292,617,695
Total capital assets, being depreciated	545,199,322	17,237,959	(1,755,550)	0	560,681,731
Less accumulated depreciation for:					
Buildings	(83,428,818)	(4,926,876)	0	0	(88,355,694)
Improvements other than buildings	(13,821,746)	(1,189,126)	0	0	(15,010,872)
Equipment	(33,183,103)	(4,136,195)	1,743,597	0	(35,575,701)
Software	(514,806)	(100,015)	0	0	(614,821)
Infrastructure	(137,195,065)	(6,003,693)	0	0	(143,198,758)
Total accumulated depreciation	(268,143,538)	(16,355,905)	1,743,597	0	(282,755,846)
Total capital assets, being depreciated, net	277,055,784	882,054	(11,953)	0	277,925,885
Governmental activities capital assets, net	\$ 331,077,848	\$ 11,812,894	\$ (14,393,414)	\$ (73,833)	\$ 328,423,495

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

Governmental activities:	
General government	\$ 1,506,861
Economic and physical development	438,483
Public safety	1,456,583
Public works	6,914,706
Culture and recreation	2,117,931
Education	3,921,341
Total depreciation expense - governmental activities	<u>\$ 16,355,905</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets (continued)

Primary government (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Amount
Business-type activities:					
Capital assets, not being depreciated:					
<u>Water</u>					
Land	\$ 749,532	\$ 93,819	\$ 0	\$ 0	\$ 843,351
Construction in Progress	4,667,467	11,630,305	(2,996,580)	0	13,301,192
<u>Sewer</u>					
Land	1,088,187	79,664	0	0	1,167,851
Construction in Progress	3,516,680	4,604,846	(2,622,739)	0	5,498,787
<u>Solid waste management</u>					
Land	1,716,309	0	0	0	1,716,309
Construction in Progress	3,208	1,386,381	(94,708)	0	1,294,881
<u>Storm Water</u>					
Land	977,763	0	0	0	977,763
Construction in Progress	643,086	142,591	(226,235)	0	559,442
<u>Aquatic Center</u>					
Land	845,711	0	0	0	845,711
Construction in Progress	0	0	0	0	0
<u>Meadowview Conference Resort and Convention Center</u>					
Land	1,515,497	0	0	0	1,515,497
Construction in Progress	0	70,488	0	0	70,488
<u>Cattails at Meadowview Golf Course</u>					
Land	981,600	0	0	0	981,600
Construction in Progress	0	0	0	0	0
Total capital assets, not being depreciated	16,705,040	18,008,094	(5,940,262)	0	28,772,872
Capital assets, being depreciated:					
<u>Water</u>					
Buildings and system	112,798,357	3,065,548	0	0	115,863,905
Equipment and machinery	1,084,536	23,080	0	0	1,107,616
Software	66,400	75,093	0	0	141,493
<u>Sewer</u>					
Buildings and system	204,327,801	2,243,457	(118,118)	0	206,453,140
Equipment and machinery	916,072	447,917	0	0	1,363,989
Software	0	88,304	0	0	88,304
<u>Solid waste management</u>					
Buildings and system	290,150	24,408	0	0	314,558
Improvements other than Buildings	1,177,264	0	0	0	1,177,264
Equipment and machinery	2,040,552	100,964	0	0	2,141,516
Software	6,750	0	0	0	6,750
<u>Storm Water</u>					
Buildings and system	694,088	23,706	0	0	717,794
Improvements other than Buildings	534,297	0	0	0	534,297
Equipment and machinery	132,963	179,971	0	0	312,934
Software	6,661	61,464	0	0	68,125
<u>Aquatic Center</u>					
Buildings and system	19,272,330	0	0	0	19,272,330
Equipment and machinery	139,070	11,050	0	0	150,120
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	39,469,991	1,171	0	0	39,471,162
Improvements other than Buildings	2,865,257	0	0	0	2,865,257
Equipment	1,203,268	17,588	0	0	1,220,856
<u>Cattails at MeadowView Golf Course</u>					
Buildings	1,439,145	0	0	0	1,439,145
Improvements other than Buildings	6,033,890	0	0	0	6,033,890
Equipment	471,136	0	0	0	471,136
Total capital assets, being depreciated	394,969,978	6,363,721	(118,118)	0	401,215,581

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets (continued)

Primary government (continued)

	Amount	Additions	Deletions	Adjustments	Amount
Less accumulated depreciation for:					
<u>Water</u>					
Buildings and system	(42,719,560)	(2,937,789)	0	(5)	(45,657,354)
Equipment and machinery	(789,759)	(73,899)	0	0	(863,658)
Software	(66,400)	(11,538)	0	0	(77,938)
<u>Sewer</u>					
Buildings and system	(72,164,616)	(4,783,600)	0	0	(76,948,216)
Equipment and machinery	(680,155)	(77,798)	0	0	(757,953)
Software	0	(14,717)	0	0	(14,717)
<u>Solid waste management</u>					
Buildings and system	(117,858)	(11,589)	0	0	(129,447)
Improvements other than Buildings	(1,177,264)	0	0	0	(1,177,264)
Equipment and machinery	(717,347)	(220,218)	0	0	(937,565)
Software	(1,463)	(1,350)	0	0	(2,813)
<u>Storm Water</u>					
Buildings and system	(5,583)	(16,931)	0	0	(22,514)
Improvements other than Buildings	(106,860)	(35,620)	0	1	(142,479)
Equipment and machinery	(20,103)	(33,791)	0	0	(53,894)
Software	(1,554)	(13,232)	0	0	(14,786)
<u>Aquatic Center</u>					
Buildings and system	(1,278,332)	(646,948)	0	0	(1,925,280)
Equipment and machinery	(26,842)	(27,998)	0	0	(54,840)
<u>MeadowView Conference Resort and Convention Center</u>					
Buildings	(10,585,192)	(1,137,631)	0	0	(11,722,823)
Improvements other than Buildings	(710,162)	(172,433)	0	0	(882,595)
Equipment	(1,079,858)	(50,468)	0	0	(1,130,326)
<u>Cattails at MeadowView Golf Course</u>					
Buildings	(388,969)	(41,103)	0	0	(430,072)
Improvements other than Buildings	(3,703,269)	(182,740)	0	0	(3,886,009)
Equipment	(420,887)	(10,638)	0	0	(431,525)
Total accumulated depreciation	(136,762,033)	(10,502,031)	0	(4)	(147,264,068)
Total capital assets, being depreciated, net	258,207,945	(4,138,310)	(118,118)	(4)	253,951,513
Business-type activities capital assets, net	\$ 274,912,985	\$ 13,869,784	\$ (6,058,380)	\$ (4)	\$ 282,724,385

Depreciation expense was charged to business-type activities functions/programs of the primary government as follows:

Business-type activities:	
Water	\$ 3,023,226
Sewer	4,876,115
Solid waste management	233,157
Storm Water	99,574
Aquatic Center	674,946
MeadowView Conference Resort and Convention Center	1,360,532
Cattails at MeadowView Golf Course	234,481
Total depreciation expense - business-type activities	<u>\$ 10,502,031</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets (continued)

Primary government (continued)

Construction commitments

The City has active construction projects as of June 30, 2016. 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, \$8,139,470 through bonded debt. In the proprietary funds, funding for construction projects has been provided and is in segregated deposit and investment accounts totaling \$24,794,844. Except for projects which are shared with counties or the State of Tennessee, the City could terminate any project at their discretion.

Net Investment in Capital Assets

The net investment in capital assets is composed of the following items at June 30, 2016:

	Business-Type						
	Governmental	Water	Sewer	Aquatic Center	MeadowView Conference Center	Other Enterprise Funds	Total Business-Type
Capital Assets	\$ 611,179,341	\$ 131,257,557	\$ 214,572,071	\$ 20,268,161	\$ 45,143,260	\$ 18,747,404	\$ 429,988,453
Less Accumulated Depreciation	(282,755,846)	(46,598,950)	(77,720,886)	(1,980,120)	(13,735,744)	(7,228,368)	(147,264,068)
Net Capital Assets	<u>328,423,495</u>	<u>84,658,607</u>	<u>136,851,185</u>	<u>18,288,041</u>	<u>31,407,516</u>	<u>11,519,036</u>	<u>282,724,385</u>
Total Debt	121,536,295	28,217,299	53,674,607	17,769,667	13,399,593	6,189,650	119,250,816
Less Debt not related to Capital Assets	(120,000)	0	0	0	0	0	0
Less Capital related unspent debt proceeds	(8,139,470)	(6,653,325)	(16,614,334)	0	0	(1,527,185)	(24,794,844)
Total Capital Debt	<u>113,276,825</u>	<u>21,563,974</u>	<u>37,060,273</u>	<u>17,769,667</u>	<u>13,399,593</u>	<u>4,662,465</u>	<u>94,455,972</u>
Net Investment in Capital Assets	<u>\$ 215,146,670</u>	<u>\$ 63,094,633</u>	<u>\$ 99,790,912</u>	<u>\$ 518,374</u>	<u>\$ 18,007,923</u>	<u>\$ 6,856,571</u>	<u>\$ 188,268,413</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets (continued)

Discretely presented component units

Activity for the IDBK for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,572,319	\$ 490,919	\$ 0	\$ 2,063,238
Construction in Progress	2,428,509	187,450	(2,428,509)	187,450
Total capital assets, not being depreciated	4,000,828	678,369	(2,428,509)	2,250,688
Capital assets, being depreciated:				
Buildings	4,331,319	6,101,744	0	10,433,063
Improvements other than buildings	262,506	0	0	262,506
Signs	55,422	0	0	55,422
Total capital assets, being depreciated	4,649,247	6,101,744	0	10,750,991
Less accumulated depreciation for:				
Buildings	(330,643)	(146,419)	0	(477,062)
Improvements other than buildings	(51,251)	(16,147)	0	(67,398)
Signs	(55,422)	0	0	(55,422)
Total accumulated depreciation	(437,316)	(162,566)	0	(599,882)
Total capital assets, being depreciated, net	4,211,931	5,939,178	0	10,151,109
IDBK capital assets, net	<u>\$ 8,212,759</u>	<u>\$ 6,617,547</u>	<u>\$ (2,428,509)</u>	<u>\$ 12,401,797</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 242,010	\$ 0	\$ 0	\$ 242,010
Construction in Progress	0	0	0	0
Total capital assets, not being depreciated	<u>242,010</u>	<u>0</u>	<u>0</u>	<u>242,010</u>
Capital assets, being depreciated:				
Building	2,021,925	185	0	2,022,110
Furniture and Fixtures	211,978	0	0	211,978
Office Equipment	69,723	2,171	0	71,894
Communications Equipment	649,069	22,637	0	671,706
Other Fixed Assets	112,775	2,151	0	114,926
Total capital assets, being depreciated	<u>3,065,470</u>	<u>27,144</u>	<u>0</u>	<u>3,092,614</u>
Less accumulated depreciation for:				
Building	0	(37,915)	0	(37,915)
Furniture and Fixtures	(1,494)	(16,030)	0	(17,524)
Office Equipment	(58,420)	(2,522)	0	(60,942)
Communications Equipment	(369,647)	(104,274)	0	(473,921)
Other Fixed Assets	(28,780)	(4,198)	0	(32,978)
Total accumulated depreciation	<u>(458,341)</u>	<u>(164,939)</u>	<u>0</u>	<u>(623,280)</u>
Total capital assets, being depreciated, net	<u>2,607,129</u>	<u>(137,795)</u>	<u>0</u>	<u>2,469,334</u>
ECD capital assets, net	<u>\$2,849,139</u>	<u>\$ (137,795)</u>	<u>\$ 0</u>	<u>\$2,711,344</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Inter-fund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2016, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund (major)	State Street Aid Fund (nonmajor)	\$ 77,877
	M P O Fund (nonmajor)	66,447
	Regional Sales Tax Fund (nonmajor)	336,875
	Fleet Maintenance Fund (major)	523,786
		<u>1,004,985</u>
General Purpose School Fund (major)	Public Law 93-380 Fund (nonmajor)	328,442
	Special School Projects Fund (nonmajor)	117,883
		<u>446,325</u>
Water Fund (major)	Solid Waste Fund (nonmajor)	1,015,017
	Storm Water Management Fund (nonmajor)	120,964
	Aquatic Center Fund (major)	1,133,193
	MeadowView Conference Resort & Convention Center Fund (major)	43,050
	Cattails at MeadowView Gold Course Fund (nonmajor)	113,059
		<u>2,425,283</u>
Total		<u>\$ 3,876,593</u>

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Inter-fund receivables, payables, and transfers (continued)

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component unit - IDBK	Primary government-General Fund	(23,635)
Component unit - IDBK	Primary government-General Project Fund	<u>(125)</u>
Total		<u>\$ (23,760)</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, 2016 are \$120,000. The amounts due in one year related to these agreements are \$120,000.

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 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, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Inter-fund receivables, payables, and transfers (continued)

Inter-fund transfers (continued)

Transfers in:																
Transfers out:	General	General Purpose School	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental	Water	Solid Waste Management	Aquatic Center	MeadowView Conference Resort and Convention Center	Cattails at MeadowView	Total Proprietary	Retirees Health Insurance	School Retirees Health Insurance	Total Internal Service	Total
General	\$ 0	\$ 13,525,055	\$ 7,752,558	\$ 1,748,428	\$ 2,300,619	\$ 25,326,660	\$ 0	\$ 3,455,000	\$ 0	\$ 0	\$ 0	\$ 3,455,000	\$ 356,232	\$ 0	\$ 356,232	\$ 29,137,892
General Purpose School	252,002	0	3,613,407	31,088	63,429	3,959,926	0	0	0	0	0	0	0	0	0	3,959,926
Capital Projects	0	0	319,406	0	0	319,406	0	0	0	0	0	0	0	0	0	319,406
Nonmajor Governmental	126,871	27,843	0	200,000	0	354,714	0	0	1,589,013	1,879,990	312,505	3,781,508	0	0	0	4,136,222
Total Governmental	378,873	13,552,898	11,685,371	1,979,516	2,364,048	29,960,706	0	3,455,000	1,589,013	1,879,990	312,505	7,236,508	356,232	0	356,232	37,553,446
Water	1,563,958	0	0	0	0	1,563,958	0	0	0	0	0	0	0	0	0	1,563,958
Sewer	1,373,133	0	0	0	0	1,373,133	127,213	0	0	0	0	127,213	0	0	0	1,500,346
Storm Water	78,297	0	0	0	0	78,297	17,917	0	0	0	0	17,917	0	0	0	96,214
Aquatic Center	41,557	0	0	0	0	41,557	0	0	0	0	0	0	0	0	0	41,557
Cattails at MeadowView	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Proprietary	3,056,945	0	0	0	0	3,056,945	145,130	0	0	0	0	145,130	0	0	0	3,202,075
Fleet Maintenance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Health Insurance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Internal Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	\$ 3,435,818	\$ 13,552,898	\$ 11,685,371	\$ 1,979,516	\$ 2,364,048	\$ 33,017,651	\$ 145,130	\$ 3,455,000	\$ 1,589,013	\$ 1,879,990	\$ 312,505	\$ 7,381,638	\$ 356,232	\$ 0	\$ 356,232	\$ 40,755,521

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities

The City routinely issues and retires long-term debt instruments each year for both general governmental activities and business-type activities. Long-term debt for general governmental activities is reported in the Government Wide Statement of Net Position and paid from the Debt Service Fund. Long-term debt for business-type activities is recorded in and paid from the applicable enterprise fund.

On October 27, 2015, the City issued General Obligation Refunding and Improvement Bonds, Series 2015A with a par value of \$15,105,000 and an average coupon rate of 3.016%. The proceeds were used to fund certain projects identified in the City's 2015-2016 Capital Improvement Program (CIP) and to refinance existing debt, which included, in part, the portions of four (4) outstanding bond issues, which were not previously refunded.

The City's CIP for FY 2016 called for bond funding on several general government, water, and sewer projects. Therefore, \$10,412,462 of the proceeds from the bonds were used to provide funding for certain public works projects consisting of the acquisition of public art; the acquisition, construction, improvement and renovation of public school facilities; road, street, parking, and sidewalk construction, improvement and expansion, including Greenbelt improvements; the acquisition, construction, renovation, improvement and equipping of public buildings within the Municipality, including renovations to the public library and engineering services building and including HVAC improvements; acquisition of public works equipment; acquisition of firefighting equipment for a fire ladder truck, and a fire station generator; improvements to the City's technology system infrastructure; construction, expansion and improvement of the City's water and sewer systems, including the acquisition of all property real and personal, appurtenant thereto or connected with such work.

The refunding component of the General Obligation Refunding & Improvement Bonds, Series 2015A, was included due to current market conditions at the time providing significant annual aggregate and net present value savings as part of a composite transaction with other new debt obligations.

The net proceeds of the General Obligation Refunding & Improvement Bonds, Series 2015A, totaled \$15,451,382 and consisted of the par amount of, \$15,105,000, plus a net premium of \$604,134, less an underwriter's discount and other issuance costs of \$257,752. With the implementation of GASB 65, bond issuance costs are expensed in the year incurred.

On June 3, 2016, the City issued General Obligation Refunding Bonds, Series 2016A with a par value of \$16,580,000 and General Obligation Refunding Bonds, Series 2016B with a par value of \$13,360,000. The objectives of these two bond issues were to take advantage of exceptionally low interest rates and refinance the callable portions of four (4) outstanding bond issues, which carried a composite average rate of 4.47%.

On an individual basis, the net proceeds of General Obligation Refunding Bonds, Series 2016A totaled \$18,570,960 and consisted of the par amount of, \$16,580,000, plus a net premium of, \$2,166,404, less an underwriter's discount and other bond costs totaling \$175,444. The net proceeds of General Obligation Refunding Bonds, Series 2016B totaled \$14,915,442 and consisted of the par amount of, \$13,360,000, plus a net premium of, \$1,687,591, less an underwriter's discount and other bond costs totaling of \$132,149.

A discussion concerning these refunding bond issues follows under the heading, Advanced Refunding.

Advance Refunding

A portion of the proceeds from the General Obligation Refunding & Improvement Bonds, Series 2015A were used to advance refund portions of the following prior bond issues not previously refinanced:

- Water System Revenue and Tax Bonds, Series 2008 in the amount of, \$1,200,000, dated June 12, 2008 (the Water Bonds), maturing on March 1, 2019 through March 1, 2023 that are callable on March 1, 2018 and anytime thereafter at a price of par and accrued interest. Water Bonds maturing on March 1, 2016 through March 1, 2018 remain in place and will be paid as scheduled;

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Advance Refunding (continued)

- General Obligation School and Public Improvement Bonds, Series 2007 in the amount of \$19,360,000, dated June 8, 2007 (the Series 2007 Bonds), maturing on February 1, 2019 which are callable on or after February 1, 2017 at a price of par and accrued interest. The Series 2007 Bonds maturing on February 1, 2016 through February 1, 2018 remain in place and were not advance refunded;
- General Obligation School and Public Improvement Bonds, Series 2008 in the amount of \$7,480,000, dated June 12, 2008 (the Series 2008A Bonds), maturing on March 1, 2020 through March 1, 2022, inclusive, which are callable on or after March 1, 2018 at a price of par and accrued interest. The Series 2008A Bonds maturing on March 1, 2016 through March 1, 2019 remain in place and were not advance refunded;
- General Obligation Bonds, Series 2008 in the amount of \$11,165,000, dated June 12, 2008 (the Series 2008B Bonds), maturing on March 1, 2020 through March 1, 2022, inclusive, which are callable on or after March 1, 2018 at a price of par and accrued interest. The Series 2008A Bonds maturing on March 1, 2016 through March 1, 2019 remain in place and were not advance refunded;

The City's Aa2 / AA credit ratings were clearly appealing to investors as witnessed by the exceptionally low yields bid and the number of proposals received for the bonds. The City achieved a significant annual aggregate savings totaling \$193,195 and a net present value savings of \$187,216 (3.996 percent of the refunded principal).

The proceeds from the City's General Obligation Refunding Bonds, Series 2016A and General Obligation Refunding Bonds, Series 2016B were used to advance refund portions of the following outstanding debt obligations:

- General Obligation Public Improvement Bonds, Series 2009A in the amount of \$12,160,000, dated January 22, 2009 (the Series 2009A Bonds), maturing on March 1, 2020 through March 1, 2022, on March 1, 2024, on March 1, 2025 and on March 1, 2026 through March 1, 2029, which are callable on March 1, 2019 and at any time thereafter at par and accrued interest. The Series 2009A Bonds maturing on March 1, 2017 through March 1, 2019 are not subject to optional redemption and remain in place to be paid as scheduled.
- General Obligation Bonds, Series 2009B in the amount of \$7,100,000, dated January 22, 2009 (the Series 2009B Bonds), maturing on March 1, 2020 through March 1, 2027 and on March 1, 2029, which are callable on March 1, 2019 and at any time thereafter at par and accrued interest. The Series 2009B Bonds maturing on March 1, 2017 through March 1, 2019 are not subject to optional redemption and remain in place to be paid as scheduled.
- Local option Sales Tax Revenue and Tax Bonds, Series 2009C in the amount of \$15,180,000, dated January 22, 2009 (the Series 2009C Bonds), maturing on March 1, 2020 through March 1, 2022, on March 1, 2024, on March 1, 2025 through March 1, 2027 and on March 1, 2029, which are callable on March 1, 2019 and at any time thereafter at par and accrued interest. The Series 2009C Bonds maturing on March 1, 2017 through March 1, 2019 are not subject to optional redemption and remain in place to be paid as scheduled.
- General Obligation Bonds, Series 2009E in the amount of \$14,225,000, dated December 8, 2009 (the Series 2009E Bonds) maturing on March 1, 2021 through March 1, 2023, on March 1, 2025, on March 1, 2027 and on March 1, 2018 through March 1, 2030, which are callable on March 1, 2020 and at any time thereafter at par and accrued interest. The Series 2009E Bonds maturing on March 1, 2017 through March 1, 2020 are not subject to optional redemption and remain in place to be paid as scheduled.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Advance Refunding (continued)

The City's Aa2 / AA credit ratings were clearly appealing to investors as witnessed by the exceptionally low yields bid and the number of proposals received for the bonds. The City achieved a significant annual aggregate savings totaling \$3,605,902 and a net present value savings of \$3,258,168 (10.819 percent of the refunded principal).

Transfers

During the fiscal year 2016, the City transferred proceeds from the General Obligation Public Improvement Bonds, Series 2014A, in the amount of, \$1,362,955, and premium proceeds of \$116,897, from the Capital Projects Fund to the Solid Waste Management Fund. This transfer was for an expedited capital project within the enterprise fund that required immediate funding. The related liability was moved from general long-term debt to the enterprise fund.

Governmental Activities:

Inter-local Cooperative Agreements

The City entered into an inter-local agreement effective June 30, 2011 to contribute \$720,000 to IDBK for financing incentives related to the former Quebecor property. This contribution scheduled is in six installments of \$120,000 per year and began in August 2011. As of June 30, 2016, \$120,000 is outstanding.

Notes Payable

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 variable. As of June 30, 2016, \$1,101,463 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 variable. As of June 30, 2016, \$516,333 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 a variable interest rate and a maturity date of September 2026. Annual principal payments are \$77,374. As of June 30, 2016, \$782,204 is outstanding.

In July 2010, the City issued a loan with the U.S. Department of Housing and Urban Development 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 4.00% to 5.00%. As of June 30, 2016, \$641,000 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 .75%. Repayment began December 4, 2012. As of June 30, 2016, \$3,551,279 is outstanding.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Notes Payable (continued)

Governmental Activities (continued):

Payments to maturity on notes payable are as follows:

Fiscal Year Ending June 30	2004 QZAB	2005 QZAB	2009 QSCB	2010 HUD 108 Loan	2010 School Energy Efficiency Loan
2017	\$ 220,293	\$ 103,266	\$ 77,374	\$ 43,000	\$ 414,536
2018	220,292	103,267	77,374	43,000	417,658
2019	220,292	103,266	77,374	43,000	420,804
2020	220,293	103,267	77,374	43,000	423,973
2021	220,293	103,267	77,374	43,000	427,156
2022	0	0	77,374	43,000	430,374
2023	0	0	77,374	43,000	433,616
2024	0	0	77,374	43,000	436,801
2025	0	0	77,374	43,000	146,361
2026	0	0	77,374	43,000	0
2027	0	0	8,464	43,000	0
2028	0	0	0	43,000	0
2029	0	0	0	43,000	0
2030	0	0	0	43,000	0
2031	0	0	0	39,000	0
2032	0	0	0	0	0
	<u>\$ 1,101,463</u>	<u>\$ 516,333</u>	<u>\$ 782,204</u>	<u>\$ 641,000</u>	<u>\$ 3,551,279</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital improvements. 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.

As previously mentioned, during the fiscal year ended June 30, 2016, the City issued General Obligation Refunding and Improvement Bonds, Series 2015A at par value of \$15,105,000. The portion of these bonds related to general governmental activities totals \$8,054,686 and carry an average coupon rate of 3.0160%. Of this amount, \$3,723,714 was utilized to fund new capital projects, while \$4,330,972 was used to refund existing debt, while taking advantage of the low interest rates available in the financial market.

As previously mentioned, during the fiscal year ended June 30, 2016, the City issued General Obligation Refunding Bonds, Series 2015A at par value of \$16,580,000. Of this amount, \$6,928,927 relates to general governmental activities and carries an average coupon rate of 4.47%. These bonds were utilized exclusively to refund existing debt, while taking advantage of the low interest rates available in the financial market.

As previously mentioned, during the fiscal year ended June 30, 2016, the City issued General Obligation Refunding Bonds, Series 2016B at par value of \$13,360,000. The portion of these bonds related to general governmental activities totals, \$4,330,138 and carries an average coupon rate of 4.47%. These bonds were utilized exclusively to refund existing debt, while taking advantage of the low interest rates available in the financial market.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

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

Governmental Activities (continued):

Debt Service Fund	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2016
2005 General Obligation	02/01, 08/01	12/06/05	\$ 2,826,250	3.750%-5.000%	\$ 218,750
2007 General Obligation School and Public Improvement	08/01, 02/01	06/08/07	19,360,000	4.000%-5.000%	2,040,000
2008A General Obligation Public Improvement and Refunding	03/01, 09/01	06/12/08	7,480,000	3.500%-4.375%	1,105,000
2008B General Obligation	03/01, 09/01	06/12/08	11,165,000	3.500%-4.375%	1,650,000
2009A General Obligation Public Improvement	03/01, 09/01	01/22/09	11,507,548	2.000%-5.000%	1,614,774
2009B General Obligation	03/01, 09/01	01/22/09	7,100,000	2.000%-5.000%	1,005,000
2009D General Obligation Public Improvement (BABS)	03/01, 09/01	12/08/09	13,821,065	2.000%-5.000%	11,228,470
2011 General Obligation Public Improvement	03/01, 09/01	12/16/11	10,742,779	2.000%-4.000%	9,790,971
2012B General Obligation Refunding	04/01, 10/01	06/22/12	4,357,887	3.00%	2,165,831
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	4,790,338	2.000%-5.000%	4,196,495
2013 General Obligation Refunding	02/01, 05/01	02/08/13	12,177,052	2.000%-5.000%	10,228,328
2013B General Obligation Public Improvement	03/01, 09/01	10/21/13	13,406,846	2.000%-5.000%	12,424,847
2014A General Obligation Public Improvement	03/01, 09/01	10/31/14	14,596,848	2.000%-5.000%	13,026,120
2015 General Obligation Refunding	03/01, 09/01	02/06/15	17,695,000	2.000%-4.000%	17,550,000
2015A General Obligation Refunding and Improvement	03/01, 09/01	10/27/15	8,054,686	2.000%-4.000%	8,054,686
2016A General Obligation Refunding	03/01, 09/01	06/03/16	6,928,927	2.000%-4.000%	6,928,927
2016B General Obligation Refunding	03/01, 09/01	06/03/16	4,330,138	2.000%-4.000%	4,330,138
Total General Obligation Bonds (before net premiums and discounts of \$7,265,679)					<u>\$ 107,558,337</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 218,750	\$ 6,563	\$ 225,313
	<u>\$ 218,750</u>	<u>\$ 6,563</u>	<u>\$ 225,313</u>

General Obligation School and Public Improvement 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>
2017	\$ 1,000,000	\$ 91,600	\$ 1,091,600
2018	1,040,000	41,600	1,081,600
	<u>\$ 2,040,000</u>	<u>\$ 133,200</u>	<u>\$ 2,173,200</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 355,000	\$ 42,425	\$ 397,425
2018	370,000	30,000	400,000
2019	380,000	15,200	395,200
	<u>\$ 1,105,000</u>	<u>\$ 87,625</u>	<u>\$ 1,192,625</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 530,000	\$ 63,350	\$ 593,350
2018	550,000	44,800	594,800
2019	570,000	22,800	592,800
	<u>\$ 1,650,000</u>	<u>\$ 130,950</u>	<u>\$ 1,780,950</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 522,566	\$ 53,998	\$ 576,564
2018	536,688	38,322	575,010
2019	555,520	22,221	577,741
	<u>\$ 1,614,774</u>	<u>\$ 114,541</u>	<u>\$ 1,729,315</u>

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
2017	\$ 325,000	\$ 34,437	\$ 359,437
2018	335,000	24,688	359,688
2019	345,000	13,800	358,800
	<u>\$ 1,005,000</u>	<u>\$ 72,925</u>	<u>\$ 1,077,925</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 682,812	\$ 565,094	\$ 1,247,906
2018	701,125	538,635	1,239,760
2019	698,509	507,084	1,205,593
2020	719,438	475,651	1,195,089
2021	742,984	442,377	1,185,361
2022	761,296	407,086	1,168,382
2023	784,842	369,972	1,154,814
2024	816,236	330,730	1,146,966
2025	816,236	289,918	1,106,154
2026	839,781	248,086	1,087,867
2027	868,558	203,997	1,072,555
2028	897,336	157,312	1,054,648
2029	931,346	106,837	1,038,183
2030	967,971	54,449	1,022,420
	<u>\$ 11,228,470</u>	<u>\$ 4,697,228</u>	<u>\$ 15,925,698</u>

The GOB, Series 2009D Build America Bonds (BABS) carry an interest rate of 2.000% to 5.625%. During fiscal year 2016 the City's Debt Service Fund paid \$398,066 and the Federal government paid \$191,945 in interest, respectively.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 489,216	\$ 311,895	\$ 801,111
2018	505,856	302,111	807,967
2019	512,512	291,994	804,506
2020	522,496	281,743	804,239
2021	535,808	266,068	801,876
2022	559,104	244,636	803,740
2023	575,744	227,863	803,607
2024	595,712	210,591	806,303
2025	612,352	192,719	805,071
2026	625,664	173,737	799,401
2027	652,288	153,402	805,690
2028	672,255	131,388	803,643
2029	692,223	107,859	800,082
2030	718,847	83,631	802,478
2031	745,472	57,034	802,506
2032	775,422	29,078	804,500
	<u>\$ 9,790,971</u>	<u>\$ 3,065,749</u>	<u>\$ 12,856,720</u>

General Obligation Refunding Bonds, Series 2012B, issued June 22, 2012 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 876,386	\$ 64,975	\$ 941,361
2018	911,353	38,683	950,036
2019	378,092	11,343	389,435
	<u>\$ 2,165,831</u>	<u>\$ 115,001</u>	<u>\$ 2,280,832</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 307,235	\$ 128,329	\$ 435,564
2018	315,001	119,112	434,113
2019	327,934	106,512	434,446
2020	338,229	96,674	434,903
2021	348,560	89,064	437,624
2022	358,892	78,607	437,499
2023	192,364	67,840	260,204
2024	197,494	62,069	259,563
2025	205,188	56,145	261,333
2026	210,318	49,989	260,307
2027	215,448	43,680	259,128
2028	223,142	37,216	260,358
2029	228,272	30,522	258,794
2030	235,966	23,674	259,640
2031	241,096	16,005	257,101
2032	251,356	8,169	259,525
	<u>\$ 4,196,495</u>	<u>\$ 1,013,607</u>	<u>\$ 5,210,102</u>

General Obligation Refunding Bonds, Series 2013, issued February 08, 2013 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 697,386	\$ 323,827	\$ 1,021,213
2018	979,308	295,932	1,275,240
2019	1,018,876	256,759	1,275,635
2020	1,048,552	226,193	1,274,745
2021	1,073,282	194,736	1,268,018
2022	830,928	162,538	993,466
2023	865,550	129,301	994,851
2024	890,280	103,334	993,614
2025	915,010	76,626	991,636
2026	939,740	53,751	993,491
2027	969,416	29,082	998,498
	<u>\$ 10,228,328</u>	<u>\$ 1,852,079</u>	<u>\$ 12,080,407</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2013B, issued October 21, 2013 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 514,148	\$ 507,553	\$ 1,021,701
2018	543,389	481,846	1,025,235
2019	550,699	470,978	1,021,677
2020	567,756	454,457	1,022,213
2021	596,997	426,069	1,023,066
2022	616,491	408,160	1,024,651
2023	640,858	383,500	1,024,358
2024	672,535	351,457	1,023,992
2025	638,421	317,830	956,251
2026	665,225	291,495	956,720
2027	692,029	263,223	955,252
2028	723,707	233,812	957,519
2029	752,947	204,864	957,811
2030	784,625	172,864	957,489
2031	816,302	139,517	955,819
2032	850,416	106,865	957,281
2033	882,094	72,848	954,942
2034	916,208	37,565	953,773
	<u>\$ 12,424,847</u>	<u>\$ 5,324,903</u>	<u>\$ 17,749,750</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2014A, issued October 31, 2014 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 237,455	\$ 492,508	\$ 729,963
2018	491,872	479,108	970,980
2019	508,833	464,183	973,016
2020	525,794	445,950	971,744
2021	551,236	419,024	970,260
2022	580,917	390,720	971,637
2023	602,119	370,176	972,295
2024	623,320	348,572	971,892
2025	653,002	316,664	969,666
2026	686,925	283,165	970,090
2027	720,847	251,575	972,422
2028	750,528	222,148	972,676
2029	780,210	191,533	971,743
2030	809,892	159,731	969,623
2031	843,814	126,657	970,471
2032	873,496	96,678	970,174
2033	898,938	70,092	969,030
2034	928,620	42,678	971,298
2035	958,302	14,374	972,676
	<u>\$ 13,026,120</u>	<u>\$ 5,185,536</u>	<u>\$ 18,211,656</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2015, issued February 06, 2015 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 150,000	\$ 658,700	\$ 808,700
2018	0	654,200	654,200
2019	160,000	654,200	814,200
2020	1,220,000	649,400	1,869,400
2021	1,100,000	600,600	1,700,600
2022	1,145,000	556,600	1,701,600
2023	2,300,000	510,800	2,810,800
2024	2,390,000	418,800	2,808,800
2025	2,485,000	323,200	2,808,200
2026	2,580,000	223,800	2,803,800
2027	2,695,000	120,600	2,815,600
2028	1,325,000	39,750	1,364,750
	<u>\$ 17,550,000</u>	<u>\$ 5,410,650</u>	<u>\$ 22,960,650</u>

General Obligation Refunding and Improvement Bonds, Series 2015A, issued October 27, 2015 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 231,962	\$ 229,669	\$ 461,631
2018	234,628	225,030	459,658
2019	863,859	220,337	1,084,196
2020	805,202	211,699	1,016,901
2021	837,197	179,491	1,016,688
2022	853,194	162,747	1,015,941
2023	290,619	128,619	419,238
2024	250,626	119,900	370,526
2025	258,625	112,382	371,007
2026	266,623	104,623	371,246
2027	277,288	96,624	373,912
2028	285,287	88,306	373,593
2029	293,286	79,747	373,033
2030	301,284	70,948	372,232
2031	309,283	61,910	371,193
2032	319,948	52,631	372,579
2033	327,947	43,033	370,980
2034	338,611	33,195	371,806
2035	349,276	22,613	371,889
2036	359,941	11,698	371,639
	<u>\$ 8,054,686</u>	<u>\$ 2,255,202</u>	<u>\$ 10,309,888</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2016A, issued June 03, 2016. debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 0	\$ 182,995	\$ 182,995
2018	0	245,814	245,814
2019	0	245,814	245,814
2020	578,803	245,814	824,617
2021	603,878	222,662	826,540
2022	626,863	198,507	825,370
2023	651,937	173,432	825,369
2024	679,102	147,354	826,456
2025	706,266	120,190	826,456
2026	733,430	91,940	825,370
2027	760,594	62,603	823,197
2028	785,668	39,785	825,453
2029	802,386	24,071	826,457
	<u>\$ 6,928,927</u>	<u>\$ 2,000,981</u>	<u>\$ 8,929,908</u>

General Obligation Refunding Bonds, Series 2016B, issued June 03, 2016. debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 0	\$ 112,245	\$ 112,245
2018	0	150,777	150,777
2019	0	150,777	150,777
2020	118,301	150,777	269,078
2021	369,488	146,045	515,533
2022	384,073	131,265	515,338
2023	398,658	115,903	514,561
2024	416,484	99,956	516,440
2025	431,069	83,297	514,366
2026	448,895	66,054	514,949
2027	466,721	48,098	514,819
2028	479,686	34,097	513,783
2029	491,030	24,503	515,533
2030	325,733	9,772	335,505
	<u>\$ 4,330,138</u>	<u>\$ 1,323,566</u>	<u>\$ 5,653,704</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Governmental Activities (continued):

Bonds Payable (continued)

Total annual debt service requirements for general obligation bonds related to Governmental Activities is as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 7,137,916	\$ 3,870,163	\$ 11,008,079
2018	7,514,220	3,710,658	11,224,878
2019	6,869,834	3,454,002	10,323,836
2020	6,444,571	3,238,358	9,682,929
2021	6,759,430	2,986,136	9,745,566
Next Five Years	37,269,008	10,886,646	48,155,654
Next Five Years	26,532,783	4,002,826	30,535,609
Next Five Years	9,030,575	641,517	9,672,092
	<u>\$ 107,558,337</u>	<u>\$ 32,790,306</u>	<u>\$ 140,348,643</u>

The total on the statement of net assets has been adjusted by net premiums and discounts of \$7,265,679.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities:

Long-term debt issued by the City for capital improvement projects related to business-type activities is recorded and to be paid from the applicable enterprise fund. Maturities on July 1 are considered as maturing on the preceding June 30th.

Loans Payable

On July 1, 2014, the City approved Resolution Number 2015-011, authorizing the financing and construction of a water facilities project known as the, Raw Water Intake Project. The total amount of the project is estimated to be \$16,500,000 and will be funded through a Drinking Water Revolving Fund Loan in the amount of \$15,000,000, and a \$1,500,000 Economic Development Administration Grant, with the State of Tennessee. Draws will be made, as funds are needed to complete the project. As of June 30, 2016, the City had received \$3,894,310 from the Drinking Water Revolving Loan Fund. Monthly interest payments are being made on the outstanding balance at a current annual interest rate of 1.78%. Principal payments will begin 90 days after the project is completed, with a repayment schedule over 20 years.

Bonds Payable

As previously mentioned, during the fiscal year ended June 30, 2016, the City issued General Obligation Refunding and Improvement Bonds, Series 2015A at par value of \$15,105,000. The portion of these bonds related to business-type activities totals \$7,050,314 and carry an average coupon rate of 3.0160%. Of this amount, the Sewer Fund utilized \$4,823,895 to fund a sewer extension project in the Colonial Heights area; the Water Fund utilized \$1,703,130 to fund master plan system upgrades; and \$523,289 was utilized to refund existing debt in the Water Fund, while taking advantage of the low interest rates available in the financial market.

As previously mentioned, during the fiscal year ended June 30, 2016, the City issued General Obligation Refunding and Improvement Bonds, Series 2016A at par value of \$16,580,000. The portion of these bonds related to business-type activities totals \$9,651,073 and carry an average coupon rate of 4.47%. Of this amount, the Storm Water Management Fund utilized \$430,058 and the MeadowView Conference Report and Convention Center Fund utilized \$9,221,015 to refund existing debt, while taking advantage of the low interest rates available in the financial market.

As previously mentioned, during the fiscal year ended June 30, 2016, the City issued General Obligation Refunding and Improvement Bonds, Series 2016B at par value of \$13,360,000. The portion of these bonds related to business-type activities totals \$9,029,862 and carry an average coupon rate of 4.47%. The proceeds were utilized to refund existing debt of the Aquatic Center Fund, while taking advantage of the low interest rates available in the financial market.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities:

Bonds Payable (continued)

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

	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2016
<u>Solid Waste Management Fund</u>					
2005 General Obligation	02/01, 08/01	12/06/05	\$ 403,750	3.000%-5.000%	\$ 31,250
2009D BABS General Obligation Public Improvement	03/01, 09/01	12/08/09	303,404	2.250%-5.625%	246,491
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	1,141,983	2.000%-3.750%	880,479
2013 General Obligation Refunding	05/01, 11/01	02/08/13	132,948	2.000%-3.750%	111,672
2013B General Obligation Public Improvement	03/01, 09/01	10/21/13	289,856	2.000%-5.000%	268,625
2014A General Obligation Public Improvement	03/01, 09/01	10/31/14	1,008,152	2.000%-5.000%	2,333,880
Total Solid Waste Management Fund (before net premiums and discounts of \$256,955)					<u>\$ 3,872,397</u>
<u>MeadowView Conference Resort and Convention Center Fund</u>					
2009C Local Option Sales Tax Revenue and Tax Bonds	03/01, 09/01	01/22/09	\$ 15,180,000	2.000%-5.000%	\$ 2,130,000
2009D BABS General Obligation Public Improvement	03/01, 09/01	12/08/09	1,016,085	2.250%-5.625%	825,485
2016A General Obligation Refunding	03/01, 09/01	06/03/16	9,221,015	2.000%-4.000%	9,221,015
Total MeadowView Conference Resort and Convention Center Fund (before net premiums and discounts of \$1,223,093)					<u>\$ 12,176,500</u>
<u>Cattails at MeadowView Golf Course Fund</u>					
1998 Golf Course-TMBF	Monthly	1998	\$ 1,450,000	Variable	\$ 137,000
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	517,721	2.000%-3.750%	472,490
Total Cattails at MeadowView Golf Course Fund (before net premiums and discounts of \$5,473)					<u>\$ 609,490</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2016
<u>Storm Water Fund</u>					
2009A General Obligation	03/01, 09/01	01/22/09	\$ 652,452	2.000%-5.000%	\$ 100,225
2009D BABS General Obligation	03/01, 09/01	12/08/09	606,808	2.250%-5.625%	492,981
2011 General Obligation Public Improvement	03/01, 09/01	12/16/11	395,414	2.000%-4.000%	360,381
2016A General Obligation Refunding	03/01, 09/01	06/03/16	430,058	2.000%-4.000%	<u>430,058</u>
Total Storm Water Fund (before net premiums and discounts of \$61,690)					<u><u>\$ 1,383,645</u></u>
<u>Aquatic Center Fund</u>					
2009D BABS General Obligation	03/01, 09/01	12/08/09	\$ 554,170	2.250%-5.625%	\$ 450,217
2009E General Obligation	03/01, 09/01	12/08/09	14,225,000	2.500%-5.000%	2,745,000
2011 General Obligation Public Improvement	03/01, 09/01	12/16/11	160,000	2.000%-4.000%	145,824
2012A General Obligation Public Improvement	04/01, 10/01	06/22/12	3,110,000	2.000%-5.000%	2,850,000
2013A General Obligation Public Improvement	03/01, 09/01	10/21/13	1,310,000	3.000%-4.000%	1,215,000
2016B General Obligation Refunding	03/01, 09/01	06/03/16	9,029,862	2.000%-4.000%	<u>9,029,862</u>
Total Aquatic Center Fund (before net premiums and discounts of \$1,333,764)					<u><u>\$ 16,435,903</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (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, 2016</u>
2005 Water and Sewer System Revenue and Tax	02/01, 08/01	12/06/05	\$ 870,000	3.000%-5.000%	\$ 70,000
2008 Water and Sewer System Revenue and Tax	03/01, 09/01	06/12/08	1,200,000	3.500%-4.250%	175,000
2008 Tennessee Municipal Bond Fund	Monthly	10/15/08	9,698,196	Variable	6,493,196
2009D BABS General Obligation Public Improvement	03/01, 09/01	12/08/09	4,045,387	2.250%-5.625%	3,286,542
2010 General Obligation Refunding	12/01, 06/01	04/19/10	1,515,000	2.000%-3.000%	230,000
2011 General Obligation Public Improvement	03/01, 09/01	12/16/11	2,430,991	2.000%-3.750%	2,215,606
2012B General Obligation Refunding	04/01, 10/01	06/22/12	1,194,406	3.000%	593,609
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	1,181,362	2.000%-3.750%	1,078,153
2013 General Obligation Refunding	05/01, 11/01	02/08/13	3,025,000	2.000%-3.750%	620,000
2013B General Obligation Public Improvement	03/01, 09/01	10/21/13	4,262,308	2.000%-5.000%	3,950,110
2014B General Obligation Public Improvement	03/01, 09/01	10/31/14	2,717,899	2.000%-5.000%	2,717,899
2015A General Obligation Refunding and Improvement	03/01, 09/01	10/27/15	2,226,419	1.000%-4.000%	2,226,419
Total Water Fund (before net premiums and discounts of \$666,455)					<u>\$ 23,656,534</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (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, 2016</u>
2005 Water and Sewer System Revenue and Tax	02/01, 08/01	12/06/05	\$ 4,100,000	2.750%-4.125%	\$ 305,000
2009D BABS General Obligation Public Improvement	03/01, 09/01	12/08/09	6,068,081	2.250%-5.625%	4,929,814
2010 General Obligation Refunding	12/01, 06/01	04/19/10	2,940,000	2.000%-3.000%	445,000
2011 General Obligation Public Improvement	03/01, 09/01	12/16/11	2,410,816	2.000%-3.750%	2,197,219
2012B General Obligation Refunding	04/01, 10/01	06/22/12	4,417,707	3.000%	2,195,561
2012C General Obligation Public Improvement	04/01, 10/01	06/22/12	1,673,596	2.000%-3.750%	1,527,383
2013 General Obligation Refunding	05/01, 11/01	02/08/13	27,760,000	2.000%-5.000%	19,190,000
2013B General Obligation Public Improvement	03/01, 09/01	10/21/13	9,550,990	2.000%-5.000%	8,851,418
2014B General Obligation Public Improvement	03/01, 09/01	10/31/14	6,582,101	2.000%-5.000%	6,582,101
2015A General Obligation Refunding and Improvement	03/01, 09/01	10/27/15	4,823,895	1.000%-4.000%	<u>4,823,895</u>
Total Sewer Fund (before net premiums and discounts of \$2,627,216)					<u><u>\$ 51,047,391</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (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
2017	\$ 31,250	\$ 938	\$ 32,188
	<u>\$ 31,250</u>	<u>\$ 938</u>	<u>\$ 32,188</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 14,989	\$ 12,420	\$ 27,409
2018	15,392	11,839	27,231
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	1,196	22,445
	<u>\$ 246,491</u>	<u>\$ 103,240</u>	<u>\$ 349,731</u>

GOBPI, Series 2009D Build America Bonds (BABS) carry an interest rate from 2.000% to 5.625%. During fiscal year 2016, the Solid Waste Management Fund paid \$8,738 while the Federal government paid \$4,214 in interest, respectively.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Solid Waste Management Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 134,351	\$ 26,690	\$ 161,041
2018	139,149	22,660	161,809
2019	146,347	17,094	163,441
2020	148,746	12,703	161,449
2021	153,544	9,357	162,901
2022	158,342	4,750	163,092
	<u>\$ 880,479</u>	<u>\$ 93,254</u>	<u>\$ 973,733</u>

General Obligation Refunding Bonds, Series 2013, issued February 08, 2013 debt service requirements to maturity for the Solid Waste Management Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 7,614	\$ 3,535	\$ 11,149
2018	10,692	3,231	13,923
2019	11,124	2,803	13,927
2020	11,448	2,470	13,918
2021	11,718	2,126	13,844
2022	9,072	1,775	10,847
2023	9,450	1,412	10,862
2024	9,720	1,128	10,848
2025	9,990	837	10,827
2026	10,260	587	10,847
2027	10,584	317	10,901
	<u>\$ 111,672</u>	<u>\$ 20,221</u>	<u>\$ 131,893</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2013B, issued October 21, 2013 debt service requirements to maturity for the Solid Waste Management Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 11,116	\$ 10,973	\$ 22,089
2018	11,748	10,417	22,165
2019	11,906	10,183	22,089
2020	12,275	9,825	22,100
2021	12,907	9,212	22,119
2022	13,329	8,824	22,153
2023	13,855	8,291	22,146
2024	14,540	7,599	22,139
2025	13,803	6,872	20,675
2026	14,382	6,302	20,684
2027	14,962	5,691	20,653
2028	15,646	5,055	20,701
2029	16,279	4,429	20,708
2030	16,964	3,737	20,701
2031	17,648	3,016	20,664
2032	18,386	2,311	20,697
2033	19,071	1,575	20,646
2034	19,808	812	20,620
	<u>\$ 268,625</u>	<u>\$ 115,124</u>	<u>\$ 383,749</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2014A, issued October 31, 2014 debt service requirements to maturity for the Solid Waste Management Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 42,545	\$ 88,242	\$ 130,787
2018	88,128	85,842	173,970
2019	91,167	83,167	174,334
2020	94,206	79,900	174,106
2021	98,764	75,076	173,840
2022	104,082	70,005	174,087
2023	107,881	66,324	174,205
2024	111,680	62,453	174,133
2025	116,998	56,736	173,734
2026	123,076	50,735	173,811
2027	129,153	45,075	174,228
2028	134,472	39,802	174,274
2029	139,790	34,317	174,107
2030	145,108	28,619	173,727
2031	151,186	22,693	173,879
2032	156,504	17,322	173,826
2033	161,062	12,558	173,620
2034	166,380	7,647	174,027
2035	171,698	2,576	174,274
	<u>\$ 2,333,880</u>	<u>\$ 929,089</u>	<u>\$ 3,262,969</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 685,000	\$ 80,063	\$ 765,063
2018	710,000	57,800	767,800
2019	735,000	29,400	764,400
	<u>\$ 2,130,000</u>	<u>\$ 167,263</u>	<u>\$ 2,297,263</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 50,199	\$ 41,580	\$ 91,779
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>\$ 825,485</u>	<u>\$ 345,629</u>	<u>\$ 1,171,114</u>

The GOBPI, Series 2009D Build America Bonds (BABS) carry an interest rate from 2.000% to 5.625%. During fiscal year 2016, the MeadowView Conference Resort and Convention Center Fund paid \$29,265 while the Federal government paid \$14,111 in interest, respectively.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2016A, issued June 03, 2016 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
2017	\$ 0	\$ 243,529	\$ 243,529
2018	0	327,129	327,129
2019	0	327,129	327,129
2020	770,272	327,129	1,097,401
2021	803,641	296,318	1,099,959
2022	834,229	264,173	1,098,402
2023	867,599	230,803	1,098,402
2024	903,749	196,100	1,099,849
2025	939,898	159,950	1,099,848
2026	976,048	122,354	1,098,402
2027	1,012,198	83,312	1,095,510
2028	1,045,567	52,946	1,098,513
2029	1,067,814	32,034	1,099,848
	<u>\$ 9,221,015</u>	<u>\$ 2,662,906</u>	<u>\$ 11,883,921</u>

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
2017	<u>\$ 137,000</u>	<u>\$ 2,584</u>	<u>\$ 139,584</u>
	<u>\$ 137,000</u>	<u>\$ 2,584</u>	<u>\$ 139,584</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, 2016, to calculate an estimated annual effective interest rate of 1.886%.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Cattails at MeadowView Golf Course Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 23,550	\$ 14,486	\$ 38,036
2018	23,923	13,779	37,702
2019	24,671	12,822	37,493
2020	25,793	12,082	37,875
2021	26,540	11,502	38,042
2022	27,288	10,706	37,994
2023	28,035	9,887	37,922
2024	28,783	9,046	37,829
2025	29,904	8,183	38,087
2026	30,652	7,286	37,938
2027	31,400	6,366	37,766
2028	32,521	5,424	37,945
2029	33,269	4,448	37,717
2030	34,390	3,450	37,840
2031	35,138	2,333	37,471
2032	36,633	1,191	37,824
	<u>\$ 472,490</u>	<u>\$ 132,991</u>	<u>\$ 605,481</u>

General Obligation Bonds, Series 2009A, issued January 22, 2009 debt service requirements to maturity for the Storm Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 32,434	\$ 3,352	\$ 35,786
2018	33,311	2,378	35,689
2019	34,480	1,379	35,859
	<u>\$ 100,225</u>	<u>\$ 7,109</u>	<u>\$ 107,334</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (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 Storm Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 29,979	\$ 24,809	\$ 54,788
2018	30,783	23,647	54,430
2019	30,668	22,262	52,930
2020	31,587	20,882	52,469
2021	32,620	19,421	52,041
2022	33,425	17,872	51,297
2023	34,458	16,243	50,701
2024	35,836	14,520	50,356
2025	35,836	12,728	48,564
2026	36,870	10,892	47,762
2027	38,134	8,956	47,090
2028	39,397	6,906	46,303
2029	40,890	4,690	45,580
2030	42,498	2,390	44,888
	<u>\$ 492,981</u>	<u>\$ 206,218</u>	<u>\$ 699,199</u>

GOB, Series 2009D Build America Bonds (BABS) issued by the City carry an interest rate from 2.000% to 5.625%. During fiscal year 2016, the Storm Water Fund paid \$17,477 while the Federal government paid \$8,427 in interest, respectively.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity for the Storm Water Fund are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 18,007	\$ 11,480	\$ 29,487
2018	18,619	11,120	29,739
2019	18,864	10,748	29,612
2020	19,232	10,370	29,602
2021	19,722	9,793	29,515
2022	20,579	9,005	29,584
2023	21,192	8,387	29,579
2024	21,927	7,751	29,678
2025	22,539	7,094	29,633
2026	23,029	6,395	29,424
2027	24,009	5,646	29,655
2028	24,744	4,836	29,580
2029	25,479	3,970	29,449
2030	26,459	3,078	29,537
2031	27,439	2,099	29,538
2032	28,541	1,070	29,611
	<u>\$ 360,381</u>	<u>\$ 112,842</u>	<u>\$ 473,223</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2016A, issued June 03, 2016 debt service requirements to maturity for the Storm Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 0	\$ 11,358	\$ 11,358
2018	0	15,257	15,257
2019	0	15,257	15,257
2020	35,924	15,257	51,181
2021	37,481	13,820	51,301
2022	38,907	12,321	51,228
2023	40,464	10,764	51,228
2024	42,150	9,146	51,296
2025	43,836	7,460	51,296
2026	45,522	5,706	51,228
2027	47,208	3,886	51,094
2028	48,764	2,469	51,233
2029	49,802	1,494	51,296
	<u>\$ 430,058</u>	<u>\$ 124,195</u>	<u>\$ 554,253</u>

General Obligation Bonds, Series 2009D (BABS), issued December 08, 2009 debt service requirements to maturity for the Aquatic Center Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 27,378	\$ 22,680	\$ 50,058
2018	28,112	21,618	49,730
2019	28,007	20,352	48,359
2020	28,847	19,090	47,937
2021	29,791	17,755	47,546
2022	30,525	16,339	46,864
2023	31,469	14,849	46,318
2024	32,728	13,274	46,002
2025	32,728	11,636	44,364
2026	33,672	9,957	43,629
2027	34,826	8,188	43,014
2028	35,979	6,314	42,293
2029	37,343	4,288	41,631
2030	38,812	2,185	40,997
	<u>\$ 450,217</u>	<u>\$ 188,525</u>	<u>\$ 638,742</u>

GOB, Series 2009D Build America Bonds (BABS) carry an interest rate from 2.000% to 5.625%. During fiscal year 2016, the Aquatic Center Fund paid \$15,961 while the Federal government paid \$7,696 in interest.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Bonds, Series 2009E, issued December 08, 2009 debt service requirements to maturity for the Aquatic Center Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 655,000	\$ 101,912	\$ 756,912
2018	675,000	82,263	757,263
2019	695,000	60,325	755,325
2020	720,000	36,000	756,000
	<u>\$ 2,745,000</u>	<u>\$ 280,500</u>	<u>\$ 3,025,500</u>

General Obligation Public Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity for the Aquatic Center Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 7,286	\$ 4,645	\$ 11,931
2018	7,534	4,500	12,034
2019	7,633	4,349	11,982
2020	7,782	4,196	11,978
2021	7,980	3,963	11,943
2022	8,327	3,643	11,970
2023	8,575	3,394	11,969
2024	8,872	3,136	12,008
2025	9,120	2,870	11,990
2026	9,319	2,588	11,907
2027	9,715	2,285	12,000
2028	10,013	1,957	11,970
2029	10,310	1,606	11,916
2030	10,706	1,246	11,952
2031	11,103	849	11,952
2032	11,549	433	11,982
	<u>\$ 145,824</u>	<u>\$ 45,660</u>	<u>\$ 191,484</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation, Series 2012A, issued June 22, 2012 debt service requirements to maturity for the Aquatic Center Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 140,000	\$ 85,906	\$ 225,906
2018	145,000	78,906	223,906
2019	155,000	71,656	226,656
2020	160,000	68,556	228,556
2021	160,000	65,357	225,357
2022	165,000	61,756	226,756
2023	170,000	58,044	228,044
2024	175,000	53,794	228,794
2025	175,000	48,981	223,981
2026	185,000	43,731	228,731
2027	190,000	38,181	228,181
2028	195,000	32,482	227,482
2029	200,000	26,631	226,631
2030	205,000	20,382	225,382
2031	210,000	13,975	223,975
2032	220,000	7,150	227,150
	<u>\$ 2,850,000</u>	<u>\$ 775,488</u>	<u>\$ 3,625,488</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation, Series 2013A, issued October 21, 2013 debt service requirements to maturity for the Aquatic Center Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 50,000	\$ 44,662	\$ 94,662
2018	50,000	43,163	93,163
2019	55,000	41,662	96,662
2020	55,000	40,013	95,013
2021	55,000	37,812	92,812
2022	60,000	35,613	95,613
2023	60,000	33,212	93,212
2024	65,000	31,413	96,413
2025	65,000	29,463	94,463
2026	65,000	27,431	92,431
2027	70,000	25,400	95,400
2028	70,000	22,600	92,600
2029	75,000	19,800	94,800
2030	80,000	16,800	96,800
2031	80,000	13,600	93,600
2032	85,000	10,400	95,400
2033	85,000	7,000	92,000
2034	90,000	3,600	93,600
	<u>\$ 1,215,000</u>	<u>\$ 483,644</u>	<u>\$ 1,698,644</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2016B, issued June 03, 2016 debt service requirements to maturity for the Aquatic Center Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 0	\$ 234,070	\$ 234,070
2018	0	314,423	314,423
2019	0	314,423	314,423
2020	246,699	314,423	561,122
2021	770,512	304,555	1,075,067
2022	800,927	273,735	1,074,662
2023	831,342	241,698	1,073,040
2024	868,516	208,444	1,076,960
2025	898,931	173,703	1,072,634
2026	936,105	137,746	1,073,851
2027	973,279	100,302	1,073,581
2028	1,000,314	71,103	1,071,417
2029	1,023,970	51,097	1,075,067
2030	679,267	20,378	699,645
	<u>\$ 9,029,862</u>	<u>\$ 2,760,100</u>	<u>\$ 11,789,962</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 70,000	\$ 2,100	\$ 72,100
	<u>\$ 70,000</u>	<u>\$ 2,100</u>	<u>\$ 72,100</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 85,000	\$ 7,000	\$ 92,000
2018	90,000	3,600	93,600
	<u>\$ 175,000</u>	<u>\$ 10,600</u>	<u>\$ 185,600</u>

Water Bonds, Series 2008 were issued through the Tennessee Municipal Bond Fund (TMBF) totaling \$9,698,196. These bonds funded the acquisition and installation of an automated meter reading and leak detection system. The debt service requirements to maturity for the Water Fund portion are as follows:

Fiscal Year Ending June 30	Principal	Interest *	Total
2017	\$ 555,000	\$ 74,342	\$ 629,342
2018	555,000	67,988	622,988
2019	605,000	61,634	666,634
2020	630,000	54,707	684,707
2021	655,000	47,494	702,494
2022	655,000	39,994	694,994
2023	710,000	32,495	742,495
2024	735,000	24,366	759,366
2025	735,000	15,951	750,951
2026	658,196	7,536	665,732
	<u>\$ 6,493,196</u>	<u>\$ 426,507</u>	<u>\$ 6,919,703</u>

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

* 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, 2016, to calculate an estimated annual effective interest rate of 1.145%.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
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>\$ 3,286,542</u>	<u>\$ 1,374,437</u>	<u>\$ 4,660,979</u>

GOBPI, Series 2009D Build America Bonds (BABS) carry an interest rate from 2.000% to 5.625%. During fiscal year 2016, the Water Fund paid \$116,513 while the Federal government paid \$56,182 in interest, respectively.

General Obligation Refunding Bonds, Series 2010, issued April 19, 2010 debt service requirements to maturity for the Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 230,000	\$ 6,900	\$ 236,900
	<u>\$ 230,000</u>	<u>\$ 6,900</u>	<u>\$ 236,900</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity for the Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 110,705	\$ 70,579	\$ 181,284
2018	114,470	68,365	182,835
2019	115,977	66,075	182,052
2020	118,236	63,756	181,992
2021	121,248	60,209	181,457
2022	126,520	55,359	181,879
2023	130,285	51,563	181,848
2024	134,804	47,655	182,459
2025	138,570	43,611	182,181
2026	141,582	39,315	180,897
2027	147,607	34,713	182,320
2028	152,125	29,732	181,857
2029	156,644	24,407	181,051
2030	162,669	18,925	181,594
2031	168,693	12,906	181,599
2032	175,471	6,580	182,051
	<u>\$ 2,215,606</u>	<u>\$ 693,750</u>	<u>\$ 2,909,356</u>

General Obligation Refunding Bonds, Series 2012B, issued June 22, 2012 debt service requirements to maturity for the Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 240,199	\$ 17,808	\$ 258,007
2018	249,783	10,602	260,385
2019	103,627	3,109	106,736
	<u>\$ 593,609</u>	<u>\$ 31,519</u>	<u>\$ 625,128</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 53,737	\$ 33,055	\$ 86,792
2018	54,590	31,443	86,033
2019	56,296	29,259	85,555
2020	58,855	27,570	86,425
2021	60,561	26,246	86,807
2022	62,267	24,429	86,696
2023	63,973	22,561	86,534
2024	65,679	20,642	86,321
2025	68,238	18,671	86,909
2026	69,943	16,624	86,567
2027	71,649	14,526	86,175
2028	74,208	12,377	86,585
2029	75,914	10,150	86,064
2030	78,473	7,873	86,346
2031	80,179	5,322	85,501
2032	83,591	2,717	86,308
	<u>\$ 1,078,153</u>	<u>\$ 303,465</u>	<u>\$ 1,381,618</u>

General Obligation Refunding Bonds, Series 2013, issued February 08, 2013 debt service requirements to maturity for the Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 170,000	\$ 21,712	\$ 191,712
2018	140,000	14,913	154,913
2019	85,000	9,312	94,312
2020	80,000	6,763	86,763
2021	85,000	4,362	89,362
2022	10,000	1,813	11,813
2023	10,000	1,412	11,412
2024	10,000	1,113	11,113
2025	10,000	812	10,812
2026	10,000	563	10,563
2027	10,000	300	10,300
	<u>\$ 620,000</u>	<u>\$ 63,075</u>	<u>\$ 683,075</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2013B, issued October 21, 2013 debt service requirements to maturity for the Water Fund are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 163,458	\$ 161,362	\$ 324,820
2018	172,754	153,189	325,943
2019	175,078	149,734	324,812
2020	180,501	144,481	324,982
2021	189,798	135,456	325,254
2022	195,995	129,762	325,757
2023	203,742	121,922	325,664
2024	213,813	111,735	325,548
2025	202,967	101,045	304,012
2026	211,489	92,672	304,161
2027	220,010	83,684	303,694
2028	230,081	74,334	304,415
2029	239,377	65,130	304,507
2030	249,448	54,957	304,405
2031	259,519	44,355	303,874
2032	270,364	33,975	304,339
2033	280,435	23,160	303,595
2034	291,281	11,942	303,223
	<u>\$ 3,950,110</u>	<u>\$ 1,692,895</u>	<u>\$ 5,643,005</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2014B, issued October 31, 2014 debt service requirements to maturity for the Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 113,976	\$ 71,805	\$ 185,781
2018	115,438	69,511	184,949
2019	118,360	67,173	185,533
2020	121,283	64,170	185,453
2021	124,205	61,109	185,314
2022	125,666	58,610	184,276
2023	130,050	56,053	186,103
2024	131,511	53,437	184,948
2025	135,895	50,084	185,979
2026	140,279	45,941	186,220
2027	144,662	41,667	186,329
2028	149,046	37,262	186,308
2029	153,430	32,724	186,154
2030	156,352	28,078	184,430
2031	160,736	23,321	184,057
2032	166,581	18,412	184,993
2033	170,965	13,348	184,313
2034	176,810	8,132	184,942
2035	182,654	2,740	185,394
	<u>\$ 2,717,899</u>	<u>\$ 803,577</u>	<u>\$ 3,521,476</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding & Improvement Bonds, Series 2015A, issued October 27, 2015 debt service requirements to maturity for the Water Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 64,117	\$ 63,484	\$ 127,601
2018	64,854	62,201	127,055
2019	238,782	60,904	299,686
2020	222,568	58,516	281,084
2021	231,412	49,614	281,026
2022	235,834	44,985	280,819
2023	80,331	35,552	115,883
2024	69,276	33,142	102,418
2025	71,487	31,064	102,551
2026	73,698	28,919	102,617
2027	76,646	26,708	103,354
2028	78,857	24,409	103,266
2029	81,068	22,043	103,111
2030	83,279	19,611	102,890
2031	85,490	17,113	102,603
2032	88,438	14,548	102,986
2033	90,649	11,895	102,544
2034	93,597	9,175	102,772
2035	96,545	6,250	102,795
2036	99,491	3,234	102,725
	<u>\$ 2,226,419</u>	<u>\$ 623,367</u>	<u>\$ 2,849,786</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 305,000	\$ 9,150	\$ 314,150
	<u>\$ 305,000</u>	<u>\$ 9,150</u>	<u>\$ 314,150</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
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	344,582	162,420	507,002
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>\$ 4,929,814</u>	<u>\$ 2,062,105</u>	<u>\$ 6,991,919</u>

GOBPI, Series 2009D Build America Bonds (BABS) carry an interest rate from 2.000% to 5.625%. During fiscal year 2016, the Sewer Fund paid \$174,769 while the Federal government paid \$84,273 in interest, respectively.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2010, issued April 19, 2010 debt service requirements to maturity for the Sewer Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 445,000	\$ 13,350	\$ 458,350
	<u>\$ 445,000</u>	<u>\$ 13,350</u>	<u>\$ 458,350</u>

General Obligation Public Improvement Bonds, Series 2011, issued December 16, 2011 debt service requirements to maturity for the Sewer Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 109,786	\$ 69,993	\$ 179,779
2018	113,520	67,798	181,318
2019	115,014	65,527	180,541
2020	117,255	63,227	180,482
2021	120,242	59,709	179,951
2022	125,470	54,899	180,369
2023	129,204	51,135	180,339
2024	133,685	47,259	180,944
2025	137,420	43,249	180,669
2026	140,407	38,989	179,396
2027	146,382	34,425	180,807
2028	150,863	29,485	180,348
2029	155,344	24,205	179,549
2030	161,319	18,768	180,087
2031	167,293	12,799	180,092
2032	174,015	6,526	180,541
	<u>\$ 2,197,219</u>	<u>\$ 687,993</u>	<u>\$ 2,885,212</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2012B, issued June 22, 2012 debt service requirements to maturity for the Sewer Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 888,415	\$ 65,867	\$ 954,282
2018	923,864	39,214	963,078
2019	383,282	11,499	394,781
	<u>\$ 2,195,561</u>	<u>\$ 116,580</u>	<u>\$ 2,312,141</u>

General Obligation Public Improvement Bonds, Series 2012C, issued June 22, 2012 debt service requirements to maturity for the Sewer Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 76,127	\$ 46,827	\$ 122,954
2018	77,336	44,544	121,880
2019	79,753	41,450	121,203
2020	83,378	39,058	122,436
2021	85,794	37,182	122,976
2022	88,211	34,608	122,819
2023	90,628	31,961	122,589
2024	93,045	29,243	122,288
2025	96,670	26,451	123,121
2026	99,087	23,551	122,638
2027	101,503	20,579	122,082
2028	105,128	17,533	122,661
2029	107,545	14,380	121,925
2030	111,170	11,153	122,323
2031	113,587	7,540	121,127
2032	118,421	3,849	122,270
	<u>\$ 1,527,383</u>	<u>\$ 429,909</u>	<u>\$ 1,957,292</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding Bonds, Series 2013, issued February 08, 2013 debt service requirements to maturity for the Sewer Fund are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,330,000	\$ 602,731	\$ 1,932,731
2018	1,635,000	549,531	2,184,531
2019	1,350,000	484,131	1,834,131
2020	1,375,000	443,631	1,818,631
2021	1,410,000	402,382	1,812,382
2022	1,085,000	360,081	1,445,081
2023	1,125,000	316,681	1,441,681
2024	1,155,000	282,931	1,437,931
2025	1,185,000	248,282	1,433,282
2026	1,215,000	218,656	1,433,656
2027	1,240,000	186,763	1,426,763
2028	1,195,000	149,563	1,344,563
2029	1,230,000	116,700	1,346,700
2030	1,265,000	79,800	1,344,800
2031	1,230,000	41,850	1,271,850
2032	165,000	4,950	169,950
	<u>\$ 19,190,000</u>	<u>\$ 4,488,663</u>	<u>\$ 23,678,663</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2013B, issued October 21, 2013 debt service requirements to maturity for the Sewer Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 366,278	\$ 361,579	\$ 727,857
2018	387,108	343,266	730,374
2019	392,316	335,523	727,839
2020	404,468	323,754	728,222
2021	425,299	303,530	728,829
2022	439,186	290,772	729,958
2023	456,545	273,204	729,749
2024	479,112	250,377	729,489
2025	454,809	226,421	681,230
2026	473,904	207,660	681,564
2027	492,999	187,519	680,518
2028	515,566	166,567	682,133
2029	536,397	145,944	682,341
2030	558,964	123,147	682,111
2031	581,531	99,392	680,923
2032	605,833	76,130	681,963
2033	628,400	51,897	680,297
2034	652,703	26,761	679,464
	<u>\$ 8,851,418</u>	<u>\$ 3,793,443</u>	<u>\$ 12,644,861</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Public Improvement Bonds, Series 2014B, issued October 31, 2014 debt service requirements to maturity for the Sewer Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 276,024	\$ 173,895	\$ 449,919
2018	279,562	168,339	447,901
2019	286,640	162,677	449,317
2020	293,717	155,405	449,122
2021	300,795	147,991	448,786
2022	304,334	141,940	446,274
2023	314,950	135,747	450,697
2024	318,489	129,413	447,902
2025	329,105	121,291	450,396
2026	339,721	111,259	450,980
2027	350,338	100,908	451,246
2028	360,954	90,238	451,192
2029	371,570	79,251	450,821
2030	378,648	67,997	446,645
2031	389,264	56,479	445,743
2032	403,419	44,588	448,007
2033	414,035	32,327	446,362
2034	428,190	19,693	447,883
2035	442,346	6,635	448,981
	<u>\$ 6,582,101</u>	<u>\$ 1,946,073</u>	<u>\$ 8,528,174</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

General Obligation Refunding & Improvement Bonds, Series 2015A, issued October 27, 2015 debt service requirements to maturity for the Sewer Fund are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 138,921	\$ 137,547	\$ 276,468
2018	140,517	134,769	275,286
2019	517,359	131,958	649,317
2020	482,230	126,785	609,015
2021	501,391	107,496	608,887
2022	510,972	97,468	608,440
2023	174,050	77,029	251,079
2024	150,098	71,807	221,905
2025	154,888	67,305	222,193
2026	159,679	62,658	222,337
2027	166,066	57,868	223,934
2028	170,856	52,886	223,742
2029	175,647	47,760	223,407
2030	180,437	42,490	222,927
2031	185,227	37,077	222,304
2032	191,615	31,521	223,136
2033	196,405	25,772	222,177
2034	202,792	19,880	222,672
2035	209,179	13,543	222,722
2036	215,566	7,006	222,572
	<u>\$ 4,823,895</u>	<u>\$ 1,350,625</u>	<u>\$ 6,174,520</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Business-type Activities (continued):

Bonds Payable (continued)

Total annual debt service requirements for general obligation and revenue bonds related to Business-type Activities is as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$ 8,389,084	\$ 3,494,429	\$ 11,883,513
2018	7,665,775	3,392,950	11,058,725
2019	7,245,167	3,144,421	10,389,588
2020	7,130,431	2,938,163	10,068,594
2021	7,145,570	2,684,769	9,830,339
Next Five Years	33,779,190	9,964,940	43,744,130
Next Five Years	29,242,220	4,255,100	33,497,320
Next Five Years	8,584,423	612,831	9,197,254
	<u>\$ 109,181,860</u>	<u>\$ 30,487,603</u>	<u>\$ 139,669,463</u>

The total on the statement of net position has been adjusted by net premiums and discounts of \$6,174,646.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Transfers	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:						
General Obligation Debt	\$ 112,003,505	\$(1,362,955)	\$ 19,313,751	\$ (22,395,964)	\$ 107,558,337	\$ 7,137,916
Plus: Net Premiums and discounts	6,177,718	(116,897)	1,802,565	(597,707)	7,265,679	0
Total Bonds Payable	118,181,223	(1,479,852)	21,116,316	(22,993,671)	114,824,016	7,137,916
Interlocal Cooperative Agreement	240,000	0	0	(120,000)	120,000	120,000
Notes Payable-State	2,800,933	0	0	(400,933)	2,400,000	400,933
School Energy Efficiency Note	3,962,728	0	0	(411,449)	3,551,279	414,536
Hud 108 Note	684,000	0	0	(43,000)	641,000	43,000
Total Governmental Activities	<u>\$ 125,868,884</u>	<u>\$(1,479,852)</u>	<u>\$ 21,116,316</u>	<u>\$ (23,969,053)</u>	<u>\$ 121,536,295</u>	<u>\$ 8,116,385</u>
Business-type activities:						
General Obligation Debt	\$ 94,861,692	\$ 1,362,955	\$ 25,731,249	\$ (16,129,036)	\$ 105,826,860	\$ 6,569,084
Local Option Sales Tax Revenue and Tax Bonds	12,105,000	0	0	(9,975,000)	2,130,000	685,000
Water and Sewer Revenue and Tax Bonds	2,915,000	0	0	(1,690,000)	1,225,000	1,135,000
Plus: Net Premiums and discounts	4,121,873	116,897	2,655,564	(719,688)	6,174,646	0
Total Bonds Payable	114,003,565	1,479,852	28,386,813	(28,513,724)	115,356,506	8,389,084
State Revolving Note	0	0	3,894,310	0	3,894,310	0
Total Business-type Activities	<u>\$ 114,003,565</u>	<u>\$ 1,479,852</u>	<u>\$ 32,281,123</u>	<u>\$ (28,513,724)</u>	<u>\$ 119,250,816</u>	<u>\$ 8,389,084</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-term liabilities (continued)

Discretely presented component units

Industrial Development Board (IDBK)

The IDBK, a discretely presented component unit of the City, reports the following long-term liabilities at June 30, 2016.

In August 2011, a bank loan known as the C & F Loan, was issued in the amount of \$3,500,000, with a 20 year maturity. The annual rate of interest is 4.68% and currently only accrued interest is being paid on a monthly basis. At June 30, 2016, the outstanding principal balance on the loan was \$3,090,304.

In October 2012, a bank loan known as the Bray Property Loan, was issued in the amount of \$1,785,000, with a 5 year maturity. The annual rate of interest is 2.9% and currently only accrued interest is being paid on the loan. At June 30, 2016, the outstanding principal balance on the loan was \$1,785,000.

In December 2013, a bank line of credit loan known as the General Shale Property Loan was established in the amount of \$4,000,000, with a 7 year maturity. The annual rate of interest is 3% and currently only accrued interest is being paid on the loan draw amount on a semi-annual basis. At June 30, 2016, the outstanding principal balance on the loan was \$2,979,288.

In May 2014, a bank loan known as the Heritage Glass Property Loan, was issued in the amount of \$2,600,000, with a 16 year maturity. The annual rate of interest is 3.95%, compounded monthly. The loan draw amount was subsequently, increased up to a maximum of \$2,675,000, with an extended maturity date of 20 years. At June 30, 2016, the outstanding principal balance on the loan was \$2,675,000. Payment of principal will begin in July 2016.

On May 15, 2015, the IDBK closed on a loan totaling \$6,540,000 in order to purchase approximately 33.75 acres and to construct an industrial building for lease to Pure Foods, Inc. Interest on the loan will accrue on the outstanding principal balance during the period May 15, 2015 through November 14, 2017, at a rate per annum equal to the LIBOR Rate plus ninety-nine basis points (.99). During the period November 15, 2017 through the maturity date of May 15, 2025, interest will accrue under the Loan at a fixed rate of 3.89% per annum. At June 30, 2016, the principal balance outstanding on the loan was \$5,316,679. The IDBK began paying interest on the loan on a monthly basis beginning in April 2016.

Emergency Communications District (ECD)

The ECD, a discretely presented component unit of the City, reports no long-term liabilities at June 30, 2016.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

4. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Closure and post closure costs

The City currently operates a demolition landfill located on Brookside Drive which was permitted by the State of Tennessee in 1986 with an estimated useful life of 60 years. At June 30, 2016, the estimated remaining useful life is 30 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 by the State of Tennessee Department of Environment and Conservation for inflation. The year 2015 financial assurance amount of, \$1,986,116, was adjusted for inflation by 1.20%, resulting in an amended amount of \$2,009,950 at June 30, 2016.

The City's actual closure costs for the 30-year period through June 30, 2016 exceeded the liability amount by \$287,902. The City has recorded this \$287,902 in pre-paid landfill closing costs as of June 30, 2016, which will be offset as future closure costs are accrued.

	<u>Ending June 30, 2016</u>	<u>Ending June 30, 2015</u>	<u>Ending June 30, 2014</u>	<u>Ending June 30, 2013</u>	<u>Ending June 30, 2012</u>
Landfill closure costs paid	\$ 1,384,655	\$ 1,384,655	\$ 1,384,655	\$ 1,349,663	\$ 1,210,795
Landfill closure costs accrued	<u>1,096,753</u>	<u>1,042,480</u>	<u>981,726</u>	<u>922,385</u>	<u>856,017</u>
Pre-paid landfill closure costs	<u>\$ 287,902</u>	<u>\$ 342,175</u>	<u>\$ 402,929</u>	<u>\$ 427,278</u>	<u>\$ 354,778</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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 Casualty Corporation.

An actuarial study for workers compensation and public liability was conducted for the period ended June 30, 2016. The estimated reserve requirements were as follows:

ESTIMATED REQUIRED RESERVES

	<u>Low</u>	<u>Expected</u>	<u>High</u>
Workers Compensation *	\$ 2,030,054	\$ 2,255,616	\$ 2,481,177
Public Liability *	812,958	903,287	993,616

* Calculation utilizes U.S. Treasury yields as of June 30, 2016

Liabilities have been accrued to reflect the discounted expected claims of \$2,255,616 for workers compensation and \$903,287 for public liability, at June 30, 2016. The Insurance Reserve Fund has total assets of \$6,139,559 at June 30, 2016. Estimated claims are budgeted and charged to the various departments on an annual basis.

A reconciliation of workers' compensation claims for the past five years is as follows:

	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>
Claims Accrued, Beginning	\$ 2,111,500	\$ 2,211,677	\$ 2,557,398	\$ 2,380,000	\$ 2,320,000
Claims Incurred	688,740	380,022	425,333	1,146,686	1,245,507
Claims Paid	<u>(544,624)</u>	<u>(480,199)</u>	<u>(771,054)</u>	<u>(969,288)</u>	<u>(1,185,507)</u>
Claims Accrued, Ending	<u>\$ 2,255,616</u>	<u>\$ 2,111,500</u>	<u>\$ 2,211,677</u>	<u>\$ 2,557,398</u>	<u>\$ 2,380,000</u>

The City's estimate of claims accrued at year end is based on actuarial reports using the discounted expected claims liability.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

A. Risk management (continued)

A reconciliation of public liability claims for the past five years is as follows:

	Year Ended <u>June 30, 2016</u>	Year Ended <u>June 30, 2015</u>	Year Ended <u>June 30, 2014</u>	Year Ended <u>June 30, 2013</u>	Year Ended <u>June 30, 2012</u>
Claims Accrued, Beginning	\$ 1,186,835	\$ 1,111,388	\$ 1,067,117	\$ 1,000,000	\$ 980,000
Claims Incurred	127,873	358,040	256,711	265,775	340,878
Claims Paid	<u>(411,421)</u>	<u>(282,593)</u>	<u>(212,440)</u>	<u>(198,658)</u>	<u>(320,878)</u>
Claims Accrued, Ending	<u>\$ 903,287</u>	<u>\$ 1,186,835</u>	<u>\$ 1,111,388</u>	<u>\$ 1,067,117</u>	<u>\$ 1,000,000</u>

The City's estimate of claims accrued at year end is based on actuarial reports using the discounted expected claims liability.

The City carries additional coverage for public officials and other employees through Liberty Mutual, Travelers and Western Surety insurance companies and property insurance through Travelers, EMC, Great American, and Hartford 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.

Health insurance for the City and Kingsport City Schools employees is provided through a self-funded health insurance program. The City's program is currently administered by Humana, Inc., and the Kingsport City Schools' program is currently administered through Meritain Health, Inc. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. Premium equivalents for participation in the self-funded programs are established annually based on quotations from the third-party administrator for projected expenses. The City and Kingsport City Schools both carry stop-loss insurance.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

B. Contingencies

Primary government

The City, like other similar bodies, is subject to a variety of legal suits and proceedings arising in the ordinary conduct of its affairs. After reviewing the status of all pending and threatened litigation at June 30, 2016 except as specifically described below, the City Attorney believes that, while the outcome of any litigation cannot be predicted, the final settlement of all lawsuits that have been filed and of any actions or claims presently pending or threatened against the City or its officials in such capacity, are adequately covered by insurance or by sovereign immunity or will not have an adverse effect upon the City's financial condition.

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, 2016, the water fund and sewer fund had arbitrage rebate liabilities recorded of \$40,037 and \$97,473, respectively. These arbitrage rebate liabilities are not directly related to any bond issue, however are recorded in anticipation of future liabilities.

The City has entered into several construction contracts in the various funds, which were not completed at year-end. To account for these commitments, the City reserves a portion of fund balance in the appropriate governmental fund. In the proprietary funds, the City internally designates a portion of net position.

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. This includes long-term debt related interest subsidies provided by the Federal Government that may be reduced through sequestrations.

The Sullivan County Economic Development Partnership (SCEDP), (also known as NETWORKS), acquired considerable acreage near Tri-Cities Regional Airport for the purpose of establishing an industrial park. The related debt liabilities for SCEDP are reflected in the financial statements of Sullivan County, Tennessee government. In April 2005, \$1,995,000 in capital outlay notes was issued, of which, the City is contingently liable for 31%. In July 2007, \$6,500,000 in industrial park revenue bonds was issued, of which the City is contingently liable for 31%. In March 2015, \$6,265,000 in industrial park refunding bonds was issued, of which, the City is contingently liable for 31%. The capital outlay notes and the bonds are secured by the assignment of revenue derived from property sales in the industrial park. The SCEDP is responsible for making the bond payments, funded primarily from the sale of land in the industrial park. In the event that SCEDP is financially unable to repay these debt issues, the City is responsible for a 31% portion of the debt. During fiscal year 2016, total revenue from property sales in the industrial park was \$439,994 with \$136,398 representing the City's 31% proportionate share of the proceeds. This amount was not sufficient for the SCEDP to make the total amount of the annual debt service payments at their time of maturity. Therefore, the City recorded an expenditure of \$181,871 for the repayment of the associated debt principal and interest. As of June 30, 2016, a total of \$6,555,000 of principal debt was outstanding, with \$2,032,050 representing the City's 31% contingent share.

Sullivan County, Tennessee and The Sullivan County Board of Education as Plaintiffs ("Plaintiffs") filed Civil Action No. K0039409(c) on May 5, 2014 against the City as Defendant in the Chancery Court for Sullivan County, Tennessee. The lawsuit concerns the interpretation and application of Tennessee Code Annotated Section 57-4-306, which requires that a portion of the proceeds from the liquor by the drink tax paid to the City by the State "be expended and distributed in the same manner as the county property tax for schools is expended and distributed. Plaintiffs allege they are due unpaid liquor by the drink taxes from the City for the period from 1980 to 2014 and have demanded \$1,340,037 or the full amount of the unremitted tax revenues plus pre-judgment interest. The City denies any liability. The Tennessee Attorney General opined in 1980 that the statute in question does not apply to counties that have not authorized liquor by the drink, followed by an opinion in 1981 indicating the statute does not apply to municipalities that operate their own school system. Sullivan County has not authorized liquor by the drink and the City operates its own school system. Similar lawsuits have been filed against several municipalities in Tennessee. In 2014 the Tennessee legislature enacted legislation permitting the settlement of such lawsuits by counties and

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

B. Contingencies (continued)

Primary government (continued)

municipalities on mutual agreeable terms. In February 2016, the Sullivan County Chancery Court dismissed the suit in favor of the City, however Sullivan County voted to appeal the ruling. In an answer to the dismissal, a "motion to alter or amend" was filed by the Sullivan County Attorney in September 2016, with the Court again ruling in favor of the City. A subsequent appeal has been filed by Sullivan County to the Tennessee Eastern Division Court of Appeals. At this time, it is impossible to predict the outcome of this litigation.

On February 17, 2015, a complaint was filed which was captioned, Travis Scott Dishner v. City of Kingsport, et al. In addition to the City, various police officers are named as defendants. The case, filed in the United States District Court for the Eastern District of Tennessee as case number C2:15-cv-0047-JRG-DHI, alleges violation of the civil rights of the plaintiff, assault and battery, and outrageous conduct and infliction of emotional distress during an altercation with police at a drug "sting." The City has filed an answer denying any liability and it will vigorously defend itself and its officers. The complaint seeks \$1,000,000.00 in compensatory damages and \$500,000 in punitive damages. The case is in the discovery phase. It is impossible to predict the outcome of this litigation at this time.

On September 18, 2015, a lawsuit was filed which was captioned, Honaker, Judy on behalf of deceased spouse, Benjamin McDowell Honaker v. City, Safis and Glover. The case alleges a civil rights violation and gross neglect against the City and two police officers when the deceased was arrested on September 19, 2014 for DUI, and died while incarcerated in the City jail on September 20, 2014. The lawsuit includes a request for prayer for relief of \$1,000,000.00. The case is in the discovery phase. The City is prepared to vigorously, defend its actions in this matter. It is impossible to predict the outcome of this litigation at this time.

The City has coverage through the Tennessee Municipal League Risk Management Pool for compensatory damages for civil rights claims up to \$5,000,000. Ultimately, the City pays for this coverage, as it is self-insured through this risk pool. This coverage for its employees is for damages arising out of the performance of official duties. The charter of the City provides the following pertaining to coverage for its employees:

Whenever any elected official or employee of the City of Kingsport shall be sued for damages arising out of the performance of his official duties and while engaged in the course of his employment or discharge or attempted discharge of his official duties in his employment, the City of Kingsport shall be authorized and required to provide defense counsel for such elected official or employee in such suit and to indemnify him from any judgment rendered against him in such suit; provided, however, that such indemnity shall not extend to any judgment for punitive damages or for damages arising out of any willful wrongdoing by said elected official or employee and provided, further, that such municipal corporation or other political subdivision shall have notice of such suit.

The City of Kingsport is authorized to contract at governmental expense for policies of liability insurance to protect elected officials and employees in the course of their employment.

There is no coverage for punitive damages or intentional torts. Generally, the City has governmental immunity from intentional torts. For certain types of actions, immunity is waived, including certain negligent acts of its employees. The amount of damages that are recoverable are limited as set out in the Tennessee Governmental Tort Liability Act. The limits are \$300,000 for bodily injury or death of any one (1) person in any one (1) accident, occurrence, or act, and up to \$700,000 for bodily injury or death of all persons in any one (1) accident, occurrence, or act, and \$100,000 for injury or destruction of property of others in any one (1) accident, occurrence, or act.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

B. Contingencies (continued)

Component Unit – Industrial Development Board

In July 2011 the Industrial Development Board of the City of Kingsport (IDBK) entered into a loan agreement with a local bank in the amount of \$3,500,000. The loan was used to purchase an industrial use facility near the Tri-Cities Regional Airport. In turn, the property was leased to C&F Manufacturing. In the event the manufacturing company fails to make lease payments, IDBK is required to fund the loan payments from other resources. The City and Sullivan County entered into agreements to support this project and share in a contingent liability, should the IDBK default on the loan. On October 7, 2014 the IDBK terminated the lease with C & F Manufacturing. Under the terms of their respective funding agreements, the City and the County each will pay to IDBK 50.0% of the amount necessary to make the debt service payments required under the terms of the loan agreement. In fiscal year 2016, the City's recorded an expenditure of \$74,845 to the IDBK for payment of the debt service on the loan. Future obligations may be as much as \$136,000 annually for up to 16 years. At June 30, 2016, the balance on the loan is \$3,090,304. The IDBK is in the process of marketing the property. Proceeds from the sale or lease of the facility, in excess of the amount needed to satisfy the outstanding principal balance and accrued interest of the loan, will be used to repay the City and the County for any amounts paid pursuant to the funding agreements.

In September 2012, the IDBK purchased real property located on West Sullivan Street and Clinchfield Streets within the City, known as the Bray Property. The purpose of this purchase is for future economic development, which will involve a significant quantity of residential housing units being constructed in the downtown area of the City. The IDBK purchased the property with proceeds from a \$1,785,000 loan, to be repaid in five years with an interest rate of 2.9%. The net rental income derived from existing leases and rental agreements currently on the property is sufficient to pay accrued interest on the loan and IDBK will use such income to service the loan. As portions of the property are sold, IDBK will use the proceeds from the sales to reduce the principal balance outstanding on the loan. In the event net rental income from leases and rental agreements on the property, and the sale of part or all of the property, is not sufficient to cover the annual interest portion of the debt service on the loan, the City has approved an agreement with the IDBK to provide an annual contribution to the IDBK in an amount up to the required annual debt service interest on the loan, which is \$52,587. A contingent liability exists should the IDBK default on the loan.

On December 6, 2012, the IDBK entered into an agreement with a developer, Stewart Taylor, for the purpose of developing property known as the Heritage Point Property to attract an extraordinary retail facility to locate on the property. The property is part of a 400 acre area located within the City's Border Region Retail Tourism Development District. The terms of the agreement grant the IDBK the exclusive right and option to purchase a specific section of the property for an option price of \$1 and a purchase price for the property of \$5,950,000. Upon receiving a firm written commitment from a "trigger tenant" retailer, the IDBK shall exercise its option to purchase the property contingent on the developer performing and advancing the funds necessary to prepare the property for development. The IDBK would then issue in the form of a bond or note to the developer, the purchase price and site development costs, payable within 4 years from the date of conveyance of the property at an interest rate of 4% per annum. The purchase price, site development costs, and interest shall be paid from the State sales and use tax incremental proceeds generated by the "trigger tenant" and any other retail facilities located within the district, and distributed to the City. The maximum site preparation costs for the entire Heritage Point Property development, payable to the developer by the IDBK, shall not exceed \$24,873,207, nor shall the IDBK be obligated to repay the developer for site preparation costs in the event the incremental increase in State sales and use tax proceeds distributed to the City, are not sufficient for this purpose. The City, by resolution number 2013-095 dated December 7, 2012, delegated the IDBK the statutory authority to carry out the project in the Border Region Retail Tourism Development District.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

B. Contingencies (continued)

Component Unit – Industrial Development Board (continued)

On December 27, 2013, The IDBK borrowed \$4,000,000 at an interest rate of 3.0%, with an even year term in order to purchase and develop certain property known as the General Shale Property. Consisting of approximately 98 acres, this property will be used to provide for future economic development opportunities and construct the City's Brickyard Park. By resolution adopted on December 17, 2013, the City and IDBK entered into an agreement wherein proceeds from the sale of all or any portion of the property would be applied toward the retirement of the principal loan balance. To support IDBK's acquisition of the property and to assure its ability to pay the loan, the City also agreed to make certain semi-annual contributions up to \$60,000 each to the IDBK as economic development contributions for a period up to seven years, beginning in fiscal year 2014. The first such semi-annual contribution was made on or before June 1, 2014. Subsequent contributions will be made, on or before each December 1 and June 1, through December 1, 2020. IDBK agreed to use such contributions to pay interest payments due on the loan in the event net proceeds realized from the lease of all or any portion of the property are insufficient to pay such interest. During fiscal year 2016, the City recorded the expenditure of \$85,940 to the IDBK for loan interest payments. In the event a principal balance remains outstanding upon final maturity, the City agrees to: (1) purchase the property from the IDBK for a purchase price equal to the outstanding principal and accrued interest owed on the loan; or (2) provide an economic development contribution to IDBK in an amount sufficient to pay the outstanding principal and accrued interest owed on the loan. In either event, IDBK agrees to use such funds to retire any remaining balance on the loan in full.

In May 2014, the IDBK obtained a \$2,600,000 loan to purchase a glass manufacturing facility from AGC Glass. The loan carried a rate of 3.95%. Principal and interest were payable monthly over 15 years. The City became contingently liable for the loan through a contribution agreement with IDBK, previously approved by the BMA in April 2014. The facility was leased to a glass manufacturer, Heritage Glass, which in the spring of 2015 suspended operations and defaulted under the lease. The monthly lease payments covered the principal and interest on the loan. As a result, of the lease default by Heritage Glass, IDBK modified the terms of the loan whereby the lender agreed to accept interest only payments through December 31, 2015. In the spring of 2016, the IDBK successfully recruited and negotiated a lease agreement with a new glass manufacturer, EnviraGlass, LLC, to begin operations at the facility. In May 2016, the City's BMA approved an amendment to the IDBK contribution agreement providing for a maximum contribution amount of \$3,873,839. This allowed IDBK to obtain a subsequent loan, with the proceeds used to retire the existing loan and make improvements to the facility. The new loan amount was for \$2,675,000, with a rate of interest of 3.95% fixed, and payable in monthly installments over 20 years. The new glass manufacturer, EnviraGlass, entered into a lease agreement with IDBK for use of the facility. Monthly rental payments under the agreement with EnviraGlass were sufficient to pay principal and interest on the loan. Monthly loan payments were initiated by IDBK in July 2016.

On May 15, 2015, the IDBK closed on a loan totaling \$6,540,000 in order to purchase approximately 33.75 acres and to construct an industrial building for lease to Pure Foods, Inc. Interest on the loan accrues on the outstanding principal balance during the period May 15, 2015 through November 14, 2017, at a rate per annum equal to the LIBOR Rate plus ninety-nine basis points (.99). During the period November 15, 2017 through the maturity date of May 15, 2025, interest will accrue under the loan at a fixed rate of 3.89% per annum. On March 18, 2015, the City entered into an agreement with IDBK to provide economic development contributions as needed, during the 10 year term of the loan, in order to: support IDBK's acquisition and improvement of the property; to make the debt service payments under the loan, after application of the net rental income from the lease with Pure Foods, Inc.; and to make debt service payments for any other leases and rental agreements on the property. IDBK will use all net rental income received from the leases and rental agreements on the property, and all net proceeds realized from the sale of all or any portion of the property, to pay the accrued interest and debt service payments due under the loan. In the event any indebtedness remains outstanding under the loan at the maturity date, the City shall: (1) purchase the property from IDBK for a purchase price equal to the outstanding loan amount, or (2) provide an economic development contribution to IDBK sufficient to pay the outstanding indebtedness on the loan.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans

Defined Benefit Pension Plan – City of Kingsport

Plan description

Employees of the City of Kingsport are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The City elected to close participation in this plan to new membership effective June 30, 2012, but the plan will continue providing benefits to existing members and retirees. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average of compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. The City has adopted a mandatory retirement provision at age 60 for eligible public safety officers (fire and police) and at age 62 for eligible public safety officers in administrative-type positions. Under this mandatory provision, public safety officers who are members of the TCRS plan, receive a supplemental bridge benefit which is payable at the beginning of the mandatory retirement age and ends when reaching eligibility for benefits under Title II of the Federal Social Security Act. The supplemental bridge benefit is equal to .75 percent of the member's average final compensation multiplied by the member's years of public safety service established in the TCRS plan. A variety of death benefits are available under various eligibility criteria for all members in the TCRS plan.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	804
Inactive employees entitled to but not yet receiving benefits	822
Active employees	816
	<u>2442</u>

Effective July 1, 2012, the plan was closed to new entrants.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – City of Kingsport (continued)

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees hired before October 1, 2010 are non-contributory members in the plan and make no employee contributions to the plan. Employees hired from October 1, 2010 thru June 30, 2012 are contributory members in the plan and contribute 5 percent of salary. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation.

For the year ended, June 30, 2015, the Actuarially Determined Contribution (ADC) for the City was \$5,677,773 based on an aggregate employer rate of 16.91 percent of covered payroll. In practice, separate rates are applied to general employees and public safety officers (fire and police). The employer rate for general employees was 15.89 percent and the employer rate for public safety officers was 19.39 percent. By law, employer contributions are required to be paid. The TCRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net pension liability

The City's net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – City of Kingsport (continued)

Actuarial assumptions (continued)

developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – City of Kingsport (continued)

Changes in the net pension liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 6/30/14	\$ 191,467,246	\$ 168,923,565	\$ 22,543,681
Changes for the year:			
Service Cost	2,928,686	0	2,928,686
Interest	14,225,977	0	14,225,977
Differences between expected and actual experience	1,727,975	0	1,727,975
Contributions by employer	0	5,677,773	(5,677,773)
Contributions by employees	0	138,269	(138,269)
Net Investment income	0	5,146,329	(5,146,329)
Benefit payments, including refunds of employee contributions	(9,432,488)	(9,432,488)	0
Administrative expense	0	(43,337)	43,337
Net Changes	<u>9,450,150</u>	<u>1,486,546</u>	<u>7,963,604</u>
Balance at 6/30/15	<u>\$ 200,917,396</u>	<u>\$ 170,410,111</u>	<u>\$ 30,507,285</u>

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's Net Pension Liability	<u>\$ 56,742,430</u>	<u>\$ 30,507,285</u>	<u>\$ 8,661,869</u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

Pension expense

For the year ended June 30, 2016, the City recognized pension expense of \$3,019,433.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – City of Kingsport (continued)

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,382,380	\$ 2,723,641
Net difference between projected and actual earning on pension plan investments	5,908,558	7,950,289
Contributions subsequent to the measurement date June 30, 2015	<u>5,449,198</u>	<u>(not applicable)</u>
	<u><u>\$ 12,740,136</u></u>	<u><u>\$ 10,673,930</u></u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015", will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30th:

2017	\$ (1,508,272)
2018	(1,508,272)
2019	(1,508,272)
2020	1,141,824
2021	0
Thereafter	0

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the pension plan

At June 30, 2016, the City reported a payable of \$444,017 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Contribution Plan – City of Kingsport

Plan description

Employees of the City hired on or after July 1, 2012 are participants in a Governmental Money Purchase Plan and Trust known as the City of Kingsport Defined Contribution Retirement Plan. The qualified plan is established under Internal Revenue Codes 401(a) and 457(b) and is administered by the International City/County Management Association Retirement Corporation (ICMA-RC). Investment decisions on contributions to the plan are controlled by the employee participant. In-service distributions are not permitted under the plan at any age. Employee contributions are immediately 100% vested to the participant. Employer contributions made by the City are subject to a graduated vesting schedule based upon the employee's completed years of service with the City as follows: 1 year – 0% vested; 2 years – 20% vested; 3 years – 40% vested; 4 years – 60% vested; 5 years – 80% vested; 6 years – 100% vested. The plan's provisions may be amended at the discretion of the City's BMA, by resolution and subject to applicable federal laws governing such plans.

Contributions

A mandatory employee contribution equal to 5% of compensation is required from each participant. An employer matching contribution equal to 5% of the employee's compensation is currently made by the City. Employees may make voluntary contributions to the plan up to the Internal Revenue Service code annual maximum. Voluntary contributions made by the employee receive an equal matching contribution made by the City, which is currently up to a maximum of 3%. Contribution requirements may be amended at the discretion of the City's BMA, by resolution and subject to applicable federal laws governing such plans. During the year ended June 30, 2016, \$29,371 in non-vested employer contributions was forfeited and returned to the plan due to employee terminations and will be used to offset future employer contributions to the plan. Total contributions for the year ended June 30, 2016 were \$862,803 and consisted of \$426,109 made by the City and \$436,694 made by employees.

Defined Benefit Pension Plan – Teacher Legacy Pension Plan - Kingsport City Schools

Plan description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Kingsport City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Legacy Pension Plan - Kingsport City Schools (continued)

Benefits provided (continued)

service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contribution, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Kingsport City Schools for the year ended June 30, 2016 to the Teacher Legacy Pension Plan were \$2,855,179, which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net pension liability

At June 30, 2016, the Kingsport City Schools reported a liability of \$350,455 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Kingsport City Schools' proportion of the net pension liability was based on Kingsport City Schools' share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015, Kingsport City Schools' proportion was 0.855531 percent. The proportion measured as of June 30, 2014 was 0.830833 percent.

Negative pension expense

For the year ended June 30, 2016, Kingsport City Schools recognized negative pension expense of \$209,105.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Legacy Pension Plan - Kingsport City Schools (continued)

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2016, Kingsport City Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 281,254	\$ 5,454,878
Net difference between projected and actual earnings on pension plan investments	6,328,113	8,590,757
Changes in proportion of Net Pension Liability (Asset)	433,834	0
Kingsport City Schools contributions subsequent to the measurement date of June 30, 2014	<u>2,855,179</u>	<u>(not applicable)</u>
	<u><u>\$ 9,898,380</u></u>	<u><u>\$ 14,045,635</u></u>

Kingsport City Schools employer contributions of \$2,855,179, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30th:

2017	\$ (2,229,515)
2018	(2,229,515)
2019	(2,229,515)
2020	634,070
2021	(947,958)
Thereafter	0

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Legacy Pension Plan - Kingsport City Schools (continued)

Actuarial assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study and performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that utilized as a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Legacy Pension Plan - Kingsport City Schools (continued)

Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate

The following presents Kingsport City Schools' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Kingsport City Schools' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Kingsport City Schools' proportionate share of the net pension liability (asset)	<u>\$ 23,892,813</u>	<u>\$ 350,455</u>	<u>\$ (19,139,842)</u>

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the pension plan

At June 30, 2016, Kingsport City Schools reported a payable of \$511,061 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Retirement Plan - Kingsport City Schools

Plan description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Kingsport City Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency is the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested pursuant to the rule of 80. Members are vested with five years of service credit. Service related to disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls, and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Kingsport City Schools for the year ended June 30, 2016 to the Teacher Retirement Plan were \$99,167, which is 4 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Retirement Plan - Kingsport City Schools (continued)

Pension liabilities (assets)

At June 30, 2016, Kingsport City Schools reported an asset of \$16,828 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial value as of that date. Kingsport City Schools' proportion of the net pension asset was based on Kingsport City Schools' share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015 Kingsport City Schools' proportion was 0.418304 percent.

Pension Expense

For the year ended June 30, 2016, Kingsport City Schools recognized pension expense of \$22,054.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2016, Kingsport City Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 0	\$ 5,477
Net difference between projected and actual earnings on pension plan investments	1,360	0
Kingsport City Schools contributions subsequent to the measurement date of June 30, 2015	<u>99,167</u>	<u>(not applicable)</u>
	<u><u>\$ 100,527</u></u>	<u><u>\$ 5,477</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Retirement Plan - Kingsport City Schools (continued)

Deferred outflows of resources and deferred inflows of resources (continued)

Kingsport City Schools' employer contributions of \$99,167 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30th:

2017	\$ (116)
2018	(116)
2019	(116)
2020	(116)
2021	(456)
Thereafter	(3,195)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Actuarial assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study and performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Retirement Plan - Kingsport City Schools (continued)

Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that utilized as a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

C. Retirement Plans (continued)

Defined Benefit Pension Plan – Teacher Retirement Plan - Kingsport City Schools (continued)

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate

The following presents Kingsport City Schools' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Kingsport City Schools' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Kingsport City Schools' proportionate share of the net pension liability (asset)	<u>\$ 2,984</u>	<u>\$ (16,828)</u>	<u>\$ (31,359)</u>

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the pension plan

At June 30, 2016, Kingsport City Schools reported a payable of \$19,439 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

Defined Contribution Plan – Kingsport City Schools

Plan description

As previously described, teachers of the Kingsport City Schools hired on or after July 1, 2014 are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost sharing multiple-employer defined benefit pension plan administered by the TCRS. In addition to this defined benefit plan, teachers hired on or after July 1, 2014 are required to participate in a separately managed defined contribution plan referred to as the State of Tennessee 401(k) Deferred Compensation Program, administered by Great West Financial. The teacher participant controls investment decisions on contributions to the plan. Teachers are immediately 100% vested in the plan.

Contributions

An employer contribution equal to 5% of the teacher's compensation is made by the Kingsport City Schools. Teachers are automatically enrolled in the plan when hired with an employee contribution rate of 2 percent. Teachers have the ability to opt out of employee contribution portion within 30 days of hire date. Teachers may make voluntary contributions to the plan up to the Internal Revenue Service code annual maximum. Total contributions for the year ended June 30, 2016 were \$185,535 and consisted of \$118,874 made by the Kingsport City Schools and \$66,661 made by teachers.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB)

Postemployment Health and Life Insurance Plans – City of Kingsport

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.

Plan description

The City provides postemployment health insurance and life insurance benefits for certain eligible retired full-time employees under a single-employer defined benefit plan. The pre-65 health plans are self-insured while post-65 health plans are fully insured. Eligible employees are classified in one of two categories:

Category I: Employees hired prior to June 1, 2007 are eligible to receive retiree health benefits once they meet the following requirements: (1) Age 55 with a minimum of five years of service with the City or 25 years of service with the City and (2) Receiving benefits through TCRS immediately upon separation from service with the City and must have been enrolled in the City's offered health insurance plan as an active full time employee at the date of retirement.

Category II: Employees hired on or after June 1, 2007, are eligible to receive retiree health benefits once they meet the following requirements: (1) Age 55 with a minimum of 25 years of service with the City and have been enrolled in the City's offered health insurance plan for a minimum of three years immediately prior to retirement or have 30 years of service with the City and enrolled in the City's offered health insurance plan for a minimum of one full year immediately prior to retirement, and. (2) Receiving benefits through TCRS or has retired from the City and participated in a non-TCRS retirement plan upon separation from service with the City.

Spouses of retirees and surviving spouses of Category I retirees are allowed to remain on the plan until age 65. They are responsible for 100% of the premium. Public Safety employees (fire and police) hired prior to July 1, 2012 are held to a mandatory retirement requirement at age 60. Those with more than 50% of job duties in administrative or supervisory capacity are held to a mandatory retirement requirement at age 62. The Department Head (Chief) is exempt from any mandatory retirement provision.

Employees who retired on or before June 30, 2010 and continued on the City's health insurance plan as listed above are eligible for the City funded post-Medicare coverage when they reach 65 years of age. Employees retiring on or after July 1, 2010 are not eligible for the City funded post-Medicare coverage. The City provides the Medicare Advantage plan for retirees prior to July 1, 2010 and pays the premium for this coverage with a cap of \$85. Since January 2011, the Medicare Advantage plan has been a zero premium plan. The OPEB valuation assumes the plan will continue to be a zero premium with the City having no contribution requirement.

All retirees of the City of Kingsport are eligible for a life insurance benefit. The City's life insurance benefit is based upon 25% of final annual compensation and remains in effect until death. Policy premiums are paid for by the City.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – City of Kingsport (continued)

Plan Description (continued)

The number of active and retired employee participants as of the last full actuarial valuation date of June 30, 2015 was as follows.

Active employees - health & life insurance benefits	612
Active employees - life insurance benefit only	96
Retired employees - health & life insurance benefits	162
Retired employees - life insurance benefit only	<u>149</u>
 Total	 <u><u>1,019</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) as of end of year	\$ 1,826,908
Interest on the Net OPEB Obligation (NOO) to end of year	676,415
NOO Amortization Adjustment to the ARC	<u>(542,106)</u>
Annual OPEB Cost	1,961,217
Annual Employer Contribution for pay-as-you-go cost	(468,295)
Annual Employer Contribution for pre-funding	<u>0</u>
Change in NOO	1,492,922
NOO as of Beginning of Year	<u>13,528,307</u>
NOO as of end of year	<u><u>\$ 15,021,229</u></u>

Year End*	Plan	Annual OPEB Cost	Percentage OPEB Cost Contributed	Net OPEB Obligation at Year End
06/30/16	City Retiree	\$ 1,961,217	25.63%	\$ 15,021,229
06/30/15	City Retiree	1,858,603	41.45%	13,528,307
06/30/14	City Retiree	1,956,061	44.54%	12,388,944
06/30/13	City Retiree	2,029,501	35.00%	11,254,354
06/30/12	City Retiree	2,562,314	32.00%	9,936,937
06/30/11	City Retiree	2,422,409	20.00%	8,203,478
06/30/10	City Retiree	2,581,342	47.00%	6,272,246
06/30/09	City Retiree	3,292,208	27.00%	4,906,010
06/30/08	City Retiree	3,166,263	20.00%	2,518,897

*Data not available for the 2007 year.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – City of Kingsport (continued)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015 and the immediate two years prior was as follows:

	City of Kingsport Retiree Plan FY 2015-16	City of Kingsport Retiree Plan FY 2014-15	City of Kingsport Retiree Plan FY 2013-14
Actuarial valuation date	07/01/15	07/01/14	07/01/13
Actuarial accrued liability (AAL) as of beginning of year	\$ 21,829,468	\$ 20,682,464	\$ 23,012,654
Actuarial value of assets as of beginning of year	0	0	0
Unfunded actuarial accrued liability (UAAL)	21,829,468	20,682,464	23,012,654
Covered payroll (active plan members)	30,794,328	29,609,931	30,020,389
UAAL as a percentage of covered payroll	70.89%	69.85%	76.66%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. These 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 and employer contributions for the retiree health plan, 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

The actuarial assumptions used represent a reasonable long-term expectation of future OPEB outcomes. As national economic and City experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

For the fiscal year 2016 OPEB, an interim actuarial valuation was performed. Per capita costs have been updated. Health care trend rates and per capita costs are expected to be updated again in the next full OPEB valuation, which will be for the fiscal year ending June 30, 2017.

Measurement Date	June 30, 2016
Discount Rate	5.00%
Payroll Growth	4.00% per year
Inflation Rate	3.00% per year
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level % of pay over thirty years based on an open group
Census Data	As of July 2015

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – City of Kingsport (continued)

Actuarial Methods and Assumptions (continued)

Health Care Coverage Election Rate	<p>Active employees with current coverage: 85%</p> <p>Active employees with no coverage: 0%</p> <p>Retired employees with current coverage: 100%</p> <p>Retired employees with no coverage: 0%</p>			
Spousal Coverage	Based on actual data for retirees. 80% of current actives are assumed to have spousal coverage at retirement. Husbands are assumed to be three years older than wives			
Employer Funding Policy	Pay-as-you-go basis			
Mortality	SOA RPH-2014 Total Dataset Mortality Table fully generational using Scale MP-2014			
Disability	None			
Turnover Rate	Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. Rates represent the probability of termination in the next 12 months and are based on the City's Experience Study conducted as of August 2015			
Retirement Rate	Annual rates of retirement are based on the City's Experience Study conducted as of August 2015. Retirees with less than 5 years of service at age 65 are assumed to retire with no benefit			
Health Care Trend Rates	<u>FYE</u>	<u>Rate</u>	<u>FYE</u>	<u>Rate</u>
	2017	8.5%	2021	6.5%
	2018	8.0%	2022	6.0%
	2019	7.5%	2023	5.5%
	2020	7.0%	2024+	5.0%
Retiree Contributions	Retiree contributions are assumed to increase according to health care trend rates. All retirees are assumed to qualify for the wellness rate			
Per Capita Costs	Annual per capita costs were calculated based on City paid claims experience for the 12-month period ending June 30, 2016 plus administrative expenses, actuarially increased using health index factors and current enrollment. The costs are assumed to increase with health care trend rates			
Explicit Subsidy	The difference between the premium rate and the retiree contribution			
Implicit Subsidy	The difference between the per capita cost and the premium rate			

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – Kingsport City Schools

Plan description

The Kingsport City Schools (KCS) provide postemployment health insurance and life insurance benefits for certain eligible retired full-time employees under a single-employer defined benefit plan. The health plan is self-insured and experience rated. Retirees, their dependents, and survivors are eligible to remain on the plan until age 65. All employees must have been enrolled in KCS's offered health insurance plan as an active full-time employee at the date of retirement.

For individuals retired and participating in the Tennessee Consolidated Retirement System (TCRS), one of the following conditions must be met for continuation in the health insurance plan:

- (i) The retiree must have at least 10 years of employment with KCS, with 3 continuous years of insurance coverage in the plan immediately prior to final termination for retirement; or
- (ii) The retiree with 20 or more total years of employment with KCS, with one year of insurance coverage in the plan immediately prior to final termination for retirement. For such retirees, the period of time between the employee's final termination date and the date retirement benefits commence (retirement date) may be up to 5 years in length. If more than 5 years, retirees, and eligible dependents would have to meet the late applicant requirements of the plan before becoming insured.

Employees who participate in a retirement program sponsored by a participating local education agency other than TCRS, must meet one of the following conditions to continue insurance coverage under the plan:

- (a) Attainment of age 55 and 20 or more total years of employment with KCS, with one year of insurance coverage in the plan immediately prior to final termination unless they satisfy one or more of the late applicant requirements in the plan. For such retirees, the time between the employee's final termination date and attainment of age 55 may be up to 5 years in length; or
- (b) Attainment of age 55 at final termination or at least 10 but less than 20, total years of employment with KCS, with 3 continuous years of insurance coverage in the plan immediately prior to final termination unless they satisfy one or more of the late applicant requirements in the plan, or
- (c) 25 years of employment with KCS, with one year of insurance coverage in the plan immediately prior to final termination unless they satisfy one or more of the late applicant requirements in the plan.

School board members are eligible to continue their coverage at the time of retirement as long as they meet the eligibility guidelines. To be eligible to continue insurance at retirement, the school board member must have at least 20 years of service as a member of the KCS school board, must be age 55 and be enrolled in the plan for one full year of coverage immediately prior to retirement or 30 years of service as a member of the KCS school board and at least one full year of coverage on the plan immediately prior to retirement. School board members are required to pay the entire monthly premium.

All retirees of the KCS are eligible for a life insurance benefit. The life insurance benefit is based upon 25% of final annual compensation and remains in effect until death. Policy premiums are paid for by KCS.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – Kingsport City Schools (continued)

Plan description (continued)

The number of active and retired employee participants as of the last full actuarial valuation date of June 30, 2015 was as follows.

Active employees - health & life insurance benefits	706
Active employees - life insurance benefit only	245
Retired employees - health & life insurance benefits	100
Retired employees - life insurance benefit only	<u>518</u>
 Total	 <u><u>1,569</u></u>

Special Funding Situation

The state is legally responsible for contributions to the State Teacher Group and Medicare Supplement Plans that cover the retirees of other governmental entities. The state provided a subsidy for retired teachers who participated in the plans. The state is not the sole employer for the LEA employees since some of these agencies provide additional direct subsidies and all provide implicit subsidies.

Funding policy

The premium requirements of plan members are established and may be amended by the KCS Board of Education. 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>Kingsport City Schools Retiree Plan</u>
Annual Required Contribution (ARC) as of end of year	\$ 2,465,857
Interest on the Net OPEB Obligation (NOO) to end of year	602,155
NOO Amortization Adjustment to the ARC	<u>(482,591)</u>
 Annual OPEB Cost	 2,585,421
Annual Employer Contribution for pay-as-you-go cost	(1,344,014)
Annual Employer Contribution for pre-funding	<u>0</u>
 Change in NOO	 1,241,407
NOO as of Beginning of Year	<u>12,043,095</u>
 NOO as of end of year	 <u><u>\$ 13,284,502</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – Kingsport City Schools (continued)

Funding policy (continued)

Year End	Plan	Annual OPEB Cost	Percentage OPEB Cost Contributed	Net OPEB Obligation at Year End
06/30/16	KCS Retiree	\$ 2,585,421	54.50%	\$ 13,284,502
06/30/15	KCS Retiree	2,477,290	52.03%	12,043,095
06/30/14	State Teacher Group	1,511,954	25.00%	10,798,845
06/30/13	State Teacher Group	1,912,941	21.00%	9,660,477
06/30/12	State Teacher Group	2,021,793	19.00%	8,156,792
06/30/11	State Teacher Group	1,992,215	20.00%	6,527,534
06/30/10	State Teacher Group	2,055,663	17.00%	4,932,899
06/30/09	State Teacher Group	1,992,895	17.00%	3,233,246
06/30/08	State Teacher Group	1,900,000	17.00%	1,575,446

*Data not available for the fiscal year ending 06/30/07

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Medicare Supplement Plan</u>
Annual Required Contribution (ARC) as of end of year (1)	\$ 2,906,000
Interest on the Net OPEB Obligation (NOO) to end of year	648,079
NOO Amortization Adjustment to the ARC	<u>(610,014)</u>
Annual OPEB Cost	2,944,065
Annual Employer Contribution for pay-as-you-go cost	(320,019)
Annual Employer Contribution for pre-funding	<u>0</u>
Change in NOO	2,624,046
NOO as of Beginning of Year	<u>16,201,966</u>
NOO as of end of year	<u><u>\$ 18,826,012</u></u>

Year End	Plan	Annual OPEB Cost	Percentage OPEB Cost Contributed	Net OPEB Obligation at Year End
06/30/16	Medicare Supplement Plan	\$ 2,944,065	11.01%	\$ 18,826,012
06/30/15	Medicare Supplement Plan	2,920,015	11.01%	16,201,966
06/30/14	Medicare Supplement Plan	2,816,431	11.00%	13,601,970
06/30/13	Medicare Supplement Plan	2,085,190	13.00%	11,094,436
06/30/12	Medicare Supplement Plan	2,206,865	11.00%	9,275,049
06/30/11	Medicare Supplement Plan	2,013,969	11.00%	7,311,881
06/30/10	Medicare Supplement Plan	2,079,538	10.00%	5,518,188
06/30/09	Medicare Supplement Plan	2,033,125	10.00%	3,650,763
06/30/08	Medicare Supplement Plan	1,928,000	6.00%	1,815,000

*Data not available for the fiscal year ending 06/30/07

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – Kingsport City Schools (continued)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015 and the immediate two years prior was as follows:

	Kingsport City Schools Retiree Plan FY 2015-16	Kingsport City Schools Retiree Plan FY 2014-15	State Teacher Group Plan FY 2013-14
Actuarial valuation date	07/01/15	07/01/14	07/01/13
Actuarial accrued liability (AAL) as of beginning of year	\$ 24,335,937	\$ 23,268,269	\$ 13,210,000
Actuarial value of assets as of beginning of year	0	0	0
Unfunded actuarial accrued liability (UAAL)	24,335,937	23,268,269	13,210,000
Covered payroll (active plan members)	43,335,770	41,669,010	25,898,037
UAAL as a percentage of covered payroll	56.16%	55.84%	51.01%

	Medicare Supplement Plan FY 2015-16	Medicare Supplement Plan FY 2014-15	Medicare Supplement Plan FY 2013-14
Actuarial valuation date	07/01/15	07/01/14	07/01/13
Actuarial accrued liability (AAL) as of beginning of year (1)	\$ 25,653,000	\$ 25,653,000	\$ 25,653,000
Actuarial value of assets as of beginning of year	0	0	0
Unfunded actuarial accrued liability (UAAL)	25,653,000	25,653,000	25,653,000

(1) Effective January 1, 2017, Kingsport City Schools current and future retirees will be covered under the Local Education Employee Group OPEB Plan through the State of Tennessee. Due to this change, the City of Kingsport has opted to disclose the same AAL and ARC as the FY 2015 reporting period.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. These 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 and employer contributions for the retiree health plan, 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

The actuarial assumptions used represent a reasonable long-term expectation of future OPEB outcomes. As national economic and KCS experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

Health care trend rates and per capita costs are expected to be updated again in the next full OPEB valuation, which will be for the fiscal year ending June 30, 2017.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – Kingsport City Schools (continued)

Actuarial Methods and Assumptions (continued)

Measurement Date	June 30, 2016																				
Discount Rate	5.00%																				
Payroll Growth	4.00% per year																				
Inflation Rate	3.00% per year																				
Cost Method	Projected Unit Credit with linear proration to decrement																				
Amortization	Level % of pay over thirty years based on an open group																				
Census Data	As of September 2015																				
Health Care Coverage Election Rate	Active employees with current coverage: 85% Active employees eligible for life insurance: 100% Active employees with no coverage: 0% Retired employees with current coverage: 100% Retired employees with current life insurance coverage: 100% Retired employees with no coverage or life insurance: 0%																				
Spousal Coverage	Based on actual data for actives and retirees Husbands are assumed to be three years older than wives																				
Employer Funding Policy	Pay-as-you-go basis																				
Mortality	SOA RPH-2014 Total Dataset Mortality Table fully generational using Scale MP-2014																				
Disability	None																				
Turnover Rate	Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. Rates represent the probability of termination in the next 12 months as used in the TCRS actuarial valuation as of July 1, 2013																				
Retirement Rate	Annual rates of retirement are based on the TCRS actuarial valuation as of July 1, 2013.																				
Health Care Trend Rates	<table><tr><td><u>FYE</u></td><td><u>Rate</u></td><td><u>FYE</u></td><td><u>Rate</u></td></tr><tr><td>2017</td><td>8.5%</td><td>2021</td><td>6.5%</td></tr><tr><td>2018</td><td>8.0%</td><td>2022</td><td>6.0%</td></tr><tr><td>2019</td><td>7.5%</td><td>2023</td><td>5.5%</td></tr><tr><td>2020</td><td>7.0%</td><td>2024+</td><td>5.0%</td></tr></table>	<u>FYE</u>	<u>Rate</u>	<u>FYE</u>	<u>Rate</u>	2017	8.5%	2021	6.5%	2018	8.0%	2022	6.0%	2019	7.5%	2023	5.5%	2020	7.0%	2024+	5.0%
<u>FYE</u>	<u>Rate</u>	<u>FYE</u>	<u>Rate</u>																		
2017	8.5%	2021	6.5%																		
2018	8.0%	2022	6.0%																		
2019	7.5%	2023	5.5%																		
2020	7.0%	2024+	5.0%																		
Retiree Contributions	Retiree contributions are assumed to increase according to health care trend rates.																				

**CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

5. OTHER INFORMATION (CONTINUED)

D. Other Postemployment Benefits (OPEB) (continued)

Postemployment Health and Life Insurance Plans – Kingsport City Schools (continued)

Actuarial Methods and Assumptions (continued)

Per Capita Costs	Annual per capita costs were calculated based on FY 2016 premium equivalent rates increased using health index factors and current enrollment. The costs are assumed to increase with health care trend rates
Explicit Subsidy	The difference between the premium rate and the retiree contribution
Implicit Subsidy	The difference between the per capita cost and the premium rate

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

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.

Medicare Supplement Plan

The State of Tennessee made contributions (on-behalf payments) for retired teachers who participated in the Medicare Supplement plan through the TCRS. For fiscal year 2016, on-behalf payments made by the State of Tennessee totaled, \$94,175, and have been recorded as revenue and expenditure in the general purpose school fund. During the year ended June 30, 2016, Kingsport City Schools contributed \$320,019 to the Medicare Supplement plan.

F. Economic dependency

A material portion of the City's property tax revenue is derived from one taxpayer, the loss of which would have a material effect on the City. During the tax years ended December 31, 2014 and 2015, the taxes assessed on the previously mentioned taxpayer, accounted for approximately 24% and 23% respectively, of the total property taxes assessed for each tax year.

G. Joint Ventures

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 party 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 party. No party 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 at June 30, 2016 is valued as follows:

Note Receivable from Phipps Bend Venture	\$ 499,216
20% interest in capital of Phipps Bend Joint Venture	<u>319,180</u>
Total Investment	<u><u>\$ 818,396</u></u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

G. Joint Ventures (continued)

Audited information for the Phipps Bend joint venture as of June 30, 2016 is as follows:

	<u>Phipps Bend Joint Venture</u>
Operating Revenues	\$ 3,500
Operating Expenses	(41,333)
Non Operating Revenues	30
Non Operating Expenses	0
Capital Contributions	
Principal and interest payments on loan by Hawkins County as guarantor	0
Accounting fees paid by Hawkins County	<u>5,000</u>
Change in Net Position	(32,803)
Net Position, July 1	<u>2,359,786</u>
Net Postion, June 30	<u><u>\$ 2,326,983</u></u>
 Total Assets	 \$ 3,787,026
Total Liabilities	<u>(1,460,043)</u>
 Total Net Position	 <u><u>\$ 2,326,983</u></u>

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

Phipps Bend Joint Venture
C/o Rebecca Baker
107 East Main Street, Suite 221
Rogersville, TN 37857

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

H. Jointly Governed Organization

Tri-Cities Airport Authority

The Tri-Cities Airport Authority, (the Airport) is jointly governed by representatives of Johnson City; Kingsport; Bristol, Tennessee; Bristol, Virginia and Washington and Sullivan Counties, Tennessee, and operates the Tri-Cities Regional Airport, TN/VA. 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 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 jointly governed organization may be obtained at the administrative offices of:

Tri-Cities Airport Authority
ATTN: Director of Finance
2525 Highway 75, Suite 301
Blountville, TN 37617

Audited information for the Tri-Cities Regional Airport Authority jointly governed organization as of June 30, 2016 is presented below:

	<u>Tri-Cities Airport Authority</u>
Operating Revenues	\$ 6,593,732
Operating Expenses	(6,177,281)
Depreciation	(4,827,993)
Non Operating Revenues	1,283,911
Non Operating Expenses	(58,735)
Capital Contributions	<u>6,495,422</u>
 Change in Net Position	 3,309,056
 Beginning Net Position, July 1	 <u>88,436,360</u>
 Net Position, June 30	 <u>\$ 91,745,416</u>
 Total Assets	 \$ 98,198,938
Total Deferred Outflows of Resources	324,738
Total Liabilities	(6,583,081)
Total Deferred Inflows of Resources	<u>(195,179)</u>
 Total Net Position	 <u>\$ 91,745,416</u>

CITY OF KINGSFORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

I. Subsequent Events

In July 2016, the City entered into an agreement with the Kingsport Housing & Redevelopment Authority (KHRA) to provide financial support to redevelop public housing facilities within the City. The estimated \$50,500,000 project will rehabilitate 378 existing public housing units and construct 51 replacement units. To support the financing of this project, the KHRA, or an entity formed by KHRA, will be applying for approximately \$17,000,000 of Low Income Housing Tax Credits. If the application is approved, the City has agreed to donate to KHRA up to a total of \$4,493,440, in annual amounts, beginning January 30, 2018, of \$224,672 over a twenty-year period, in support of this project, if needed. The total amount of the donation will be limited to the amount needed to complete the project or \$4,493,440, whichever is less. Funds donated to the KHRA that are not used on the project, will be returned to the City. Approval of the Low Income Tax Credit application is expected in January 2017. In October 2016, Pure Foods, Inc. announced a temporary suspension of operations at its Kingsport facility to allow the company to restructure its business and recapitalize. The 88,000 square-foot, state-of-the-art manufacturing facility, located inside the City, was built to produce nutrient-dense and reduced-fat snack foods for distribution in the United States, Canada, and Mexico. As previously mentioned, the City has a contingent liability associated with this manufacturing facility. The IDBK used proceeds from a bank loan to purchase the property and construct the facility. Lease payments by Pure Food, Inc. are used to repay the loan through the maturity date of May 2025. The City has a contribution agreement with the IDBK which provides for the repayment of the loan or purchase of the property by the City, should lease payments become insufficient to repay the loan. As of December 2016, lease payments made by Pure Foods, LLC remain sufficient to repay the IDBK loan.

As previously reported, the City has a contingent liability associated with the IDBK's purchase of a glass manufacturing facility operated by EnviraGlass, LLC. Effective September 1, 2016, EnviraGlass, LLC ceased paying rent payment to the IDBK, as the company terminated operations at the facility. The IDBK and the City are actively seeking a buyer for the property.

As previously reported, the City has a contingent liability associated with the IDBK's purchase of real property known as the Bray Property. On September 30, 2016 the IDBK executed a "termination of lease agreement" with a tenant of the property, Houchen Food Group, Inc., and paid a \$515,000 termination fee to the now, former tenant. Lease payments previously received from the tenant were used by the IDBK to repay the loan used to purchase the property.

On September 30, 2016, the IDBK closed on the purchase of real property located in the downtown area of Main Street in the city, from the Brooks Family Limited Partnership #3. The purchase price was \$510,000 and the property will be utilized for continued redevelopment efforts in the Main Street area and for use in part for the City's Centennial Park Project.

On November 4, 2016, the City issued General Obligation Public Improvement Bonds, Series 2016 at a par value of \$21,335,000, plus a net premium of \$1,768,371, less an underwriter's discount and other bond issuance costs of \$242,765. The average coupon rate is 3.3563%. Net interest cost is 2.6780% and the true interest cost is 2.5694%. The bonds will mature on March 1 of each year, beginning March 1, 2018 and through March 1, 2036. Moody's Investors Service assigned an Aa2 rating on the bonds and Standard and Poor's Financial Services assigned an AA rating on the bonds. The Series 2016 Bonds are to be used to finance the City's adopted Capital Improvement Program (CIP), for the fiscal year 2017, approved by the BMA.

On November 15, 2016, the City approved a contribution agreement with the IDBK supporting a lease purchase of vacant industrial manufacturing property commonly referred to as the former C&F Manufacturing property. Under the terms of the contribution agreement, IDBK would create a payment-in-lieu-of-tax (PILOT) arrangement with the lessee for a seven year period. IDBK will retain 80% of the PILOT and utilize the proceeds to repay the current loan, which was used to purchase the property. The remaining 20% of the PILOT proceeds will be received by the City and Sullivan County in a proportionate share to the normal property tax rates. The City and Sullivan County would each be contingently liable for \$350,000 in annual contributions to IDBK for the seven year period, should the PILOT revenue stream become insufficient to retire the loan.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

5. OTHER INFORMATION (CONTINUED)

I. Subsequent Events (continued)

On November 22, 2016, the City purchased property from the IDBK commonly known as the Foundry Site, located in the downtown area of the city. The purchase price for the real property was \$508,000 and will be utilized to construct a terminal building for the Kingsport Area Transit Service (KATS) operation, at an estimated design and construction cost of \$4,850,000. Funding for the property purchase was split using 80% Federal Transit Administration funds, 10% State of Tennessee funds, and 10% City funds.

The City has requested additional loan draws totaling \$6,618,094 from the \$15,000,000 Drinking Water Revolving Fund Loan bringing the current outstanding balance to \$10,512,404.

On December 20, 2016, the City's BMA approved a Tax Increment Financing (TIF) Amendment for the Riverbend Redevelopment District, in support of the project known as, The Blake at Riverbend. Under the terms of the TIF, approximately \$1.0 million in increment financing would be utilized by the project over 10 years. The assisted living project includes 119 total apartment units with 170 beds and 47 of the units being designated to memory care (Alzheimer's wing). Approximately 47% of the available tax increment is estimated to be retained by the City and Sullivan County.

On December 20, 2016, the City's BMA approved a payment-in-lieu-of-tax (PILOT) agreement proposed by the IDBK for Clark & Company. The PILOT is in support of a new company locating office headquarters within the City in the Sheridan Square development. The PILOT would be for 5 years and the business will result in approximately 50 new jobs.

On December 20, 2016, the City's BMA approved a payment-in-lieu-of-tax (PILOT) agreement proposed by the IDBK with Hull Property Group with respect to retail shopping facilities known as the Kingsport Town Center. The PILOT for the project will be for 20 years and will result in various renovations and improved retail square footage as well as replacement operators for entertainment venues in phase one of the project. The Hull Property Group has additional plans for expansion based upon the stabilization of the current retailers and success of phase one.

CITY OF KINGSFORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016

City of Kingsport - Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Based on Participation in the Public Employee Pension Plan of the TCRS
Last Fiscal Year Ending June 30th

	2014	2015
Total Pension Liability		
Service Cost	\$ 3,134,841	\$ 2,928,686
Interest	13,948,239	14,225,977
Changes in Benefit Terms	0	0
Differences Between Actual & Expected Experience	(4,085,461)	1,727,975
Change of Assumptions	0	0
Benefit Payments, Including Refunds of Employee Contributions	(8,744,114)	(9,432,488)
Net Change in Total Pension Liability	4,253,505	9,450,150
Total Pension Liability-Beginning	187,213,741	191,467,246
Total Pension Liability-Ending (a)	\$ 191,467,246	\$ 200,917,396
 Plan Fiduciary Net Position		
Contributions-Employer	\$ 6,099,494	\$ 5,677,773
Contributions-Employee	149,333	138,269
Net Investment Income	24,199,909	5,146,329
Benefit Payments, Including Refunds of Employee Contributions	(8,744,114)	(9,432,488)
Administrative Expense	(42,145)	(43,337)
Net Change in Plan Fiduciary Net Position	21,662,477	1,486,546
Plan Fiduciary Net Position-Beginning	147,261,088	168,923,565
Plan Fiduciary Net Position-Ending (b)	\$ 168,923,565	\$ 170,410,111
 Net Pension Liability (Asset)- Ending (a) - (b)	\$ 22,543,681	\$ 30,507,285
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.23%	84.82%
 Covered-Employee Payroll	\$ 35,655,016	\$ 33,574,550
 Net Pension Liability as a Percentage of Covered-Employee Payroll	63.23%	90.86%

This is a 10-year schedule however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

City of Kingsport
Schedule of Contributions
Based on Participation in the Public Employee Pension Plan of the TCRS
Fiscal Year Ended June 30

	2014	2015	2016
Actuarially Determined Contribution	\$ 6,099,494	\$ 5,677,773	\$ 5,449,198
Contributions in Relation to the Actuarially Determined Contribution	6,099,494	5,677,773	5,449,198
Contribution Deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 Covered-Employee Payroll	 \$ 35,655,016	 \$ 33,574,550	 \$ 32,224,706
 Contributions as a Percentage of Covered-Employee Payroll	 17.11%	 16.91%	 16.91%

This is a 10-year schedule however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016**

**City of Kingsport
Notes to Schedule
Public Employee Pension Plan of the TCRS**

Valuation Date

Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013 2013 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	17 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.00 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

**CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016**

**Kingsport City Schools
Schedule of Proportionate Share of Net Pension Liability (Asset)
Teacher Legacy Pension Plan of the TCRS
Fiscal Year Ended June 30***

	<u>2015</u>	<u>2016</u>
Proportion of the Net Pension Liability (Asset)	0.83%	0.86%
Proportionate Share of the Net Pension Liability (Asset)	\$ (135,007)	\$ 350,455
Covered Payroll	\$ 32,610,169	\$32,026,901
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	(0.41)%	1.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.08%	99.81%

*The amounts presented were determined as of June 30 of the prior fiscal year

This is a 10-year schedule however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Kingsport City Schools
Schedule of Contributions
Teacher Legacy Pension Plan of the TCRS
Fiscal Year Ended June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually Required	\$ 2,895,779	\$ 2,895,224	\$ 2,855,179
Contributions in Relation to the Contractually Required Contribution	<u>2,895,779</u>	<u>2,895,224</u>	<u>2,855,179</u>
Contribution Deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$32,610,169	\$32,026,901	\$31,583,838
Contributions as a Percentage of Covered Payroll	8.88%	9.04%	9.04%

This is a 10-year schedule however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**CITY OF KINGSPORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016**

**Kingsport City Schools
Schedule of Proportionate Share of Net Pension Liability (Asset)
Teacher Retirement Plan of the TCRS
Fiscal Year Ended June 30***

	<u>2016</u>
Proportion of the Net Pension Liability (Asset)	0.42%
Proportionate Share of the Net Pension Liability (Asset)	\$ (16,828)
Covered Payroll	\$ 869,128
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	(1.94)%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	127.46%

*The amounts presented were determined as of June 30 of the prior fiscal year

This is a 10-year schedule however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Kingsport City Schools
Schedule of Contributions
Teacher Retirement Plan of the TCRS
Fiscal Year Ended June 30**

	<u>2015</u>	<u>2016</u>
Contractually Required	\$ 21,728	\$ 82,339
Contributions in Relation to the Contractually Required Contribution	<u>34,765</u>	<u>99,167</u>
Contribution Deficiency (excess)	<u>\$ (13,037)</u>	<u>\$ (16,828)</u>
Covered Payroll	\$ 869,128	\$ 2,479,179
Contributions as a Percentage of Covered Payroll	4.00%	4.00%

This is a 10-year schedule however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF KINGSFORT, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016

City of Kingsport - Schedule of Funding Progress
Postemployment Health Insurance 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, 2015	City Retiree	\$ 0	\$ 21,829,468	\$ 21,829,468	0.00%	\$ 30,794,328	71%
July 1, 2014	City Retiree	0	20,682,464	20,682,464	0.00%	29,609,931	70%
July 1, 2013	City Retiree	0	23,012,654	23,012,654	0.00%	30,020,389	77%
July 1, 2012	City Retiree	0	24,569,633	24,569,633	0.00%	28,865,759	85%
July 1, 2011	City Retiree	0	31,010,598	31,010,598	0.00%	27,872,345	111%
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%

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

Kingsport City Schools - Schedule of Funding Progress
Postemployment Health Insurance Plans

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 (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2015	KCS Retiree	\$ 0	\$ 24,335,937	\$ 24,335,937	0.00%	\$ 43,335,770	56%
July 1, 2015	Medicare Supplement (2) (3)	0	25,653,000	25,653,000	0.00%	N/A	N/A
July 1, 2014	KCS Retiree	\$ 0	\$ 23,268,269	\$ 23,268,269	0.00%	\$ 41,669,010	56%
July 1, 2014	Medicare Supplement	0	25,653,000	25,653,000	0.00%	N/A	N/A
July 1, 2013	State Teacher Group	\$ 0	\$ 13,210,000	\$ 13,210,000	0.00%	\$ 25,898,037	51%
July 1, 2013	Medicare Supplement	0	25,653,000	25,653,000	0.00%	N/A	N/A
July 1, 2011	State Teacher Group	\$ 0	\$ 16,816,000	\$ 16,816,000	0.00%	\$ 23,523,443	71%
July 1, 2011	Medicare Supplement	0	19,371,000	19,371,000	0.00%	N/A	N/A
July 1, 2010	State Teacher Group	\$ 0	\$ 17,243,000	\$ 17,243,000	0.00%	\$ 23,571,575	73%
July 1, 2010	Medicare Supplement	0	18,481,000	18,481,000	0.00%	N/A	N/A
July 1, 2009	State Teacher Group	\$ 0	\$ 17,196,000	\$ 17,196,000	0.00%	\$ 23,629,947	73%
July 1, 2009	Medicare Supplement	0	18,481,000	18,481,000	0.00%	N/A	N/A
July 1, 2007	State Teacher Group	\$ 0	\$ 17,503,000	\$ 17,503,000	0.00%	\$ 22,277,957	70%
July 1, 2007	Medicare Supplement	0	18,268,000	18,268,000	0.00%	N/A	N/A

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

(1) Covered Payroll for FY 2016 is based on FY 2015 covered payroll increased using salary scale assumption of 4%.

(2) Based on adjustment factor of 25.66 for FY 2015 and 26.56 for FY 2016. The discount rate and other assumptions to develop the Medicare Supplement Plan group liabilities were selected by the State of Tennessee actuary.

(3) Effective January 1, 2017, Kingsport City Schools current and future retirees will be covered under the Local Education Employee Group OPEB Plan through the State of Tennessee. Due to this change, the City has opted to disclose the same AAL and ARC as the FY 2015 reporting period.

**C. COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**



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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 129,800	\$ 129,800	\$ 138,668	\$ 8,868
Federal Interest Subsidy	193,700	193,700	191,945	(1,755)
Total Revenues	323,500	323,500	330,613	7,113
EXPENDITURES:				
Principal	8,028,700	7,818,879	7,697,555	121,324
Interest	4,567,900	4,563,439	4,356,358	207,081
Miscellaneous	8,700	41,867	17,311	24,556
Total Expenditures	12,605,300	12,424,185	12,071,224	352,961
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,281,800)	(12,100,685)	(11,740,611)	360,074
OTHER FINANCING SOURCES (USES):				
Transfers In	12,281,800	11,972,017	11,685,371	(286,646)
Total Other Financing Sources (Uses)	12,281,800	11,972,017	11,685,371	(286,646)
Net Change in Fund Balances	0	(128,668)	(55,240)	73,428
Fund Balances, July 1, 2015	0	128,668	99,358	(29,310)
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 44,118	\$ 44,118

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016

	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	\$ 359	\$ 100	\$ 0	\$ 1,653,441	\$ 1,653,900	\$ 0	\$ 1,653,900
Equity in Pooled Cash & Investments	1,338	820,643	323,068	285,119	151,763	456,585	2,038,516	8,212	2,046,728
Long Term Certificates of Deposit	0	0	0	0	0	98,000	98,000	152,691	250,691
Investments	0	0	0	0	258,948	66,056	325,004	35,584	360,588
Accounts Receivable	0	0	0	0	40,201	848	41,049	0	41,049
Accrued Interest Receivable	0	0	0	0	0	0	0	69	69
Due from Other Governments	65,728	6,920	1,456	729,652	634,300	547,808	1,985,864	0	1,985,864
Inventories	0	0	0	0	0	193,069	193,069	0	193,069
Prepays	0	0	0	0	0	527	527	0	527
Restricted Investments	0	0	20,250	0	0	0	20,250	0	20,250
Total Assets	\$ 67,066	\$ 827,563	\$ 345,133	\$ 1,014,871	\$ 1,085,212	\$ 3,016,334	\$ 6,356,179	\$ 196,556	\$ 6,552,735
LIABILITIES AND FUND BALANCES:									
Liabilities:									
Accounts Payable	\$ 50,595	\$ 81,723	\$ 1,240	\$ 200,234	\$ 10,837	\$ 96,203	\$ 440,832	\$ 0	\$ 440,832
Other Liabilities	0	0	0	0	0	21,447	21,447	0	21,447
Due to Other Funds	0	0	0	144,324	336,875	446,325	927,524	0	927,524
Due to Other Governments	0	0	0	0	33	0	33	0	33
Unearned Revenue	0	0	0	0	0	62,928	62,928	0	62,928
Total Liabilities	50,595	81,723	1,240	344,558	347,745	626,903	1,452,764	0	1,452,764
Fund Balances:									
Nonspendable:									
Inventory	0	0	0	0	0	193,069	193,069	0	193,069
Allandale Trust Principal	0	0	0	0	0	0	0	152,691	152,691
Restricted:									
Unspent Federal Forfeitures	0	0	20,250	0	0	0	20,250	0	20,250
Unspent Hotel Tax	0	0	0	0	104,497	0	104,497	0	104,497
Assigned	16,471	745,840	323,643	670,313	632,970	2,196,362	4,585,599	43,865	4,629,464
Total Fund Balances	16,471	745,840	343,893	670,313	737,467	2,389,431	4,903,415	196,556	5,099,971
Total Liabilities and Fund Balances	\$ 67,066	\$ 827,563	\$ 345,133	\$ 1,014,871	\$ 1,085,212	\$ 3,016,334	\$ 6,356,179	\$ 196,556	\$ 6,552,735

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

	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	\$ 3,807,192	\$ 0	\$ 3,807,192	\$ 0	\$ 3,807,192
Hotel/Motel Tax Allocation	0	0	0	0	419,397	0	419,397	0	419,397
Federal Government	529,814	2,842	3,954	1,119,697	0	6,103,361	7,759,668	0	7,759,668
State Government	0	22,979	0	1,941,751	0	1,025,198	2,989,928	0	2,989,928
Charges for Services	0	0	0	117,862	111,172	1,052,970	1,282,004	0	1,282,004
Fines and Forfeitures	0	10,660	172,505	0	0	0	183,165	0	183,165
Investment Earnings	0	0	146	0	916	421	1,483	2,588	4,071
Contributions and Donations	0	41,759	0	0	106,171	144,356	292,286	0	292,286
Other	0	0	0	0	250	0	250	0	250
Total Revenues	529,814	78,240	176,605	3,179,310	4,445,098	8,326,306	16,735,373	2,588	16,737,961
EXPENDITURES:									
General & Administrative	0	685,416	0	0	0	0	685,416	0	685,416
School Food Service	0	0	0	0	0	3,242,393	3,242,393	0	3,242,393
School Federal Projects	0	0	0	0	0	3,697,352	3,697,352	0	3,697,352
Economic & Physical Development	529,814	0	0	0	0	0	529,814	0	529,814
Public Safety	0	0	107,075	0	0	0	107,075	0	107,075
Transportation	0	0	0	4,428,006	0	0	4,428,006	0	4,428,006
Culture and Recreation	0	0	0	0	181,039	0	181,039	0	181,039
Education	0	0	0	0	0	1,101,383	1,101,383	0	1,101,383
Capital Outlay	0	98,445	48,640	200,919	16,443	339,035	703,482	0	703,482
Total Expenditures	529,814	783,861	155,715	4,628,925	197,482	8,380,163	14,675,960	0	14,675,960
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(705,621)	20,890	(1,449,615)	4,247,616	(53,857)	2,059,413	2,588	2,062,001
OTHER FINANCING SOURCES (USES):									
Transfers In	0	860,909	0	1,439,710	0	63,429	2,364,048	0	2,364,048
Transfers Out	0	0	0	0	(4,108,379)	(27,843)	(4,136,222)	0	(4,136,222)
Total Other Financing Sources (Uses)	0	860,909	0	1,439,710	(4,108,379)	35,586	(1,772,174)	0	(1,772,174)
Net Change in Fund Balances	0	155,288	20,890	(9,905)	139,237	(18,271)	287,239	2,588	289,827
Fund Balances, July 1, 2015	16,471	590,552	323,003	680,218	598,230	2,407,702	4,616,176	193,968	4,810,144
Fund Balances, June 30, 2016	\$ 16,471	\$ 745,840	\$ 343,893	\$ 670,313	\$ 737,467	\$ 2,389,431	\$ 4,903,415	\$ 196,556	\$ 5,099,971

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - PUBLIC SAFETY
June 30, 2016

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
ASSETS:				
Cash	\$ 0	\$ 359	\$ 0	\$ 359
Equity in Pooled Cash and Investments	83,450	239,618	0	323,068
Due from Other Governments	0	882	574	1,456
Restricted Investments	20,250	0	0	20,250
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 103,700</u>	<u>\$ 240,859</u>	<u>\$ 574</u>	<u>\$ 345,133</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 0	\$ 666	\$ 574	\$ 1,240
Due to Other Funds	0	0	0	0
Unearned Revenue	0	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>0</u>	<u>666</u>	<u>574</u>	<u>1,240</u>
Fund Balances:				
Restricted:				
Unspent Federal Forfeitures	20,250	0	0	20,250
Assigned	83,450	240,193	0	323,643
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>103,700</u>	<u>240,193</u>	<u>0</u>	<u>343,893</u>
Total Liabilities and Fund Balances	<u>\$ 103,700</u>	<u>\$ 240,859</u>	<u>\$ 574</u>	<u>\$ 345,133</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, 2016

	Criminal Forfeiture Fund	Drug Fund	Justice Assistance Grant Fund	Total Public Safety Funds
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 3,954	\$ 3,954
State Government	0	0	0	0
Fines and Forfeitures	6,348	166,157	0	172,505
Miscellaneous	0	0	0	0
Investment Earnings	146	0	0	146
	<u>6,494</u>	<u>166,157</u>	<u>3,954</u>	<u>176,605</u>
Total Revenues				
	<u>6,494</u>	<u>166,157</u>	<u>3,954</u>	<u>176,605</u>
EXPENDITURES:				
General and Administrative	0	0	0	0
Public Safety	39,645	67,314	116	107,075
Capital Outlay	9,547	35,255	3,838	48,640
	<u>49,192</u>	<u>102,569</u>	<u>3,954</u>	<u>155,715</u>
Total Expenditures				
	<u>49,192</u>	<u>102,569</u>	<u>3,954</u>	<u>155,715</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(42,698)</u>	<u>63,588</u>	<u>0</u>	<u>20,890</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
	<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	(42,698)	63,588	0	20,890
Fund Balances, July 1, 2015	<u>146,398</u>	<u>176,605</u>	<u>0</u>	<u>323,003</u>
Fund Balances, June 30, 2016	<u>\$ 103,700</u>	<u>\$ 240,193</u>	<u>\$ 0</u>	<u>\$ 343,893</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - TRANSPORTATION
June 30, 2016

	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	285,119	0	0	285,119
Due from Other Governments	354,136	119,012	256,504	729,652
Total Assets	\$ 639,355	\$ 119,012	\$ 256,504	\$ 1,014,871
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 12,870	\$ 11,419	\$ 175,945	\$ 200,234
Due to Other Governments	0	0	0	0
Due to Other Funds	0	66,447	77,877	144,324
Total Liabilities	12,870	77,866	253,822	344,558
Fund Balances:				
Assigned	626,485	41,146	2,682	670,313
Total Fund Balances	626,485	41,146	2,682	670,313
Total Liabilities and Fund Balances	\$ 639,355	\$ 119,012	\$ 256,504	\$ 1,014,871

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, 2016

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
REVENUES:				
Federal Government	\$ 847,652	\$ 272,045	\$ 0	\$ 1,119,697
State Government	526,310	5,720	1,409,721	1,941,751
Charges for Services	117,862	0	0	117,862
Investment Earnings	0	0	0	0
Total Revenues	1,491,824	277,765	1,409,721	3,179,310
EXPENDITURES:				
Transportation	1,511,013	347,785	2,569,208	4,428,006
Capital Outlay	182,126	4,688	14,105	200,919
Total Expenditures	1,693,139	352,473	2,583,313	4,628,925
Excess (Deficiency) of Revenues Over (Under) Expenditures	(201,315)	(74,708)	(1,173,592)	(1,449,615)
OTHER FINANCING SOURCES (USES):				
Transfers In	344,025	(77,907)	1,173,592	1,439,710
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	344,025	(77,907)	1,173,592	1,439,710
Net Change in Fund Balances	142,710	(152,615)	0	(9,905)
Fund Balances, July 1, 2015	483,775	193,761	2,682	680,218
Fund Balances, June 30, 2016	<u>\$ 626,485</u>	<u>\$ 41,146</u>	<u>\$ 2,682</u>	<u>\$ 670,313</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION
June 30, 2016

	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:							
Cash	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Equity in Pooled Cash & Investments	0	64,296	0	3,110	31,501	52,856	151,763
Investments	3,129	0	11,763	1,156	151,657	91,243	258,948
Accounts Receivable	0	40,201	0	0	0	0	40,201
Due from Other Governments	634,300	0	0	0	0	0	634,300
Due from Other Funds	0	0	0	0	0	0	0
Total Assets	\$ 637,429	\$ 104,497	\$ 11,763	\$ 4,266	\$ 183,158	\$ 144,099	\$ 1,085,212
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,799	\$ 9,038	\$ 10,837
Due to Other Governments	0	0	0	0	0	33	33
Due to Other Funds	336,875	0	0	0	0	0	336,875
Total Liabilities	336,875	0	0	0	1,799	9,071	347,745
Fund Balances:							
Restricted for:							
Unspent Hotel Tax	0	104,497	0	0	0	0	104,497
Assigned	300,554	0	11,763	4,266	181,359	135,028	632,970
Total Fund Balances	300,554	104,497	11,763	4,266	181,359	135,028	737,467
Total Liabilities and Fund Balances	\$ 637,429	\$ 104,497	\$ 11,763	\$ 4,266	\$ 183,158	\$ 144,099	\$ 1,085,212

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, 2016

	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	\$ 3,807,192	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,807,192
Hotel/Motel Tax Allocation	0	419,397	0	0	0	0	419,397
Charges for Services	0	0	0	0	0	111,172	111,172
Investment Earnings	386	0	30	3	331	166	916
Contributions and Donations	0	0	0	0	32,074	74,097	106,171
Other	0	0	0	0	0	250	250
Total Revenues	<u>3,807,578</u>	<u>419,397</u>	<u>30</u>	<u>3</u>	<u>32,405</u>	<u>185,685</u>	<u>4,445,098</u>
EXPENDITURES:							
Culture and Recreation	0	47,887	2,400	0	16,784	113,968	181,039
Capital Outlay	0	0	0	0	5,215	11,228	16,443
Total Expenditures	<u>0</u>	<u>47,887</u>	<u>2,400</u>	<u>0</u>	<u>21,999</u>	<u>125,196</u>	<u>197,482</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,807,578</u>	<u>371,510</u>	<u>(2,370)</u>	<u>3</u>	<u>10,406</u>	<u>60,489</u>	<u>4,247,616</u>
OTHER FINANCING SOURCES (USES):							
Transfers In	0	0	0	0	0	0	0
Transfers Out	<u>(3,570,345)</u>	<u>(538,034)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,108,379)</u>
Total Other Financing Sources (Uses)	<u>(3,570,345)</u>	<u>(538,034)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,108,379)</u>
Net Change in Fund Balances	237,233	(166,524)	(2,370)	3	10,406	60,489	139,237
Fund Balances, July 1, 2015	<u>63,321</u>	<u>271,021</u>	<u>14,133</u>	<u>4,263</u>	<u>170,953</u>	<u>74,539</u>	<u>598,230</u>
Fund Balances, June 30, 2016	<u>\$ 300,554</u>	<u>\$ 104,497</u>	<u>\$ 11,763</u>	<u>\$ 4,266</u>	<u>\$ 181,359</u>	<u>\$ 135,028</u>	<u>\$ 737,467</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EDUCATION
June 30, 2016

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
ASSETS:					
Cash	\$ 1,653,441	\$ 0	\$ 0	\$ 0	\$ 1,653,441
Equity in Pooled Cash and Investments	456,585	0	0	0	456,585
Long Term Certificates of Deposit	98,000	0	0	0	98,000
Investments	0	0	0	66,056	66,056
Accounts Receivable	848	0	0	0	848
Due from Other Governments	55,954	147,248	344,606	0	547,808
Prepays	0	527	0	0	527
Inventories	193,069	0	0	0	193,069
Total Assets	\$ 2,457,897	\$ 147,775	\$ 344,606	\$ 66,056	\$ 3,016,334
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 88,195	\$ 2,800	\$ 5,208	\$ 0	\$ 96,203
Other Liabilities	0	10,491	10,956	0	21,447
Due to Other Funds	0	117,883	328,442	0	446,325
Due to Other Governments	0	0	0	0	0
Unearned Revenue	46,327	16,601	0	0	62,928
Total Liabilities	134,522	147,775	344,606	0	626,903
Fund Balances:					
Nonspendable:					
Inventory	193,069	0	0	0	193,069
Assigned	2,130,306	0	0	66,056	2,196,362
Total Fund Balances	2,323,375	0	0	66,056	2,389,431
Total Liabilities and Fund Balances	\$ 2,457,897	\$ 147,775	\$ 344,606	\$ 66,056	\$ 3,016,334

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, 2016

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Palmer Center Fund	Total Education Funds
REVENUES:					
Federal Government	\$ 2,223,634	\$ 0	\$ 3,879,727	\$ 0	\$ 6,103,361
State Government	27,685	997,513	0	0	1,025,198
Charges for Services	966,461	86,509	0	0	1,052,970
Investment Earnings	267	0	0	154	421
Contributions and Donations	144,356	0	0	0	144,356
Total Revenues	3,362,403	1,084,022	3,879,727	154	8,326,306
EXPENDITURES:					
School Food Service	3,242,393	0	0	0	3,242,393
School Federal Projects	0	0	3,697,352	0	3,697,352
Education	0	1,101,383	0	0	1,101,383
Capital Outlay	137,439	47,064	154,532	0	339,035
Total Expenditures	3,379,832	1,148,447	3,851,884	0	8,380,163
Excess (Deficiency) of Revenues Over (Under) Expenditures	(17,429)	(64,425)	27,843	154	(53,857)
OTHER FINANCING SOURCES (USES):					
Transfers In	0	63,429	0	0	63,429
Transfers Out	0	0	(27,843)	0	(27,843)
Total Other Financing Sources (Uses)	0	63,429	(27,843)	0	35,586
Net Change in Fund Balances	(17,429)	(996)	0	154	(18,271)
Fund Balances, July 1, 2015	2,340,804	996	0	65,902	2,407,702
Fund Balances, June 30, 2016	\$ 2,323,375	\$ 0	\$ 0	\$ 66,056	\$ 2,389,431

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal Government	\$ 0	\$ 0	\$ 0	\$ 0
Fines and Forfeitures	6,000	6,000	6,348	348
Investment Earnings	0	0	146	146
Contributions and Donations	0	0	0	0
Total Revenues	6,000	6,000	6,494	494
EXPENDITURES:				
Public Safety	6,000	45,645	39,645	6,000
Capital Outlay	0	20,355	9,547	10,808
Total Expenditures	6,000	66,000	49,192	16,808
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(60,000)	(42,698)	17,302
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	(60,000)	(42,698)	17,302
Fund Balances, July 1, 2015	0	60,000	146,398	86,398
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 103,700	\$ 103,700

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
State Government	\$ 0	\$ 0	\$ 0	\$ 0
Fines and Forfeitures	98,900	98,900	166,157	67,257
Miscellaneous	0	0	0	0
Total Revenues	98,900	98,900	166,157	67,257
EXPENDITURES:				
General and Administrative	5,000	0	0	0
Public Safety	99,600	93,700	67,314	26,386
Capital Outlay	35,000	50,080	35,255	14,825
Total Expenditures	139,600	143,780	102,569	41,211
Excess (Deficiency) of Revenues Over (Under) Expenditures	(40,700)	(44,880)	63,588	108,468
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	(40,700)	(44,880)	63,588	108,468
Fund Balances, July 1, 2015	40,700	44,880	176,605	131,725
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 240,193	\$ 240,193

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
State Government	\$ 1,345,900	\$ 1,401,286	\$ 1,409,721	\$ 8,435
Investment Earnings	0	0	0	0
Miscellaneous	0	0	0	0
Total Revenues	1,345,900	1,401,286	1,409,721	8,435
EXPENDITURES:				
Highways and Streets	2,521,800	2,590,488	2,569,208	21,280
Capital Outlay	0	14,105	14,105	0
Total Expenditures	2,521,800	2,604,593	2,583,313	21,280
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,175,900)	(1,203,307)	(1,173,592)	29,715
OTHER FINANCING SOURCES (USES):				
Transfers In	1,175,900	1,175,900	1,173,592	(2,308)
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	1,175,900	1,175,900	1,173,592	(2,308)
Net Change in Fund Balances	0	(27,407)	0	27,407
Fund Balances, July 1, 2015	0	27,407	2,682	(24,725)
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 2,682	\$ 2,682

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Local Option Sales Tax	\$ 3,662,800	\$ 3,662,800	\$ 3,807,192	\$ 144,392
Investment Earnings	0	0	386	386
Total Revenues	3,662,800	3,662,800	3,807,578	144,778
EXPENDITURES:				
Culture and Recreation	0	0	0	0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,662,800	3,662,800	3,807,578	144,778
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	(3,662,800)	(3,662,800)	(3,570,345)	92,455
Total Other Financing Sources (Uses)	(3,662,800)	(3,662,800)	(3,570,345)	92,455
Net Change in Fund Balances	0	0	237,233	237,233
Fund Balances, July 1, 2015	0	0	63,321	63,321
Fund Balances, June 30, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 300,554</u>	<u>\$ 300,554</u>

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 385,000	\$ 385,000	\$ 419,397	\$ 34,397
Other	0	0	0	0
Total Revenues	385,000	385,000	419,397	34,397
EXPENDITURES:				
Culture and Recreation	0	61,168	47,887	13,281
Capital Outlay	170,000	32	0	32
Total Expenditures	170,000	61,200	47,887	13,313
Excess (Deficiency) of Revenues Over (Under) Expenditures	215,000	323,800	371,510	47,710
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	(365,000)	(565,000)	(538,034)	26,966
Total Other Financing Sources (Uses)	(365,000)	(565,000)	(538,034)	26,966
Net Change in Fund Balances	(150,000)	(241,200)	(166,524)	74,676
Fund Balances, July 1, 2015	150,000	241,200	271,021	29,821
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 104,497	\$ 104,497

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 50	\$ 50	\$ 30	\$ (20)
Total Revenues	50	50	30	(20)
EXPENDITURES:				
Culture and Recreation	2,550	2,550	2,400	150
Total Expenditures	2,550	2,550	2,400	150
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,500)	(2,500)	(2,370)	130
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	(2,500)	(2,500)	(2,370)	130
Fund Balances, July 1, 2015	2,500	2,500	14,133	11,633
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 11,763	\$ 11,763

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 10	\$ 10	\$ 3	\$ (7)
Contributions and Donations	0	0	0	0
Total Revenues	10	10	3	(7)
EXPENDITURES:				
Culture and Recreation	10	10	0	10
Total Expenditures	10	10	0	10
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	3	3
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	3	3
Fund Balances, July 1, 2015	0	0	4,263	4,263
Fund Balances, June 30, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,266</u>	<u>\$ 4,266</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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 100	\$ 100	\$ 331	\$ 231
Contributions and Donations	15,000	15,000	32,074	17,074
Total Revenues	15,100	15,100	32,405	17,305
EXPENDITURES:				
Capital Outlay	10,500	10,500	5,215	5,285
Culture and Recreation	46,000	47,000	16,784	30,216
Total Expenditures	56,500	57,500	21,999	35,501
Excess (Deficiency) of Revenues Over (Under) Expenditures	(41,400)	(42,400)	10,406	52,806
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	(41,400)	(42,400)	10,406	52,806
Fund Balances, July 1, 2015	41,400	42,400	170,953	128,553
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 181,359	\$ 181,359

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Charges for Services	\$ 92,000	\$ 92,000	\$ 111,172	\$ 19,172
Investment Earnings	100	100	166	66
Contributions and Donations	57,500	57,500	74,097	16,597
Other	0	0	250	250
Total Revenues	149,600	149,600	185,685	36,085
EXPENDITURES:				
Capital Outlay	0	11,300	11,228	72
Culture and Recreation	149,600	140,155	113,968	26,187
Total Expenditures	149,600	151,455	125,196	26,259
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(1,855)	60,489	62,344
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	(1,855)	60,489	62,344
Fund Balances, July 1, 2015	0	1,855	74,539	72,684
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 135,028	\$ 135,028

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal Government	\$ 2,222,800	\$ 2,222,800	\$ 2,223,634	\$ 834
State Government	32,000	32,000	27,685	(4,315)
Charges for Services	1,048,200	1,048,200	966,461	(81,739)
Investment Earnings	1,100	1,100	267	(833)
Contributions and Donations	226,400	226,400	144,356	(82,044)
Total Revenues	3,530,500	3,530,500	3,362,403	(168,097)
EXPENDITURES:				
School Food Service	3,391,500	3,391,500	3,242,393	149,107
Capital Outlay	365,000	365,000	137,439	227,561
Total Expenditures	3,756,500	3,756,500	3,379,832	376,668
Excess (Deficiency) of Revenues Over (Under) Expenditures	(226,000)	(226,000)	(17,429)	208,571
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	(226,000)	(226,000)	(17,429)	208,571
Fund Balances, July 1, 2015	226,000	226,000	2,340,804	2,114,804
Fund Balances, June 30, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,323,375</u>	<u>\$ 2,323,375</u>

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 100	\$ 100	\$ 154	\$ 54
Total Revenues	100	100	154	54
EXPENDITURES:				
Capital Outlay	100	100	0	100
Total Expenditures	100	100	0	100
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	154	154
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	154	154
Fund Balances, July 1, 2015	0	0	65,902	65,902
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 66,056	\$ 66,056

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment Earnings	\$ 2,500	\$ 2,500	\$ 2,588	\$ 88
Total Revenues	2,500	2,500	2,588	88
EXPENDITURES:				
Culture and Recreation	2,500	2,500	0	2,500
Total Expenditures	2,500	2,500	0	2,500
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	2,588	2,588
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	2,588	2,588
Fund Balances, July 1, 2015	0	0	193,968	193,968
Fund Balances, June 30, 2016	\$ 0	\$ 0	\$ 196,556	\$ 196,556

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
June 30, 2016

	Solid Waste Management Fund	Storm Water Management Fund	Cattails at MeadowView Golf Course Fund	Total Nonmajor Enterprise Funds
ASSETS:				
Current Assets:				
Cash	\$ 460	\$ 0	\$ 0	\$ 460
Equity in Pooled Cash and Investments	0	934,728	0	934,728
Accounts Receivable, Net	108,932	211,999	45,819	366,750
Accrued Interest Receivable	583	0	0	583
Inventories	0	0	106,747	106,747
Prepays	0	0	0	0
Total Current Assets	109,975	1,146,727	152,566	1,409,268
Noncurrent Assets:				
Restricted Assets:				
Cash	55,800	0	83,000	138,800
Cash from Unspent Bonds	1,526,704	33	448	1,527,185
Investments	8,111	0	77	8,188
Total Restricted Assets	1,590,615	33	83,525	1,674,173
Capital Assets:				
Land	1,716,309	977,763	981,600	3,675,672
Buildings and Systems	314,558	717,794	1,439,145	2,471,497
Improvements Other Than Buildings	1,177,264	534,297	6,033,890	7,745,451
Software	6,750	68,125	0	74,875
Machinery and Equipment	2,141,516	312,934	471,136	2,925,586
Construction in Progress	1,294,881	559,442	0	1,854,323
Less: Accumulated Depreciation	(2,247,089)	(233,673)	(4,747,606)	(7,228,368)
Total Capital Assets	4,404,189	2,936,682	4,178,165	11,519,036
Other Assets:				
Prepaid Landfill Closure Costs	287,902	0	0	287,902
Total Other Assets	287,902	0	0	287,902
Total Noncurrent Assets	6,282,706	2,936,715	4,261,690	13,481,111
Total Assets	6,392,681	4,083,442	4,414,256	14,890,379
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Outflows Related to Refunding	10,241	42,752	0	52,993
Deferred Outflows Related to Pensions	364,922	120,040	0	484,962
Total Deferred Outflows of Resources	375,163	162,792	0	537,955

(continued)

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
June 30, 2016

	Solid Waste Management Fund	Storm Water Management Fund	Cattails at MeadowView Golf Course Fund	Total Nonmajor Enterprise Funds
LIABILITIES:				
Current Liabilities:				
Accounts Payable	187,021	188,980	42,781	418,782
Due to Other Funds	1,015,017	120,964	113,059	1,249,040
Compensated Absences Payable	100,688	40,037	0	140,725
Retainages Payable	55,800	28,831	294	84,925
Accrued Interest Payable	27,791	13,835	3,621	45,247
General Obligation Bonds - Current	241,865	80,420	160,550	482,835
Other Payables	0	0	0	0
Total Current Liabilities	1,628,182	473,067	320,305	2,421,554
Noncurrent Liabilities:				
General Obligation Bonds Payable (Net of Deferred Refunding Costs, Discounts and Premiums)	3,887,487	1,364,915	454,413	5,706,815
OPEB Liability	577,854	102,289	0	680,143
Post Closure Liability	0	0	0	0
Pension Liability	870,226	291,318	0	1,161,544
Total Noncurrent Liabilities	5,335,567	1,758,522	454,413	7,548,502
Total Liabilities	6,963,749	2,231,589	774,718	9,970,056
DEFERRED INFLOWS OF RESOURCES:				
Deferred Inflows Related to Pensions	302,008	104,573	0	406,581
Total Deferred Inflows of Resources	302,008	104,573	0	406,581
NET POSITION:				
Net Investment in Capital Assets	1,801,541	1,491,380	3,563,650	6,856,571
Restricted for Debt Service	8,111	0	0	8,111
Restricted for Capital Improvements	0	0	86,735	86,735
Unrestricted	(2,307,565)	418,692	(10,847)	(1,899,720)
Total Net Position	\$ (497,913)	\$ 1,910,072	\$ 3,639,538	\$ 5,051,697

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
For the Fiscal Year Ended June 30, 2016

	Solid Waste Management Fund	Storm Water Management Fund	Cattails at MeadowView Golf Course Fund	Total Nonmajor Enterprise Funds
OPERATING REVENUES:				
Charges and Fees	\$ 867,968	\$ 1,860,584	\$ 898,760	\$ 3,627,312
Penalties and Fines	0	300	0	300
Miscellaneous	4,263	0	0	4,263
Total Operating Revenue	<u>872,231</u>	<u>1,860,884</u>	<u>898,760</u>	<u>3,631,875</u>
OPERATING EXPENSES:				
Operating Costs	4,084,754	1,319,583	1,060,870	6,465,207
Depreciation	233,157	99,574	234,481	567,212
Total Operating Expenses	<u>4,317,911</u>	<u>1,419,157</u>	<u>1,295,351</u>	<u>7,032,419</u>
Operating Income (Loss)	<u>(3,445,680)</u>	<u>441,727</u>	<u>(396,591)</u>	<u>(3,400,544)</u>
NONOPERATING REVENUES:				
Investment Earnings	6,633	1,318	6	7,957
Federal Interest Subsidy	4,214	8,427	0	12,641
Interest Expense	(106,472)	(33,791)	(16,566)	(156,829)
Bond Issue Cost	0	(4,551)	0	(4,551)
Total Nonoperating Revenues	<u>(95,625)</u>	<u>(28,597)</u>	<u>(16,560)</u>	<u>(140,782)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(3,541,305)</u>	<u>413,130</u>	<u>(413,151)</u>	<u>(3,541,326)</u>
Transfers In	3,455,000	0	312,505	3,767,505
Transfers Out	<u>0</u>	<u>(96,214)</u>	<u>0</u>	<u>(96,214)</u>
Change in Net Position	(86,305)	316,916	(100,646)	129,965
Net Position, July 1, 2015	<u>(411,608)</u>	<u>1,593,156</u>	<u>3,740,184</u>	<u>4,921,732</u>
Net Position, June 30, 2016	<u><u>\$ (497,913)</u></u>	<u><u>\$ 1,910,072</u></u>	<u><u>\$ 3,639,538</u></u>	<u><u>\$ 5,051,697</u></u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Fiscal Year Ended June 30, 2016

	Solid Waste Management Fund	Storm Water Management Fund	Cattails at MeadowView Golf Course Fund	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers and Users	\$ 808,891	\$ 1,786,619	\$ 852,940	\$ 3,448,450
Receipts from Interfund Services Provided	38,220	83,641	0	121,861
Payments to Suppliers	(1,975,811)	(594,856)	(1,074,066)	(3,644,733)
Payments to Employees	(1,894,526)	(772,108)	0	(2,666,634)
Net Cash Provided (Used) by Operating Activities	(3,023,226)	503,296	(221,126)	(2,741,056)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers from Other Funds	3,455,000	0	312,505	3,767,505
Transfers to Other Funds	0	(96,214)	0	(96,214)
Advances From Other Funds	316,848	78,856	34,242	429,946
Net Cash Provided (Used) by Noncapital Financing Activities	3,771,848	(17,358)	346,747	4,101,237
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from Capital Debt	1,479,852	0	0	1,479,852
Capital Transfers from Other Funds	0	0	0	0
County Revenue for Capital Projects	0	0	0	0
Acquisition and Construction of Capital Assets	(1,417,045)	(181,498)	0	(1,598,543)
Principal Paid on Capital Debt	(226,015)	(78,371)	(152,802)	(457,188)
Interest Paid on Capital Debt	(120,337)	(34,610)	(17,026)	(171,973)
Proceeds from Sales of Capital Assets	0	0	0	0
Net Cash Used by Capital and Related Financing Activities	(283,545)	(294,479)	(169,828)	(747,852)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from Sales and Maturities of Investments	0	0	364	364
Purchase of Investments	(6,470)	0	0	(6,470)
Interest Received	6,259	1,318	6	7,583
Net Cash Provided (Used) by Investing Activities	(211)	1,318	370	1,477
 Net Increase (Decrease) In Cash and Cash Equivalents	 464,866	 192,777	 (43,837)	 613,806
 Cash and Cash Equivalents, July 1, 2015	 1,118,098	 741,984	 127,285	 1,987,367
 Cash and Cash Equivalents, June 30, 2016	 <u>\$ 1,582,964</u>	 <u>\$ 934,761</u>	 <u>\$ 83,448</u>	 <u>\$ 2,601,173</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Fiscal Year Ended June 30, 2016

	Solid Waste Management Fund	Storm Water Management Fund	Cattails at MeadowView Golf Course Fund	Total Nonmajor Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (3,445,680)	\$ 441,727	\$ (396,591)	\$ (3,400,544)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	233,157	99,574	234,481	567,212
(Increase) Decrease in Assets:				
Accounts Receivable	(25,120)	9,376	(45,819)	(61,563)
Inventory	0	0	10,561	10,561
Prepays	54,273	11,687	0	65,960
Increase (Decrease) in Liabilities:				
Accounts Payable	110,091	(69,983)	(24,052)	16,056
Pension Liabilities and Deferrals	(70,033)	(22,425)	0	(92,458)
Compensated Absences Payable	4,994	(3,123)	0	1,871
OPEB Liability	59,292	24,944	0	84,236
Other Payables	0	0	0	0
Retainages Payable	55,800	11,519	294	67,613
Net Cash Provided (Used) by Operating Activities	\$ (3,023,226)	\$ 503,296	\$ (221,126)	\$ (2,741,056)
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET POSITION:				
Cash on Hand	\$ 460	\$ 0	\$ 0	\$ 460
Equity in Pooled Cash and Investments	0	934,728	0	934,728
Restricted Cash from Unspent Bonds	1,526,704	33	448	1,527,185
Restricted Cash	55,800	0	83,000	138,800
Cash and Cash Equivalents, June 30, 2016	\$ 1,582,964	\$ 934,761	\$ 83,448	\$ 2,601,173
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				
Federal Interest Subsidy Paid Directly to Bank	\$ 4,214	\$ 8,427	\$ 0	\$ 12,641

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2016

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Employee Health Insurance Fund	Retirees Health Insurance Fund	School Employee Insurance Fund	School Retirees Insurance Fund	Total Internal Service Funds
ASSETS:							
Current Assets:							
Equity in Pooled Cash and Investments	\$ 0	\$ 5,416,359	\$ 680,099	\$ 639,731	\$ 1,889,847	\$ 167,891	\$ 8,793,927
Accounts Receivable	0	0	468	7,680	90,164	26,323	124,635
Accrued Interest Receivable	131	32	0	0	0	0	163
Due from Other Funds	0	0	0	0	0	0	0
Inventories	382,748	0	22,422	0	0	0	405,170
Prepays	0	193,168	3,069	1,110	0	0	197,347
Total Current Assets	382,879	5,609,559	706,058	648,521	1,980,011	194,214	9,521,242
Capital Assets:							
Land	14,695	0	0	0	0	0	14,695
Buildings and Improvements	0	0	14,897	0	0	0	14,897
Machinery and Equipment	30,558,906	0	0	0	0	0	30,558,906
Less: Accumulated Depreciation	(19,552,843)	0	(4,593)	0	0	0	(19,557,436)
Net Capital Assets	11,020,758	0	10,304	0	0	0	11,031,062
Other Assets:							
Advances to Other Funds	0	0	0	0	0	0	0
Deposits	0	30,000	134,400	33,600	0	0	198,000
Total Other Assets	0	30,000	134,400	33,600	0	0	198,000
Restricted Assets:							
Long Term Certificates of Deposit	500,000	500,000	0	0	0	0	1,000,000
Investments	2,360,137	0	0	0	0	0	2,360,137
Total Restricted Assets	2,860,137	500,000	0	0	0	0	3,360,137
Total Assets	14,263,774	6,139,559	850,762	682,121	1,980,011	194,214	24,110,441

(continued)

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2016

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Employee Health Insurance Fund	Retirees Health Insurance Fund	School Employee Insurance Fund	School Retirees Insurance Fund	Total Internal Service Funds
LIABILITIES:							
Current Liabilities:							
Accounts Payable	286,745	64,662	49,049	0	25,326	0	425,782
Due to Other Governments	0	0	0	0	0	0	0
Due to Other Funds	523,786	0	0	0	0	0	523,786
Claims Payable	0	903,287	0	0	0	0	903,287
Benefits Payable	0	2,255,616	401,006	44,557	879,886	112,653	3,693,718
Compensated Absences Payable	81,372	20,759	7,369	0	0	0	109,500
Total Current Liabilities	<u>891,903</u>	<u>3,244,324</u>	<u>457,424</u>	<u>44,557</u>	<u>905,212</u>	<u>112,653</u>	<u>5,656,073</u>
Total Liabilities	<u>891,903</u>	<u>3,244,324</u>	<u>457,424</u>	<u>44,557</u>	<u>905,212</u>	<u>112,653</u>	<u>5,656,073</u>
NET POSITION:							
Net Investment in Capital Assets	11,020,758	0	10,304	0	0	0	11,031,062
Unrestricted	<u>2,351,113</u>	<u>2,895,235</u>	<u>383,034</u>	<u>637,564</u>	<u>1,074,799</u>	<u>81,561</u>	<u>7,423,306</u>
Total Net Position	<u>\$ 13,371,871</u>	<u>\$ 2,895,235</u>	<u>\$ 393,338</u>	<u>\$ 637,564</u>	<u>\$ 1,074,799</u>	<u>\$ 81,561</u>	<u>\$ 18,454,368</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Fiscal Year Ended June 30, 2016

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Employee Health Insurance Fund	Retirees Health Insurance Fund	School Employee Insurance Fund	School Retirees Insurance Fund	Total Internal Service Funds
OPERATING REVENUE:							
Charges for Sales and Services	\$ 6,624,695	\$ 2,276,823	\$ 7,292,146	\$ 991,926	\$ 9,999,872	\$ 1,190,847	\$ 28,376,309
Miscellaneous	100,441	8,505	491,309	0	181,323	23,021	804,599
Total Operating Revenue	<u>6,725,136</u>	<u>2,285,328</u>	<u>7,783,455</u>	<u>991,926</u>	<u>10,181,195</u>	<u>1,213,868</u>	<u>29,180,908</u>
OPERATING EXPENSES:							
Personnel Services and Benefits	1,209,478	278,291	71,256	0	0	0	1,559,025
Materials and Supplies	3,093,121	2,862	196,373	0	120,645	0	3,413,001
Contractual Services	92,596	56,265	405,743	1,200	223,033	0	778,837
Insurance	22,671	508,790	490,722	47,882	548,429	59,548	1,678,042
Insurance Claims	0	828,841	6,776,704	649,101	7,990,552	1,029,979	17,275,177
Depreciation	2,013,466	0	1,490	0	0	0	2,014,956
Miscellaneous	112,029	25,200	785,446	34,152	533,166	42,780	1,532,773
Total Operating Expenses	<u>6,543,361</u>	<u>1,700,249</u>	<u>8,727,734</u>	<u>732,335</u>	<u>9,415,825</u>	<u>1,132,307</u>	<u>28,251,811</u>
Operating Income (Loss)	<u>181,775</u>	<u>585,079</u>	<u>(944,279)</u>	<u>259,591</u>	<u>765,370</u>	<u>81,561</u>	<u>929,097</u>
NONOPERATING REVENUES:							
Gain on Disposal of Fixed Assets	150	0	0	0	0	0	150
Investment Earnings	10,416	12,996	133	923	0	0	24,468
Total Nonoperating Revenues	<u>10,566</u>	<u>12,996</u>	<u>133</u>	<u>923</u>	<u>0</u>	<u>0</u>	<u>24,618</u>
Income (Loss) Before Transfers	192,341	598,075	(944,146)	260,514	765,370	81,561	953,715
Transfers In	<u>0</u>	<u>0</u>	<u>356,232</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>356,232</u>
Change in Net Position	192,341	598,075	(587,914)	260,514	765,370	81,561	1,309,947
Net Position, July 1, 2015	<u>13,179,530</u>	<u>2,297,160</u>	<u>981,252</u>	<u>377,050</u>	<u>309,429</u>	<u>0</u>	<u>17,144,421</u>
Net Position, June 30, 2016	<u>\$ 13,371,871</u>	<u>\$ 2,895,235</u>	<u>\$ 393,338</u>	<u>\$ 637,564</u>	<u>\$ 1,074,799</u>	<u>\$ 81,561</u>	<u>\$ 18,454,368</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Employee Health Insurance Fund	Retirees Health Insurance Fund	School Employee Insurance Fund	School Retirees Insurance Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Interfund Services Provided	\$ 6,725,135	\$ 2,285,328	\$ 7,934,614	\$ 989,492	\$ 10,170,661	\$ 1,212,371	\$ 29,317,601
Payments to Suppliers	(3,133,168)	(1,531,113)	(8,951,148)	(787,228)	(9,317,839)	(1,125,998)	(24,846,494)
Payments to Employees	(1,207,733)	(276,312)	(69,993)	0	0	0	(1,554,038)
Net Cash Provided (Used) by Operating Activities	2,384,234	477,903	(1,086,527)	202,264	852,822	86,373	2,917,069
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers (to) from Other Funds	0	0	356,232	0	0	0	356,232
Advances (to) from Other Funds	509,955	0	0	0	0	(13,450)	496,505
Net Cash Provided (Used) by Noncapital Financing Activities	509,955	0	356,232	0	0	(13,450)	852,737
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Capital Transfers from Other Funds	0	0	0	0	0	0	0
Purchase of Capital Assets	(2,992,904)	0	0	0	0	0	(2,992,904)
Proceeds from Sales of Capital Assets	150	0	0	0	0	0	150
Net Cash Used by Capital and Related Financing Activities	(2,992,754)	0	0	0	0	0	(2,992,754)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from Investments	87,504	0	0	0	0	0	87,504
Interest Received	11,061	12,971	133	923	0	0	25,088
Net Cash Provided (Used) by Investing Activities	98,565	12,971	133	923	0	0	112,592
Net Increase (Decrease) In Cash and Cash Equivalents	0	490,874	(730,162)	203,187	852,822	72,923	889,644
Cash and Cash Equivalents, July 1, 2015	0	4,925,485	1,410,261	436,544	1,037,025	94,968	7,904,283
Cash and Cash Equivalents, June 30, 2016	\$ 0	\$ 5,416,359	\$ 680,099	\$ 639,731	\$ 1,889,847	\$ 167,891	\$ 8,793,927

(continued)

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Employee Health Insurance Fund	Retirees Health Insurance Fund	School Employee Insurance Fund	School Retirees Insurance Fund	Total Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:							
Operating Income (Loss)	\$ 181,775	\$ 585,079	\$ (944,279)	\$ 259,591	\$ 765,370	\$ 81,561	\$ 929,097
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation	2,013,466	0	1,490	0	0	0	2,014,956
(Increase) Decrease in Assets:							
Accounts Receivable	0	0	151,160	(2,435)	(10,534)	(1,497)	136,694
Due From Other Governments	0	0	0	0	0	0	0
Inventory	31,734	0	6,608	0	0	0	38,342
Prepays	0	27,020	0	1	0	0	27,021
Increase (Decrease) in Liabilities:							
Accounts Payable	155,514	3,257	(38,225)	0	(37,495)	0	83,051
Claims Payable	0	(283,548)	0	0	0	0	(283,548)
Benefits Payable	0	144,116	(264,544)	(54,893)	135,481	6,309	(33,531)
Compensated Absences Payable	1,745	1,979	1,263	0	0	0	4,987
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,384,234</u>	<u>\$ 477,903</u>	<u>\$ (1,086,527)</u>	<u>\$ 202,264</u>	<u>\$ 852,822</u>	<u>\$ 86,373</u>	<u>\$ 2,917,069</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET POSITION:							
Equity in Pooled Cash and Investments	\$ 0	\$ 5,416,359	\$ 680,099	\$ 639,731	\$ 1,889,847	\$ 167,891	\$ 8,793,927
Restricted Assets Cash in Bank	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash and Cash Equivalents, June 30, 2016	<u>\$ 0</u>	<u>\$ 5,416,359</u>	<u>\$ 680,099</u>	<u>\$ 639,731</u>	<u>\$ 1,889,847</u>	<u>\$ 167,891</u>	<u>\$ 8,793,927</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

	Industrial Development Board	Emergency Communications District
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 2,324,100	\$ 725,903
Payments to Suppliers	(813,031)	(409,079)
Net Cash Provided (Used) by Operating Activities	<u>1,511,069</u>	<u>316,824</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital Grants	0	0
Net Cash Provided by Noncapital Financing Activities	<u>0</u>	<u>0</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Note Proceeds	4,902,487	0
Purchases of Capital Assets	(4,351,604)	(125,127)
Capital Grants	1,228,500	0
Payments to Grantees	0	0
Principal Paid on Capital Debt	(1,831,532)	0
Interest Paid on Capital Debt	(452,731)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(504,880)</u>	<u>(125,127)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Maturities of Investments	0	0
Interest Received	11,330	277
Net Cash Provided by Investing Activities	<u>11,330</u>	<u>277</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,017,519	191,974
Cash and Cash Equivalents, July 1, 2015	<u>865,234</u>	<u>968,526</u>
Cash and Cash Equivalents, June 30, 2016	<u><u>\$ 1,882,753</u></u>	<u><u>\$ 1,160,500</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 538,080	\$ 141,192
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	162,566	164,939
(Increase) Decrease in Assets:		
Accounts Receivable	43,030	0
Due from Other Governments	0	0
Due from Primary Government	160,758	0
Land Held for Sale or Development	507,720	0
Prepaid Items	(9,671)	8,322
Increase (Decrease) in Liabilities:		
Accounts Payable	(128,639)	2,371
Due to Primary Government	(36,103)	0
Unearned Income	<u>273,328</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,511,069</u></u>	<u><u>\$ 316,824</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET POSITION:		
Cash	\$ 1,882,753	\$ 1,160,500
Restricted Assets Cash in Bank	0	0
Cash and Cash Equivalents, June 30, 2016	<u><u>\$ 1,882,753</u></u>	<u><u>\$ 1,160,500</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Decrease in Investment in Joint Venture	<u><u>\$ 7,560</u></u>	<u><u>\$ 0</u></u>

See Independent Auditors' Report.

D. SUPPLEMENTAL INFORMATION



CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
June 30, 2016 and 2015

	2016	2015
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	\$ 32,211,839	\$ 30,040,799
Buildings	186,458,575	180,589,401
Improvements Other Than Buildings	25,595,304	23,640,593
Equipment	24,528,016	21,389,027
Software	908,338	688,716
Infrastructure	292,617,695	289,685,085
Construction in Progress	18,271,076	23,966,570
Total Governmental Funds Fixed Assets	\$ 580,590,843	\$ 570,000,191
INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:		
General Obligation Bonds	\$ 420,614,660	\$ 408,330,651
Contributions from Municipalities	517,978	517,978
Federal Grants	10,529,608	9,903,330
State Grants	1,061,110	212,132
County Grants	19,817	19,817
Federal Revenue Sharing	288,158	278,611
General Fund Revenue	15,759,604	15,281,933
Gifts	29,431,052	27,773,643
Annexed Roads	14,297,831	14,297,831
Forfeitures	114,985	114,985
Special Revenue Funds	64,616,621	64,209,565
Operating Revenue	2,305,357	2,330,159
Notes Payable	2,762,986	2,762,986
Construction in Progress	18,271,076	23,966,570
Total Governmental Funds Capital Assets	\$ 580,590,843	\$ 570,000,191

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.

A prior period adjustment was recorded in fiscal year 2015 to capitalize assets from a project that had remained open in construction in progress years after it was put in service. The effect of this correction decreases construction in progress by \$13,376,185 while increasing land by \$1,513,280; buildings by \$11,681,092; improvements other than buildings by \$131,413; and equipment by \$50,400. The 2015 information above includes the prior period adjustment.

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2016

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction in Progress	Total
General Government:								
General Government	\$ 12,067,382	\$ 23,768,925	\$ 2,741,901	\$ 1,014,480	\$ 26,173	\$ 0	\$ 2,765,021	\$ 42,383,882
Finance	0	0	5,797	19,251	180,748	0	0	205,796
Information Services	0	0	0	444,521	40,274	0	0	484,795
Geographic Information	0	0	0	86,598	8,500	0	0	95,098
Total General Government	12,067,382	23,768,925	2,747,698	1,564,850	255,695	0	2,765,021	43,169,571
Economic and Physical Development:								
Development Services	0	650,519	33,326	0	0	0	0	683,845
Transportation	0	1,691,919	133,476	2,149,789	277,879	0	9,195	4,262,258
Engineering	0	0	0	45,335	0	0	428,836	474,171
Total Economic and Physical Development	0	2,342,438	166,802	2,195,124	277,879	0	438,031	5,420,274
Public Safety:								
Police	90,588	4,677,342	66,272	3,889,951	87,248	0	177,175	8,988,576
Fire	1,173,230	5,613,620	837,139	1,630,812	11,665	0	1,988,696	11,255,162
Communication	0	66,535	0	66,972	0	0	0	133,507
Central Dispatch	0	0	0	2,046,631	0	0	0	2,046,631
Total Public Safety	1,263,818	10,357,497	903,411	7,634,366	98,913	0	2,165,871	22,423,876
Public Works:								
General and Administrative	0	340,217	44,744	148,655	0	344,469	0	878,085
Sanitation	0	0	0	5,000	0	0	0	5,000
Streets	0	0	1,123,214	901,351	0	39,842,439	3,148,639	45,015,643
Maintenance	0	136,572	12,410	814,600	0	0	32,262	995,844
Bridges System	0	0	0	0	0	8,348,531	0	8,348,531
Highways System	0	0	0	0	0	243,605,639	0	243,605,639
Total Public Works	0	476,789	1,180,368	1,869,606	0	292,141,078	3,180,901	298,848,742

(continued)

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2016

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction in Progress	Total
Culture and Recreation:								
Senior Citizens	0	3,871,547	29,040	11,228	13,550	0	0	3,925,365
Recreation	12,721,148	24,190,536	9,214,746	731,040	0	0	8,398,434	55,255,904
Cultural Arts	140,000	1,588,691	320,957	358,550	0	0	0	2,408,198
Bays Mountain	980,962	953,077	332,042	1,143,272	0	0	25,149	3,434,502
Allandale	306,018	416,692	663,561	192,686	0	0	0	1,578,957
Library	133,000	3,920,617	0	156,455	0	476,617	0	4,686,689
Total Culture and Recreation	14,281,128	34,941,160	10,560,346	2,593,231	13,550	476,617	8,423,583	71,289,615
Education	4,599,511	114,571,766	10,036,679	8,670,839	262,301	0	1,297,669	139,438,765
Total Governmental Funds Capital Assets	<u>\$ 32,211,839</u>	<u>\$ 186,458,575</u>	<u>\$ 25,595,304</u>	<u>\$ 24,528,016</u>	<u>\$ 908,338</u>	<u>\$ 292,617,695</u>	<u>\$ 18,271,076</u>	<u>\$ 580,590,843</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, 2016

Function and Activity	Governmental Funds Capital Assets June 30, 2015	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2016
General Government:					
General Government	\$ 42,030,877	\$ 2,455,969	\$ (2,087,923)	\$ (15,041)	\$ 42,383,882
Finance	205,796	0	0	0	205,796
Information Services	454,613	30,182	0	0	484,795
Geographic Information	95,098	0	0	0	95,098
Total General Government	42,786,384	2,486,151	(2,087,923)	(15,041)	43,169,571
Economic and Physical Development:					
Development Services	683,845	0	0	0	683,845
Transportation	3,396,465	993,594	(127,801)	0	4,262,258
Engineering	58,831	415,340	0	0	474,171
Total Economic and Physical Development	4,139,141	1,408,934	(127,801)	0	5,420,274
Public Safety:					
Police	8,699,225	2,193,526	(1,904,175)	0	8,988,576
Fire	9,248,171	2,951,155	(944,164)	0	11,255,162
Communication	133,507	0	0	0	133,507
Central Dispatch	2,046,631	0	0	0	2,046,631
Total Public Safety	20,127,534	5,144,681	(2,848,339)	0	22,423,876
Public Works:					
General and Administrative	878,085	0	0	0	878,085
Sanitation	5,000	0	0	0	5,000
Streets	43,480,603	4,365,562	(2,830,522)	0	45,015,643
Maintenance	1,003,252	108,859	(116,267)	0	995,844
Bridges System	8,348,531	0	0	0	8,348,531
Highways System	243,605,639	0	0	0	243,605,639
Total Public Works	297,321,110	4,474,421	(2,946,789)	0	298,848,742
Culture and Recreation:					
Senior Citizens	3,914,137	11,228	0	0	3,925,365
Recreation	53,752,462	5,257,135	(3,753,693)	0	55,255,904
Cultural Arts	444,554	1,963,644	0	0	2,408,198
Bays Mountain	3,389,989	44,513	0	0	3,434,502
Allandale	1,507,195	71,762	0	0	1,578,957
Library	4,378,704	307,985	0	0	4,686,689
Total Culture and Recreation	67,387,041	7,656,267	(3,753,693)	0	71,289,615
Education	138,238,981	3,995,590	(2,737,014)	(58,792)	139,438,765
Total Governmental Funds Capital Assets	\$ 570,000,191	\$ 25,166,044	\$ (14,501,559)	\$ (73,833)	\$ 580,590,843

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, 2016

	Water Fund	Sewer Fund	Aquatic Center Fund	MeadowView Conference Resort and Convention Center Fund	Other Enterprise Funds	Total Enterprise Funds
General and Administrative:						
Personnel Services	\$ 487,890	\$ 440,950	\$ 11,500	\$ 0	\$ 84,236	\$ 1,024,576
Contractual Services	302,722	188,317	28,626	30,600	370,916	921,181
Supplies	241,032	19,663	6,919	102,967	22,864	393,445
Insurance	44,616	56,000	37,566	31,452	29,024	198,658
Subsidies and Contributions	0	0	0	308,793	0	308,793
Base Management Fee	0	0	0	145,818	26,177	171,995
Other	191,366	61,602	1,392	190,463	69,323	514,146
Total General and Administrative	1,267,626	766,532	86,003	810,093	602,540	3,532,794
Operations:						
Water Plant Operations	2,990,091	0	0	0	0	2,990,091
Sewer Plant Operations	0	3,118,153	0	0	0	3,118,153
Water Distribution System Maintenance	2,729,065	0	0	0	0	2,729,065
Sewer Collection System Maintenance	0	1,461,438	0	0	0	1,461,438
Reading, Service and Maintenance of Meters	520,827	0	0	0	0	520,827
Landfill Operations and Services	0	0	0	0	707,463	707,463
Solid Waste Collection Services	0	0	0	0	727,061	727,061
Organic Refuse Services	0	0	0	0	1,814,473	1,814,473
Recycling Services	0	0	0	0	728,566	728,566
Storm Water Maintenance	0	0	0	0	1,120,247	1,120,247
Aquatic Center Operations	0	0	1,635,747	0	0	1,635,747
Golf Grounds Maintenance	0	0	0	0	340,154	340,154
Golf Pro Shop	0	0	0	0	376,582	376,582
Golf Shop Food and Beverage	0	0	0	0	48,121	48,121
Total Operations	6,239,983	4,579,591	1,635,747	0	5,862,667	18,317,988
Total Operating Costs	\$ 7,507,609	\$ 5,346,123	\$ 1,721,750	\$ 810,093	\$ 6,465,207	\$ 21,850,782

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
NONMAJOR ENTERPRISE FUNDS
SCHEDULE OF OPERATING COSTS
For the Fiscal Year Ended June 30, 2016

	Solid Waste Management Fund	Storm Water Management Fund	Cattails at MeadowView Golf Course Fund	Total Nonmajor Enterprise Funds
General and Administrative:				
Personnel Services	\$ 59,292	\$ 24,944	\$ 0	\$ 84,236
Contractual Services	4,600	172,187	194,129	370,916
Supplies	0	2,178	20,686	22,864
Insurance	25,000	0	4,024	29,024
Subsidies and Contributions	0	0	0	0
Base Management Fee	0	0	26,177	26,177
Other	18,299	27	50,997	69,323
Total General and Administrative	107,191	199,336	296,013	602,540
Operations:				
Landfill Operations and Services	707,463	0	0	707,463
Solid Waste Collection Services	727,061	0	0	727,061
Organic Refuse Services	1,814,473	0	0	1,814,473
Recycling Services	728,566	0	0	728,566
Storm Water Maintenance	0	1,120,247	0	1,120,247
Golf Grounds Maintenance	0	0	340,154	340,154
Golf Pro Shop	0	0	376,582	376,582
Golf Shop Food and Beverage	0	0	48,121	48,121
Total Operations	3,977,563	1,120,247	764,857	5,862,667
Total Operating Costs	<u>\$ 4,084,754</u>	<u>\$ 1,319,583</u>	<u>\$ 1,060,870</u>	<u>\$ 6,465,207</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

Federal Granting Agency/ Recipient State Agency/ Grant Program/ Grant Number	Federal CFDA Number	Contract Number	Subrecipient DUNS	Passed - Through to Subrecipient	FY2016 Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
Pass Through Tennessee Department of Education:					
National School Lunch Program	10.555				\$ 1,577,345
School Breakfast Program	10.553				568,026
Summer Feeding Program	10.559				78,263
Pass Through Tennessee Department of Agriculture:					
Commodity Supplemental Feeding	10.569				121,982
Total U.S. Department of Agriculture					<u>2,345,616</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>					
Pass Through Tennessee Department of Education:					
Title I, Project 15-21	84.010				214,442
Title I, Project 16-01	84.010				1,705,418
Title 1, School Improvement 2016	84.010				71,803
IDEA Part B, 15-21	84.027				31,829
IDEA Part B, 16-01	84.027				1,374,353
IDEA Part B, Supplement	84.027				6,187
Carl Perkins, 2016	84.048				118,076
Carl Perkins Incentive 2016	84.048				5,000
Pre School 15-21	84.173				9,688
Pre School 16-01	84.173				31,197
Title II, 2015, 2015-21	84.367				42,865
Title II, 2016, 2016-01	84.367				260,395
Homeless Assistance Grant	84.196				44,462
Safe and Supportive School Grant (S3)	84.184				23,340
Pass Through City of Greenville, Tennessee:					
Title III, 2015-21	84.365				512
Title III, 2016-01	84.365				7,962
Pass-Through Tennessee Department of Labor:					
Adult Basic Education	84.002	DG 1234579			224,911
Total U.S. Department of Education					<u>4,172,440</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>					
Direct Programs:					
Bulletproof Vest Partnership Program 10054361	16.607	10054361			2,842
Task Force SE-TNE-253 KC-15-0019	16.012	TNE-253 KC-15-0019			16,854
Justice Assistance Grant / 2013-DJ-BX-0455	16.579	2013-DJ-BX-0455			116
Justice Assistance Grant / 2015-DJ-BX-0586	16.579	2015-DJ-BX-0586			3,838
Total U.S. Department of Justice					<u>23,650</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>					
Direct Programs:					
FTA Capital/Operating/Planning TN-90-X368	20.507	Z-15-UR0P06-00			67,884
FTA Capital/Operating/Planning TN-90-X383	20.507	Z-16-UR0P09-00			736,599
FTA Capital/Operating/Planning TN-90-X402	20.507	Z-17-UR0P06-00			43,169
Pass Through Tennessee Department of Transportation:					
Multiple Traffic Violation Z15GHS184	20.607	Z15GHS184			7,585
Multiple Traffic Violation Z16GHS180	20.607	Z16GHS180			15,395
STP-EN-9108(43)	20.205	112315			355,289
Safe Routes to Schools SRTS-9108(30)	20.205	114393			50,402
FHWA Project No. SPR-PL-1-(318) 2015	20.205	Z-14MPO007			217,018
Resurfacing STP-M-9108(30) 82956-3578-54	20.205	114300			(16,697)
Signalization SR-126 Island Rd STP-M-126(20)	20.205	140163			6,423
Roadscaping STP-EN-9108(42)	20.205	105525			60
Lynn Garden Signal STP-M-36(33)	20.205	121579			13,629
STP-EN-8200(24)	20.219	030629			114,542
STP-EN-8200(22)	20.219	030629			54,908
FTA Capital / Operating / Planning Section 5303 10	20.505	DG164542500			38,350
Pass-Through Virginia Department of Transportation:					
FHWA Project VA PL Funds 2016	20.205				3,977
FTA Capital / Operating / Planning VA 2016	20.505	46015-2			3,434
Total U.S. Department of Transportation					<u>1,711,967</u>

(continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/ Grant Number</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Subrecipient DUNS</u>	<u>Passed - Through to Subrecipient</u>	<u>FY2016 Federal Expenditures</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					
Direct Programs:					
Community Development Block Grants	14.218	B-15-MC-47-0004			390,896
Community Development Block Grants	14.218	B-15-MC-47-0004	19-924-3010	\$ 11,825	
Community Development Block Grants	14.218	B-15-MC-47-0004	06-318-8200	\$ 27,960	
Community Development Block Grants	14.218	B-15-MC-47-0004	08-881-9396	\$ 18,574	
Pass-Through Tennessee Department of Health & Human Services: Emergency Solutions Grant Program	14.231	E-15-DC-47-0001			138,918
Total U.S. Department of Housing and Urban Development					529,814
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
Pass-Through First Tennessee Development District: Title III-B Transportation& III-D Health Promotion	93.044	KINGS-2015-HOOT-15			10,000
Total U.S. Department of Health and Human Services					10,000
<u>EXECUTIVE OFFICE OF THE PRESIDENT</u>					
Pass-Through Financial Commission for Appalachia HIDTA: High Intensity Drug Trafficking Area	95.001	G12AP0001A			5,981
Total Executive Office of the President					5,981
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>					
Pass-Through Tennessee State Library and Archives: Library Services Technology Act Grant	45.310	30504-00116-67			3,500
Total Institute of Museum and Library Services					3,500
<u>U.S. DEPARTMENT OF COMMERCE</u>					
Public Works Program Raw Water Conveyance Upgrade	11.300	04-01-0615			594,712
Total U.S. Department of Commerce					594,712
<u>ENVIRONMENTAL PROTECTION AGENCY</u>					
Pass-Through Tennessee Department of Environment and Conservation Capitalization Grants for Drinking Water State Revolving Loan Funds	66.468	DWF 2014-140			5,734,116
Total Environmental Protection Agency					5,734,116
Total Expenditures of Federal Awards					<u>\$ 15,131,796</u>

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City under programs of the federal government for the fiscal year. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior fiscal years.

NOTE C: FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of commodities received and used.

NOTE D: INDIRECT COST RATES

The City has not made an election regarding use of the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

NOTE E: OUTSTANDING LOAN BALANCES

The City has a State Revolving Loan with an outstanding balance of \$3,894,310 at June 30, 2016. Of this balance \$3,155,594 was federal money while \$738,716 was state money. The total loan available is \$15,000,000 and carries an interest rate of 1.78%.

See Independent Auditor's Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2016

Granting Agency/ Pass-Through Agency Grant Program/ Grant Number	State Contract Number	Pass-Through Entity identifying Number	2016 State Expenditures
<u>PRIMARY GOVERNMENT</u>			
Tennessee Arts Commission			
Arts Program Categorical Grants	31625		\$ 8,640
Total Tennessee Arts Commission			<u>8,640</u>
Tennessee Department of Health & Human Services			
Pass-Through First Tennessee Development District:			
State Senior Center Operations Grant		KINGS-2015-HOOT-15	16,667
Total Tennessee Department of Health & Human Services			<u>16,667</u>
Tennessee Department of Transportation			
TN-80-0005-00 Operating 82-5303-S3-016	GG-14-41412-00		4,794
TN-90-X-368 Operating 82UROP-S3-017	Z-15-40943-00		24,607
TN-90-X-383 Operating 82UROP-S3-017	82UROP-S3-017		472,587
TN-90-X-009 Operating 82UROP-S3-017	82UROP-S3-017		29,115
Total Tennessee Department of Transportation			<u>531,103</u>
Tennessee Department of Children's Services			
Truancy Intervention Program	GG-12-30644		53,720
Total Tennessee Department of Children's Services			<u>53,720</u>
Tennessee Department of Education			
LEAPS Program	119-12-02-041		223,419
Safe Schools	GP-46590		29,080
Pre-Kindergarten- Lottery	MX0-AAX		491,322
Family Resource	MTE-AAX		29,587
Coordinated School Health	GZB-AAX		102,583
Total Tennessee Department of Education			<u>875,991</u>
Tennessee Department of Agriculture			
Madd Branch Storm Water Device	GG-09-25533-00		27,500
Total Tennessee Department of Agriculture			<u>27,500</u>
Tennessee Department of Environment and Conservation			
Clean Tennessee Energy Grant	100407		148,750
Capitalization Grants for Drinking Water State Revolving Loan Funds	DWF 2014-140		1,341,377
Total Tennessee Department of Environment Conservation			<u>1,490,127</u>
Total State Awards for the Primary Government			3,003,748
<u>COMPONENT UNIT</u>			
<u>INDUSTRIAL DEVELOPMENT BOARD</u>			
Tennessee Department of Economic and Community Development			
Pure Foods Building Improvements	33006-28015		1,228,500
Total Industrial Development Board			<u>1,228,500</u>
Total State Awards			<u>\$ 4,232,248</u>

See Independent Auditor's 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.

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Revenue Capacity

Tables 7 - 12 contain information to help the reader assess the government's most significant local revenue sources, the property tax and local option sales tax.

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Debt Capacity

Tables 13 - 17 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.

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Demographic and Economic Information

Tables 18 - 19 offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

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Operating Information

Tables 20 - 29 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.

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Note: Statistical tables are exclusive of any prior period adjustments.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.

Table 1

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental Activities										
Invested in Capital Assets, Net of Related Debt	\$ 244,856,000	\$ 251,706,778	\$ 255,888,658	\$ 262,313,208	\$ 246,176,930	\$ 241,652,040	\$ 236,819,524	\$ 229,484,970	\$ 220,670,564	\$ 215,146,670
Restricted	33,768,000	30,399,946	22,286,383	184,626	184,662	178,140	195,625	247,951	215,639	172,941
Unrestricted	9,145,000	2,085,078	(702,400)	6,871,567	9,312,041	284,928	(6,270,614)	(9,459,253)	(42,782,973)	(39,294,647)
Total Governmental Activities Net Position	<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>	<u>\$ 242,115,108</u>	<u>\$ 230,744,535</u>	<u>\$ 220,273,668</u>	<u>\$ 178,103,230</u>	<u>\$ 176,024,964</u>
Business-Type Activities										
Invested in Capital Assets, Net of Related Debt	\$ 133,869,000	\$ 142,403,592	\$ 149,317,029	\$ 157,978,008	\$ 163,891,065	\$ 169,428,141	\$ 179,431,176	\$ 183,789,590	\$ 183,083,561	\$ 188,268,413
Restricted	952,000	1,119,119	939,246	882,421	1,432,126	619,678	364,708	469,895	406,253	604,795
Unrestricted	10,225,000	13,816,505	16,644,944	16,420,757	17,296,662	17,772,154	13,894,445	11,926,884	6,201,559	3,791,304
Total Business-Type Activities Net Position	<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>	<u>\$ 187,819,973</u>	<u>\$ 193,690,329</u>	<u>\$ 196,186,369</u>	<u>\$ 189,691,373</u>	<u>\$ 192,664,512</u>
Primary Government										
Invested in Capital Assets, Net of Related Debt	\$ 378,725,000	\$ 394,110,370	\$ 405,205,687	\$ 420,291,216	\$ 410,067,995	\$ 411,080,181	\$ 416,250,700	\$ 413,274,560	\$ 403,754,125	\$ 403,415,083
Restricted	34,720,000	31,519,065	23,225,629	1,067,047	1,616,788	797,818	560,333	717,846	621,892	777,736
Unrestricted	19,370,000	15,901,583	15,942,544	23,292,324	26,608,703	18,057,082	7,623,831	2,467,631	(36,581,414)	(35,503,343)
Total Primary Government Net Position	<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>	<u>\$ 429,935,081</u>	<u>\$ 424,434,864</u>	<u>\$ 416,460,037</u>	<u>\$ 367,794,603</u>	<u>\$ 368,689,476</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 POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
<u>Governmental Activities:</u>										
General Government	\$ 10,185,000	\$ 10,448,110	\$ 8,346,300	\$ 11,201,367	\$ 14,877,308	\$ 12,574,751	\$ 12,206,753	\$ 9,342,864	\$ 10,576,342	\$ 10,413,192
Public Safety	16,994,000	19,844,589	19,955,908	19,485,392	20,186,463	20,995,344	21,116,177	21,804,504	21,215,734	21,663,334
Public Works	11,388,000	13,370,957	12,871,747	14,690,010	15,325,189	13,397,601	13,504,933	13,920,899	14,606,362	15,579,088
Highway Transportation Planning	2,820,000	3,121,176	3,532,499	5,767,852	3,846,573	3,804,969	4,219,117	4,876,627	5,319,159	4,428,006
Economic and Physical Development	3,418,000	4,097,855	4,397,024	4,234,673	4,792,022	4,852,780	4,590,460	4,647,819	4,358,455	4,326,769
Culture and Recreation	5,097,000	6,802,922	6,535,076	6,144,900	6,590,859	6,691,418	7,295,391	7,308,927	7,347,859	7,784,401
Education	60,306,000	66,063,108	69,060,256	71,107,497	75,900,414	75,544,772	75,456,221	77,124,830	74,368,054	78,180,717
Interest on Long-Term Debt	1,470,000	3,244,491	3,276,319	4,069,104	4,718,229	4,551,533	3,253,559	4,121,095	4,189,508	4,008,351
Other	0	0	0	0	0	0	0	0	0	0
Total Governmental Activities Expenses	111,678,000	126,993,208	127,975,129	136,700,795	146,237,057	142,413,168	141,642,611	143,147,565	141,981,473	146,383,858
<u>Business-Type Activities:</u>										
Water	7,910,000	8,971,314	9,208,308	9,068,323	9,630,478	10,329,009	10,373,689	10,848,749	10,689,783	11,029,910
Sewer	7,582,000	7,941,556	8,527,859	8,082,865	8,227,535	8,267,253	8,687,619	8,912,004	11,281,230	11,853,057
Solid Waste Management	4,432,000	3,798,666	3,643,156	3,614,988	4,009,722	4,367,121	4,246,071	4,379,003	4,249,886	4,424,383
Storm Water Management	0	0	0	0	0	671,575	848,997	1,230,005	1,347,121	1,457,499
Aquatic Center	0	0	0	0	0	0	753,495	3,220,643	3,058,481	2,984,965
MeadowView Conference Center	1,230,000	1,246,702	1,461,629	1,986,408	1,597,797	1,362,677	1,559,914	2,954,368	2,944,790	2,685,147
Cattails at MeadowView Golf Course	1,432,000	1,447,591	1,361,077	1,586,343	1,384,281	1,325,339	1,313,104	1,335,963	1,288,216	1,311,917
Total Business-Type Activities Expenses	22,586,000	23,405,829	24,202,029	24,338,927	24,849,813	26,322,974	27,782,889	32,880,735	34,859,507	35,746,878
Total Primary Government Expenses	\$ 134,264,000	\$ 150,399,037	\$ 152,177,158	\$ 161,039,722	\$ 171,086,870	\$ 168,736,142	\$ 169,425,500	\$ 176,028,300	\$ 176,840,980	\$ 182,130,736
Program Revenues										
<u>Governmental Activities:</u>										
Charges for Services:										
General Government	\$ 821,000	\$ 138,937	\$ 194,323	\$ 687,263	\$ 1,596,808	\$ 681,275	\$ 683,997	\$ 491,916	\$ 1,036,182	\$ 1,097,954
Public Safety	314,000	2,478,198	2,384,667	1,789,496	1,820,625	1,179,259	1,106,058	1,227,933	1,106,788	1,259,977
Highway Transportation Planning	97,000	97,070	120,520	103,207	110,713	122,236	127,303	130,945	147,631	117,862
Economic and Physical Development	519,000	513,595	562,536	1,192,238	1,079,506	996,925	1,028,954	764,682	599,980	900,416
Culture and Recreation	678,000	748,935	754,137	818,919	987,328	988,565	991,503	963,498	1,029,146	1,324,523
Education	2,726,000	2,472,281	2,452,987	2,475,034	2,485,634	2,540,181	2,348,049	2,344,300	2,287,373	2,417,198
Operating Grants and Contributions	29,035,000	31,848,530	32,757,394	34,317,663	37,442,335	38,727,209	37,090,159	38,620,397	38,081,890	38,590,390
Capital Grants and Contributions	706,000	6,982,702	4,179,278	7,348,567	9,217,970	4,786,618	2,298,091	2,043,937	3,351,516	2,411,235
Total Governmental Activities Program Revenues	34,896,000	45,280,248	43,405,842	48,732,387	54,740,919	50,022,268	45,674,114	46,587,608	47,640,506	48,119,555
<u>Business-Type Activities:</u>										
Charges for Services:										
Water	13,445,000	13,073,516	12,981,541	12,513,017	12,383,505	12,667,214	12,235,550	12,791,336	13,262,329	13,575,659
Sewer	13,357,000	12,740,996	13,081,940	12,618,400	12,276,442	12,371,334	12,611,643	13,142,602	13,305,667	13,750,057
Solid Waste Management	580,000	783,960	679,518	772,999	829,411	944,641	802,090	832,053	1,006,285	872,231
Storm Water Management	0	0	0	0	0	910,822	1,809,829	1,840,865	1,813,527	1,860,884
Aquatic Center	0	0	0	0	0	0	331,444	1,428,226	1,388,065	1,348,766
MeadowView Conference Center	287,000	283,188	259,746	251,800	303,648	321,915	188,114	180,481	223,898	384,717
Cattails at MeadowView Golf Course	1,025,000	1,095,861	1,042,420	981,837	938,658	1,011,026	945,421	948,586	819,742	898,760
Operating Grants and Contributions	0	0	0	0	229,976	186,888	238,749	185,308	181,030	174,903
Capital Grants and Contributions	0	2,660,735	2,123,441	1,296,823	655,174	65,871	507,015	1,033,605	868,632	1,495,226
Total Business-Type Activities Program Revenues	28,694,000	30,638,256	30,168,606	28,434,876	27,616,814	28,479,711	29,669,855	32,383,062	32,869,175	34,361,203
Total Primary Government Program Revenues	\$ 63,590,000	\$ 75,918,504	\$ 73,574,448	\$ 77,167,263	\$ 82,357,733	\$ 78,501,979	\$ 75,343,969	\$ 78,970,670	\$ 80,509,681	\$ 82,480,758

(continued)

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net (Expense)/Revenue										
Governmental Activities	\$ (76,782,000)	\$ (81,712,960)	\$ (84,569,287)	\$ (87,968,408)	\$ (91,496,138)	\$ (92,390,900)	\$ (95,968,497)	\$ (96,559,957)	\$ (94,340,967)	\$ (98,264,303)
Business-Type Activities	6,108,000	7,232,427	5,966,577	4,095,949	2,767,001	2,156,737	1,886,966	(497,673)	(1,990,332)	(1,385,675)
Total Primary Government Net (Expense) Revenue	<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>	<u>\$ (90,234,163)</u>	<u>\$ (94,081,531)</u>	<u>\$ (97,057,630)</u>	<u>\$ (96,331,299)</u>	<u>\$ (99,649,978)</u>
General Revenues and Other Changes in Net Position										
<u>Governmental Activities:</u>										
Taxes:										
Property Taxes	\$ 42,857,000	\$ 43,181,138	\$ 45,003,403	\$ 45,938,645	\$ 47,144,856	\$ 48,236,082	\$ 50,347,648	\$ 52,677,994	\$ 55,935,014	\$ 57,058,121
Sales Taxes	27,570,000	27,531,437	27,003,900	26,304,997	27,514,740	29,469,816	29,687,264	30,753,163	32,690,121	34,386,506
Other Taxes	5,069,000	6,117,575	5,447,237	5,017,241	5,234,872	5,633,647	5,805,431	6,144,010	6,596,149	6,774,085
Grants and Contributions Not Restricted	713,000	641,999	970,035	1,040,878	986,665	1,361,422	1,370,621	1,151,744	1,126,538	995,380
Unrestricted Investment Earnings	2,801,000	3,392,236	1,624,800	786,056	421,579	401,451	332,967	178,084	158,346	211,962
Gain (Loss) on Disposal of Capital Assets	4,000	269,917	18,322	(869,975)	0	0	0	0	0	0
Miscellaneous	1,340,000	1,036,779	790,029	742,259	755,400	960,663	875,719	903,143	1,047,776	939,546
Transfers	(3,810,000)	(4,035,319)	(3,007,600)	(3,874,687)	(4,425,338)	(3,615,027)	(3,821,726)	(4,331,130)	(4,539,037)	(4,179,563)
Total Governmental Activities	<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>82,448,054</u>	<u>84,597,924</u>	<u>87,477,008</u>	<u>93,014,907</u>	<u>96,186,037</u>
<u>Business-Type Activities:</u>										
Unrestricted Investment Earnings	1,334,000	1,024,862	600,431	409,331	146,328	153,080	161,664	74,889	77,171	179,251
Gain (Loss) on Disposal of Capital Assets	2,000	50	(12,605)	0	0	5,812	0	0	0	0
Miscellaneous	0	0	0	0	0	0	0	0	0	0
Transfers	3,810,000	4,035,319	3,007,600	3,874,687	4,425,338	3,615,027	3,821,726	4,331,130	4,539,037	4,179,563
Total Business-Type Activities	<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>	<u>3,773,919</u>	<u>3,983,390</u>	<u>4,406,019</u>	<u>4,616,208</u>	<u>4,358,814</u>
Total Primary Government	<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>	<u>\$ 86,221,973</u>	<u>\$ 88,581,314</u>	<u>\$ 91,883,027</u>	<u>\$ 97,631,115</u>	<u>\$ 100,544,851</u>
Change in Net Position										
Governmental Activities	\$ (238,000)	\$ (3,577,198)	\$ (6,719,161)	\$ (12,882,994)	\$ (13,863,364)	\$ (9,942,846)	\$ (11,370,573)	\$ (9,082,949)	\$ (1,326,060)	\$ (2,078,266)
Business-Type Activities	11,254,000	12,292,658	9,562,003	8,379,967	7,338,667	5,930,656	5,870,356	3,908,346	2,625,876	2,973,139
Total Primary Government	<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>	<u>\$ (4,012,190)</u>	<u>\$ (5,500,217)</u>	<u>\$ (5,174,603)</u>	<u>\$ 1,299,816</u>	<u>\$ 894,873</u>

Source: City of Kingsport Finance Department

Note: All changes in Net Position 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	Hotel / Motel Tax	Total
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
2012	48,236,082	29,469,816	609,312	1,746,264	1,778,471	1,499,600	83,339,545
2013	50,347,648	29,687,264	709,109	1,845,565	1,742,979	1,507,778	85,840,343
2014	52,677,994	30,753,163	893,978	1,806,045	1,800,932	1,643,055	89,575,167
2015	55,935,014	32,690,121	1,115,663	2,068,944	1,847,187	1,564,355	95,221,284
2016	57,058,121	34,386,506	1,068,350	2,103,921	1,924,223	1,677,591	98,218,712

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									
	2007	2008	2009	2010	2011*	2012	2013	2014	2015	2016
General Fund										
Reserved	\$ 3,510,000	\$ 3,391,331	\$ 2,384,571	\$ 1,574,013	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved	17,409,000	14,848,415	12,927,260	13,155,138	0	0	0	0	0	0
Nonspendable	0	0	0	0	44,571	23,543	23,773	34,360	20,941	22,927
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	1,440,450	739,876	73,750	85,660	139,451	94,905
Unassigned	0	0	0	0	12,099,373	11,809,520	11,537,853	11,648,737	12,736,020	13,130,953
Total General Fund	<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>	<u>\$ 12,572,939</u>	<u>\$ 11,635,376</u>	<u>\$ 11,768,757</u>	<u>\$ 12,896,412</u>	<u>\$ 13,248,785</u>
All Other Governmental Funds										
Reserved	\$ 5,695,000	\$ 14,961,015	\$ 16,130,214	\$ 9,018,913	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved, reported in:										
Debt Service	1,022,000	1,140,765	626,839	411,923	0	0	0	0	0	0
Special Revenue Funds	7,556,000	6,895,192	7,432,715	6,594,744	0	0	0	0	0	0
Capital Project Funds	33,434,000	30,073,388	22,101,833	38,247,760	0	0	0	0	0	0
Permanent Fund	0	20,293	28,232	36,804	0	0	0	0	0	0
Nonspendable	0	0	0	0	335,358	391,421	431,092	321,674	328,598	349,582
Restricted	0	0	0	0	29,898,833	32,898,517	12,101,368	14,014,752	15,519,288	8,264,217
Committed	0	0	0	0	195,000	15,000	15,000	18,510	15,000	15,000
Assigned	0	0	0	0	10,303,693	8,663,697	7,907,282	9,192,987	10,510,648	11,859,220
Total all Other Governmental Funds	<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>	<u>\$ 41,968,635</u>	<u>\$ 20,454,742</u>	<u>\$ 23,547,923</u>	<u>\$ 26,373,534</u>	<u>\$ 20,488,019</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

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues:										
Taxes	\$ 53,341,000	\$ 57,472,994	\$ 58,697,849	\$ 59,644,769	\$ 61,736,098	\$ 64,053,048	\$ 65,947,861	\$ 69,564,106	\$ 73,722,283	\$ 75,549,547
Licenses and Permits	526,000	778,788	544,797	354,400	339,843	390,916	357,816	530,179	518,480	456,360
Intergovernmental	52,686,000	52,217,860	54,633,138	57,016,177	57,618,712	60,411,908	58,908,421	61,026,056	61,752,080	62,852,964
Charges for Services	4,162,000	3,940,109	4,056,619	4,903,995	5,059,845	4,788,526	4,741,965	4,446,028	4,453,764	5,093,344
Fines and Forfeitures	787,000	2,233,346	2,083,918	1,404,126	1,475,914	888,013	808,164	924,190	872,162	1,025,281
Contributions and Donations	316,000	385,508	343,405	417,259	544,308	478,234	445,475	456,400	713,459	471,323
Investment Earnings	2,123,000	2,754,996	1,209,675	534,657	285,622	301,300	273,394	152,238	140,248	187,494
Miscellaneous	555,000	714,899	438,420	620,950	1,087,540	712,967	296,538	683,627	426,932	459,683
Total Revenues	114,496,000	120,498,500	122,007,821	124,896,333	128,147,882	132,024,912	131,779,634	137,782,824	142,599,408	146,095,996
Expenditures:										
General Government	7,698,000	8,228,820	8,287,499	9,493,673	8,937,456	9,897,339	9,432,504	8,748,363	8,888,732	9,295,398
Public Safety	15,568,000	16,983,599	17,862,379	18,183,202	18,602,375	19,206,238	19,422,279	20,067,727	20,349,756	20,379,496
Public Works	5,178,000	5,639,582	6,162,895	6,297,624	6,292,395	6,104,746	6,441,239	6,823,759	6,854,129	7,343,759
Transportation	2,820,000	3,121,176	3,532,499	5,767,852	4,404,721	3,804,971	4,219,117	4,876,627	5,319,159	4,428,006
Development	3,219,000	3,681,462	3,884,126	3,823,882	4,258,551	4,209,456	4,010,897	4,080,865	4,009,648	3,962,118
Recreation	3,933,000	4,594,675	4,884,551	4,883,835	5,203,012	5,137,420	5,294,145	5,300,591	5,413,181	5,592,782
Maintenance	0	0	0	0	0	0	320	0	0	0
Education	55,800,000	57,969,972	60,328,330	62,216,835	63,944,855	65,758,406	67,003,733	68,827,804	69,933,085	73,886,673
Miscellaneous	878,000	1,019,288	860,350	1,164,299	1,179,584	1,108,609	1,045,894	726,702	1,010,101	769,025
Capital Outlay	4,954,000	21,263,050	30,907,899	23,141,716	20,219,807	25,002,612	13,015,102	14,160,334	15,864,508	11,667,728
Debt Service:										
Principal	8,488,000	12,191,783	7,750,015	4,286,390	5,271,066	5,426,273	6,436,120	6,657,299	7,696,331	7,697,555
Interest	1,470,000	2,449,755	2,761,593	3,612,987	4,930,280	4,549,707	4,133,024	4,032,477	4,352,406	4,356,358
Bond Issuance Costs	300,000	389,556	405,059	459,043	20,479	435,261	126,829	165,924	498,456	242,887
Arbitrage Rebate	0	0	0	0	0	0	0	0	8,184	0
Other Charges	11,000	7,590	19,516	9,744	33,061	7,387	12,122	29,895	0	17,311
Total Expenditures	110,317,000	137,540,308	147,646,711	143,341,082	143,297,642	150,648,425	140,593,325	144,498,367	150,197,676	149,639,096
Excess (deficiency) of revenues over (under) expenditures	4,179,000	(17,041,808)	(25,638,890)	(18,444,749)	(15,149,760)	(18,623,513)	(8,813,691)	(6,715,543)	(7,598,268)	(3,543,100)

(Continued)

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Other Financing Sources (Uses):										
Transfers In	36,504,000	36,400,996	33,134,077	28,905,392	29,214,433	28,958,597	29,346,521	29,439,834	31,868,200	33,017,651
Transfers Out	(40,314,000)	(40,680,728)	(36,665,512)	(32,780,079)	(33,051,330)	(32,573,624)	(33,018,247)	(33,770,964)	(36,752,237)	(37,553,446)
Transfer Bonds to										
Enterprise Funds	0	0	0	0	0	0	(10,596,258)	0	0	(1,362,955)
Issuance of Debt	35,441,000	23,120,000	19,260,000	29,207,043	4,097,044	26,376,201	12,677,052	13,406,845	32,291,848	19,313,751
Premiums on Debt Issued	0	112,398	211,590	520,024	0	740,813	1,068,429	866,390	4,044,772	1,685,668
Sale of Building	0	800,000	0	0	0	0	0	0	0	0
Payments to Refunded										
Bond Escrow Agent	0	0	0	0	0	(4,654,178)	(13,115,262)	0	(19,901,049)	(17,090,711)
Total Other Financing Sources (Uses)	31,631,000	19,752,666	15,940,155	25,852,380	260,147	18,847,809	(13,637,765)	9,942,105	11,551,534	(1,990,042)
Net Change in Fund Balances	<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>	<u>\$ 224,296</u>	<u>\$ (22,451,456)</u>	<u>\$ 3,226,562</u>	<u>\$ 3,953,266</u>	<u>\$ (5,533,142)</u>
Debt Service as a Percentage of Noncapital Expenditures	<u>9.5%</u>	<u>12.6%</u>	<u>9.0%</u>	<u>6.6%</u>	<u>8.3%</u>	<u>7.9%</u>	<u>8.3%</u>	<u>8.2%</u>	<u>9.0%</u>	<u>8.7%</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	Hotel / Motel Tax	Total
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
2012	48,337,930	29,469,816	609,312	1,746,264	1,778,471	1,499,600	83,441,393
2013	49,939,941	29,687,264	709,109	1,845,565	1,742,979	1,507,778	85,432,636
2014	53,084,374	30,753,163	893,978	1,806,045	1,800,932	1,643,055	89,981,547
2015	56,221,896	32,690,121	1,115,663	2,068,944	1,847,187	1,564,355	95,508,166
2016	56,978,708	34,386,506	1,068,350	2,103,921	1,924,223	1,677,591	98,139,299

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				
2007	2006	\$ 432,446,370	\$ 451,842,280	\$ 382,898,959	\$ 46,401,525	\$ 1,313,589,134	\$ 2.26	\$ 4,220,087,452	31.13%
2008	2007	443,963,472	459,872,279	341,168,271	40,991,606	1,285,995,628	2.30	4,137,292,348	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%
2012	2011	594,243,299	636,435,237	359,672,056	51,874,049	1,642,224,641	1.97	5,261,284,595	31.21%
2013	2012	638,772,453	636,926,951	352,203,970	48,475,692	1,676,379,066	1.97	5,409,558,045	30.99%
2014	2013	662,428,582	660,706,711	407,373,787	53,886,860	1,784,395,940	1.94	5,757,369,838	30.99%
2015	2014	667,577,858	669,577,428	398,689,272	53,753,183	1,789,597,741	2.07	5,770,952,302	31.01%
2016	2015	672,886,191	673,211,644	369,527,956	52,975,572	1,768,601,363	2.07	5,702,652,949	31.01%

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	Tax Year	City Direct Rates	Overlapping Rates	
			Sullivan County	Hawkins County
2007	2006	\$ 2.2600	\$ 2.5300	\$ 2.3600
2008	2007	2.3000	2.5300	2.6100
2009	2008	2.3000	2.5300	2.6100
2010	2009	1.9400	2.1307	2.7050
2011	2010	1.9400	2.1307	2.7050
2012	2011	1.9700	2.1307	2.3450
2013	2012	1.9700	2.3307	2.3450
2014	2013	1.9400	2.3054	2.3450
2015	2014	2.0700	2.3054	2.4650
2016	2015	2.0700	2.5754	2.4650

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	2016			2007		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Eastman Chemical Company	\$ 407,496,397	1	23.0%	\$ 371,525,000	1	28.3%
Domtar, Inc (Weyerhaeuser Co/ Willamette Industries)	38,312,727	2	2.2%	18,160,000	2	1.4%
Kingsport Power Company	22,301,373	3	1.3%	16,643,000	3	1.3%
Holston Family Practice	21,751,801	4	1.2%			
Brandy Mill Apartments, LLC	19,420,694	5	1.1%			
Wellmont Health System/ Holston Valley Health Care	17,098,455	6	1.0%	11,739,000	7	0.9%
Inland Western Kpt East Stone LLC - Clara F Jackson	15,280,320	7	0.9%			
Mountain States Health / HCA	14,510,083	8	0.8%	9,413,000	9	0.7%
Eastman Credit Union	13,548,086	9	0.8%	8,985,000	10	0.7%
Kingsport Town Center (Fort Henry Mall- Baltry, LLC)	11,954,676	10	0.7%	13,921,000	5	1.1%
Wal Mart Properties/Real Estate				9,563,000	8	0.7%
Sprint/United Telephone Southeast				13,269,000	6	1.0%
Quebecor				14,134,000	4	1.1%
Totals	<u>\$ 581,674,612</u>		<u>33.0%</u>	<u>\$ 487,352,000</u>		<u>37.2%</u>
Total Taxable Assessed Value:						
FYE 2016 (Tax Year 2015)	\$ 1,768,601,363					
FYE 2007 (Tax Year 2006)	1,313,589,134					

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 30th	Tax Year	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	
2007	2006	\$ 29,564,326	\$ (32,878)	\$ 29,531,448	\$ 28,769,796	97.42%	\$ 737,565	\$ 29,507,361	99.92%	\$ 24,087
2008	2007	29,582,951	20,093	29,603,044	28,616,818	96.67%	935,626	29,552,444	99.83%	50,600
2009	2008	30,553,586	(46,082)	30,507,504	29,616,908	97.08%	833,105	30,450,013	99.81%	57,491
2010	2009	31,362,309	(190,646)	31,171,663	30,151,757	96.73%	964,286	31,116,043	99.82%	55,620
2011	2010	32,011,845	213,070	32,224,915	31,071,305	96.42%	1,084,825	32,156,130	99.79%	68,785
2012	2011	32,276,181	348,579	32,624,760	31,684,065	97.12%	844,919	32,528,984	99.71%	95,776
2013	2012	32,988,793	999,523	33,988,316	32,509,744	95.65%	1,341,138	33,850,882	99.60%	137,434
2014	2013	34,588,442	529,010	35,117,452	34,296,005	97.66%	645,698	34,941,703	99.50%	175,749
2015	2014	37,776,783	309,491	38,086,274	37,242,818	97.79%	543,193	37,786,011	99.21%	300,263
2016	2015	37,829,084	(42,635)	37,786,449	36,831,749	97.47%	0	36,831,749	97.47%	954,700

Source: City of Kingsport Finance Department

Table 11

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAX RECEIVABLE
For the Fiscal Year Ended June 30, 2016

Tax Year	Property Tax Receivable Balance June 30, 2015	Property Tax Levied	Anticipated Current Year Levy	Abatements and Adjustments	Collections	Net Receivable Balance June 30, 2016
2006	\$ 26,636	\$ 0	\$ 0	\$ 0	\$ (2,549)	\$ 24,087
2007	54,235	0	0	0	(3,635)	50,600
2008	62,734	0	0	0	(5,243)	57,491
2009	61,519	0	0	0	(5,899)	55,620
2010	81,686	0	0	0	(12,901)	68,785
2011	118,098	0	0	0	(22,322)	95,776
2012	200,481	0	0	0	(63,047)	137,434
2013	272,285	0	0	0	(96,536)	175,749
2014	873,895	0	0	(30,439)	(543,193)	300,263
2015	0	37,829,084	0	(42,635)	(36,831,749)	954,700
2016	0	0	36,904,633	0	0	36,904,633
Totals	\$ 1,751,569	\$ 37,829,084	\$ 36,904,633	\$ (73,074)	\$ (37,587,074)	\$ 38,825,138

NOTES: All uncollected real property taxes for years prior to 2015 have been turned over to the Clerk & Master for collection.

All uncollected personal property taxes for years prior to 2011 have been turned over to the Clerk & Master for collection.

Source: City of Kingsport Finance Department

Table 12

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

FISCAL YEAR ENDED JUNE 30th	TOTAL LOCAL OPTION SALES TAX COLLECTIONS	GENERAL FUND	REGIONAL SALES TAX FUND
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
2012	18,789,437	15,432,814	3,356,623
2013	18,816,176	15,439,972	3,376,205
2014	19,390,768	15,901,590	3,489,178
2015	20,522,234	16,848,128	3,674,106
2016	21,282,094	17,474,902	3,807,192

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 Aquatic Center.

Table 13

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			
2007	\$ 63,041,000	\$ 6,302,000	\$ 54,243,000	\$ 195,000	\$ 5,423,000	\$ 129,204,000	10.24%	\$ 2,924
2008	73,954,097	6,419,174	48,045,133	180,000	5,591,065	134,189,469	10.70%	3,020
2009	86,231,128	5,872,283	67,029,074	160,000	15,578,624	174,871,109	12.85%	3,821
2010	112,219,869	5,323,392	73,689,344	140,000	22,190,263	213,562,868	15.17%	4,510
2011	107,563,297	8,795,620	67,014,158	0	24,288,460	207,661,535	13.30%	4,214
2012	122,673,341	10,615,303	69,832,074	0	23,658,574	226,779,292	13.85%	4,485
2013	96,542,440	10,240,943	105,705,775	0	0	212,489,158	11.85%	4,145
2014	106,683,823	9,179,827	113,441,729	0	0	229,305,379	12.68%	4,472
2015	118,181,223	7,447,661	114,003,565	0	0	239,632,449	12.58%	4,519
2016	114,824,016	6,592,279	115,356,506	0	3,894,310	240,667,111	12.16%	4,540

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 14

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 Reserves	Net General Obligation Bonds	Percentage of Estimated Actual Taxable Value of	Per Capita
2007	\$ 117,284,000	\$ 765,000	\$ 116,519,000	2.76%	\$ 2,637
2008	121,999,230	971,096	121,028,134	2.93%	2,724
2009	153,260,202	600,280	152,659,922	3.59%	3,336
2010	185,909,213	468,937	185,440,276	3.62%	3,916
2011	174,577,455	1,230,382	173,347,073	3.30%	3,518
2012	192,505,415	148,495	192,356,920	3.66%	3,804
2013	202,248,215	139,984	202,108,231	3.74%	3,942
2014	220,125,552	144,635	219,980,917	3.82%	4,290
2015	232,184,788	224,584	231,960,204	4.02%	4,374
2016	230,180,522	340,307	229,840,215	4.03%	4,335

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 Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data
- See 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, 2016

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping</u>
Debt Repaid with Property Taxes:			
Net Direct Debt:			
City of Kingsport	<u>\$ 140,652,627 (1)</u>	<u>100.00%</u>	<u>\$ 140,652,627</u>
Total Direct Debt	<u>140,652,627</u>	<u>100.00%</u>	<u>140,652,627</u>
Overlapping Debt:			
Sullivan County	72,593,630	46.11% (2)	33,475,046
Hawkins County	<u>79,632,673</u>	<u>6.43% (2)</u>	<u>5,123,866</u>
Subtotal, Overlapping Debt	<u>152,226,303</u>		<u>38,598,913</u>
Total Direct and Overlapping Debt	<u><u>\$ 292,878,930</u></u>		<u><u>\$ 179,251,540</u></u>

(1) Includes Solid Waste Management, Aquatic Center, MeadowView Conference and Resort Center and Cattails Golf Course General Obligation Bonds. The debt for these business-type activities was structured to be funded by the taxing authority of the City.

(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 16

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt Limit	\$ 262,717,827	\$ 257,199,126	\$ 264,465,541	\$ 319,894,747	\$ 328,628,809	\$ 328,444,928	\$ 335,275,813	\$ 356,879,188	\$ 357,919,548	\$ 353,720,273
Total Net Debt Applicable to Limit	65,910,000	74,655,000	101,870,000	128,636,532	123,381,532	138,767,654	130,382,038	138,394,266	145,513,415	140,652,627
Legal Debt Margin	<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>	<u>\$ 189,677,274</u>	<u>\$ 204,893,775</u>	<u>\$ 218,484,922</u>	<u>\$ 212,406,133</u>	<u>\$ 213,067,646</u>
Applicable to the Limit as a Percentage of Debt Limit	<u>25.09%</u>	<u>29.03%</u>	<u>38.52%</u>	<u>40.21%</u>	<u>37.54%</u>	<u>42.25%</u>	<u>38.89%</u>	<u>38.78%</u>	<u>40.66%</u>	<u>39.76%</u>
Legal Debt Margin Calculation for Fiscal Year 2016										
Total Taxable Assessed Value										<u>\$ 1,768,601,363</u>
Debt Limit (20% of Taxable Assessed Value)										353,720,273
Debt Applicable to Limit:										
General Obligation Bonds										107,558,337
Add: Solid Waste Management General Obligation Bonds										3,872,397
Add: Aquatic Center General Obligation Bonds										16,435,903
Add: MeadowView Conference Center General Obligation Bonds										12,176,500
Add: Cattails Golf Course General Obligation Bonds										<u>609,490</u>
Total Net Debt Applicable to Limit										<u>140,652,627</u>
Legal Debt Margin										<u>\$ 213,067,646</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 17

**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
				(2) Principal	Interest	Total	
<u>Water, Sewer and Storm Water Revenue Bonds:</u>							
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
2012	25,038,548	11,818,993	13,219,555	6,751,577	730,976	7,482,553	1.77
2013	26,657,022	12,864,076	13,792,946	7,252,314	636,400	7,888,714	1.75
2014	27,774,803	13,435,862	14,338,941	7,465,527	749,533	8,215,060	1.75
2015	28,379,023	13,338,516	15,040,507	7,904,148	2,087,368	9,991,516	1.51
2016	29,186,600	14,173,315	15,013,285	6,593,639	2,032,670	8,626,309	1.74

(1) Total operating expenses exclusive of depreciation.

(2) Principal paid on capital debt is net of refunded debt.

Source: City of Kingsport Finance Department

Notes: Financial statements prior to June 30, 2008 were rounded to thousands.
Storm Water Utility debt was established during fiscal year 2013.

Table 18

CITY OF KINGSPORT, TENNESSEE
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Fiscal Year Ended June 30	Census Data Year	Education Level - Population 25 Years and Over (1)									
		Population (1)	Personal Income (2)	Per Capita Personal Income	Median Age (1)	High	Associate's Degree (1)	Bachelor's Degree (1)	Masters or	School Enrollment (3)	Unemployment Rate (4)
						School Graduate or Higher (1)			Professional Degree (1)		
2007	2006	44,191	1,261,608,859	28,549	*	*	*	*	*	6,455	4.2%
2008	2007	44,435	1,254,044,570	28,222	42.6	81.3%	6.4%	17.1%	7.0%	6,251	6.2%
2009	2008	45,763	1,360,533,990	29,730	41.9	82.4%	7.8%	15.9%	8.2%	6,263	9.4%
2010	2009	47,356	1,407,893,880	29,730	42.2	90.6%	6.8%	16.1%	8.1%	6,296	8.8%
2011	2010	49,275	1,561,869,675	31,697	43.7	83.5%	7.3%	15.6%	9.0%	6,434	8.6%
2012	2011	50,561	1,637,670,790	32,390	43.2	84.6%	7.0%	15.2%	9.9%	6,485	8.4%
2013	2012	51,264	1,792,958,400	34,975	43.6	86.8%	7.2%	15.2%	10.3%	7,045	8.1%
2014	2013	51,274	1,808,126,336	35,264	43.8	87.0%	6.5%	15.4%	10.5%	7,258	7.1%
2015	2014	53,028	1,904,341,536	35,912	44.4	87.7%	7.1%	14.2%	11.2%	7,298	6.3%
2016	2015	53,014	1,978,588,508	37,322	44.3	87.6%	7.3%	14.8%	10.5%	7,403	5.4%

* Information was not available.

Source:

- (1) American Community Survey 5-Year Estimates (via American Factfinder) - City of Kingsport
- (2) U.S. Department of Labor Statistics, Bureau of Economic Analysis, month of June
- (3) Tennessee Department of Education (TDOE) Report Card - Kingsport City Schools
- (4) State of Tennessee Department of Labor & Workforce Development - month of June

Table 19

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

Employer	2016			2007		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Eastman Chemical Company	6,648	1	9.9%	8,000	1	11.1%
Wellmont Health Systems	2,886	2	4.3%	2,000	2	2.8%
Brock	1,641	3	2.4%	N/A		
Kingsport City Schools	1,073	4	1.6%	1,040	3	1.4%
City of Kingsport	749	5	1.1%	773	7	1.1%
BAE SYSTEMS Ordnance Systems, Inc.	737	6	1.1%	460	9	0.6%
Jacobs Engineering	650	7	1.0%	N/A		
Tennessee Electric Co., Inc.	515	8	0.8%	N/A		
Holston Medical Group	480	9	0.7%	890	5	1.2%
Eastman Credit Union	468	10	0.7%	N/A		
Mountain States Health	N/A			860	6	1.2%
Wal-Mart	N/A			900	4	1.2%
AFG Industries	N/A			600	8	0.8%
Domtar	N/A			350	10	0.5%
	<u>15,847</u>		<u>23.5%</u>	<u>15,873</u>		<u>22.0%</u>
Total Sullivan County Employment:						
	FYE 2016	67,300				
	FYE 2007	72,100				

Source:

-NETWORKS/Sullivan Partnership & Employers

Table 20

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

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government	80	92	96	96	93	95	112	104	100	125
Public Safety	243	254	257	262	264	267	265	265	269	271
Public Works	113	119	120	122	123	124	130	135	135	119
Development	36	25	24	25	22	23	23	23	19	21
Recreation	57	58	59	58	58	58	58	58	61	59
Education	978	982	993	1,010	1,013	1,040	1,041	1,047	1,057	1,073
Water	80	78	78	76	74	73	73	73	73	72
Sewer	40	40	41	40	41	42	42	42	42	42
Solid Waste	31	30	30	30	30	32	33	34	34	35
	<u>1,658</u>	<u>1,678</u>	<u>1,698</u>	<u>1,719</u>	<u>1,718</u>	<u>1,754</u>	<u>1,777</u>	<u>1,781</u>	<u>1,790</u>	<u>1,817</u>

Sources:

-City of Kingsport Finance Department
-Kingsport City School System

Table 21

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

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Education:										
Student Transportation:										
Miles	368,869	377,916	355,694	371,912	371,726	392,811	422,471	414,823	447,373	473,260
Average Daily Ridership	1,949	1,943	1,754	1,717	1,505	1,526	1,373	1,976	1,972	2,011
Public Safety:										
Police:										
Physical Arrests	3,206	3,348	3,587	4,584	5,066	4,029	3,641	3,501	4,406	4,119
Parking Citations	3,722	3,016	2,804	1,814	1,074	1,560	1,037	1,387	1,246	325
Traffic Citations	12,895	12,957	12,030	7,579	5,127	12,442	11,647	14,870	15,699	17,210
Calls for Service	47,934	48,981	46,249	57,153	59,755	59,147	60,210	63,789	62,935	63,006
Fire:										
Calls for Service	5,987	6,445	6,515	6,468	7,388	8,106	7,851	8,115	8,593	8,035
Inspections	3,403	2,899	3,378	3,378	3,339	1,951	1,942	2,577	3,225	3,285
Fire Loss	\$ 1,471,657	\$ 1,565,342	\$ 1,909,032	\$ 3,390,231	\$ 846,950	\$ 664,820	\$ 933,338	\$ 1,664,021	\$ 1,771,938	\$ 1,526,790
Public Works:										
Potholes Repaired	538	924	1,102	2,762	4,985	4,147	4,822	3,151	9,491	5,004
Streets Swept (linear miles)	7,853	6,339	6,247	6,456	5,105	7,409	5,520	4,715	4,432	5,247
Traffic Signal Maintenance Calls	650	547	598	599	610	557	736	608	549	497
Leaves Collected (Tons)	1,716	1,595	1,907	1,497	1,628	1,780	1,526	2,414	2,028	1,739
Parks and Recreation:										
Civic Auditorium Rentals	1,127	899	881	1,349	796	539	686	598	757	661
Civic Auditorium Attendance	54,219	70,197	72,773	147,764	96,248	106,807	110,635	78,856	68,461	47,668
Splash Pad Attendance	27,552	25,231	18,120	22,886	8,548	23,209	10,307	10,100	10,750	14,585
Participation in Athletic Division events	180,766	187,561	198,544	201,225	265,231	278,829	280,119	288,108	286,000	312,564
Participation in Community Services Division events	34,673	76,402	78,918	141,772	138,817	167,631	162,496	171,878	172,475	184,650
Allandale Rentals	297	293	274	342	304	226	231	215	212	260
Allandale Visitors	29,808	23,591	22,598	27,435	25,986	32,296	31,285	32,711	38,401	31,942
K - Play Games Played	1,350	1,428	1,560	1,768	1,825	1,875	1,847	1,908	1,986	2,280
K - Play Attendance	91,145	97,320	124,728	172,930	185,856	188,997	166,299	171,720	176,500	200,640
Lynn View Rentals	n/a	n/a	n/a	36	238	271	254	268	154	122
Lynn View Attendance	n/a	n/a	n/a	18,116	43,615	48,278	53,928	57,650	52,250	56,550
Cultural Arts:										
Carousel Rentals	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	81
Carousel Attendance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	88,945
Cultural Arts Program Attendance	16,708	9,891	13,088	10,057	12,761	9,276	11,143	11,700	12,378	18,610
Farmers Market Rentals	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	166
Farmers Market Attendance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	94,600
Renaissance Center Rentals	1,908	1,870	2,135	2,110	1,959	1,861	1,660	1,712	1,813	1,652
Renaissance Center Attendance	181,650	198,575	222,294	211,738	188,576	166,175	158,227	163,183	172,647	132,160
Senior Center:										
Active Members	1,842	2,365	2,673	2,591	2,801	3,012	2,978	3,045	3,424	3,615
Average Daily Attendance	188	226	241	247	252	325	308	301	333	330
Aquatic Center:										
Aquatic Center Attendance	n/a	n/a	n/a	n/a	n/a	n/a	31,244	140,433	115,982	103,825
YMCA Entering Pools Attendance	n/a	n/a	n/a	n/a	n/a	n/a	19,714	74,567	69,660	57,644
Total Attendance	n/a	n/a	n/a	n/a	n/a	n/a	50,958	215,000	185,642	161,469
Bays Mountain Park:										
Total Programs	1,667	1,259	2,090	1,771	1,422	3,658	3,080	5,091	5,176	3,332
Total Attendance	148,041	173,063	192,529	176,813	201,129	178,069	191,321	257,692	235,578	228,308
Library:										
Total Circulation	206,586	210,476	241,239	244,735	248,709	248,482	248,802	254,073	233,778	264,251
Building Attendance	176,854	193,344	209,234	213,379	206,533	199,875	187,837	189,598	172,806	166,331
Water:										
Average Daily Consumption in Gallons	14.5mgd	14.6 mgd	15.2 mgd	15.1 mgd	14.7 mgd	14.5 mgd	13.7 mgd	13.9 mgd	14.9 mgd	15.21 mgd
Maximum Daily Capacity in Gallons	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd	16.2 mgd	17.8 mgd	28.0 mgd	28.0 mgd	28.0 mgd	28.0 mgd
Water Taps	339	442	256	219	168	191	189	186	192	195
Sewer:										
Average Daily Treatment in Gallons	8.8 mgd	8.8 mgd	8.6 mgd	9.3 mgd	8.5 mgd	7.5 mgd	9.8 mgd	9.1 mgd	9.6 mgd	8.78 mgd
Maximum Daily Plant Capacity in Gallons	12.4 mgd	12.4 mgd	12.4 mgd	12.4 mgd	17.7 mgd	16.8 mgd	12.4 mgd	12.4 mgd	12.4 mgd	12.4 mgd
Sewer Taps	187	206	165	84	237	179	213	206	263	205
Solid Waste:										
Landfill Material Accepted (Tons)	24,434	32,574	26,958	25,077	61,326	34,268	27,198	25,670	35,809	27,240
Household Refuse Collected (Tons)	16,046	16,244	15,924	16,437	16,647	18,452	18,834	18,039	19,065	19,647
Recyclables Collected (Tons)	2,587	2,613	2,728	1,715	1,848	1,772	1,606	2,607	3,041	3,249
Golf Course:										
Rounds of Golf	26,175	27,338	26,233	24,225	23,515	25,915	24,090	24,387	20,455	22,630

Source: Various City Departments

Table 22

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

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Education:										
Student Transportation:										
Buses	35	37	38	38	40	40	42	39	41	46
Public Safety:										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	104	109	109	109	117	117	117	116	124	124
Motorcycle Units	1	1	1	1	0	0	0	0	0	0
Fire:										
Stations	6	6	6	7	7	7	8	8	8	8
Fire Trucks/Rescue Units	14	14	14	15	16	16	15	14	15	16
Public Works:										
Streets (Miles)	434	443	456	459	472	490	496	498	499	499
Street Lights	8,921	9,031	9,114	9,219	9,372	9,737	9,993	10,075	10,525	10,559
Traffic Signals	103	102	101	101	104	103	102	103	102	103
Leisure Services:										
Parks and Recreation:										
Park Sites	17	17	18	18	18	18	18	18	18	18
Park Acreage	191	191	237	237	237	237	237	237	237	237
Swimming Pools	2	2	1	1	1	1	1	-	-	-
Splash Pad	n/a	n/a	1	1	1	1	1	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:										
Aquatic Center - Acreage	n/a	n/a	n/a	n/a	n/a	n/a	17	17	17	17
Bays Mountain Park & Nature Center -Acreage	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550	3,550
Hunter Wright Baseball Stadium - Acreage	54	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	3	3	3	3	3	3	3	3
Lynn View Facility - Acreage	n/a	n/a	14	14	14	14	14	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
Brickyard Park - Acreage	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	39
School System:										
Elementary Schools	7	7	7	8	8	8	8	8	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	817	826	828	828	832	838	837	847	845
Fire Hydrants	1,691	1,740	1,754	1,794	1,848	1,898	1,938	2,003	2,028	2,226
Sanitary Sewers (Miles)	515	515	518	524	533	540	549	554	563	577
Storm Sewers (Miles)	209	209	209	209	209	209	241	300	300	300
Solid Waste:										
Collection Trucks	14	15	15	15	15	15	15	15	15	15
Golf Courses										
Cattails Golf Course - Acreage	192	192	192	192	192	192	192	192	192	192

Source: Various City Departments

Table 23

CITY OF KINGSPORT, TENNESSEE
UTILITY RATE STRUCTURE AND NUMBER OF CUSTOMERS
June 30, 2016

Water Rates:

		<u>Inside City</u>	
First	2,000 gallons	\$ 3.87	per 1000 gal
Next	13,000 gallons	3.11	per 1000 gal
Next	55,000 gallons	2.40	per 1000 gal
Over	70,000 gallons	1.72	per 1000 gal
		<u>Outside City</u>	
First	2,000 gallons	\$ 11.67	per 1000 gal
Next	13,000 gallons	7.07	per 1000 gal
Next	35,000 gallons	6.39	per 1000 gal
Next	70,000 gallons	5.93	per 1000 gal
Next	70,000 gallons	4.85	per 1000 gal
Over	190,000 gallons	4.56	per 1000 gal

Sewer Rates:

		<u>Inside City</u>	
Minimum charge		\$ 15.04	2,000 gal
Additional gallons		7.52	per 1000 gal
		<u>Outside City</u>	
Minimum charge		\$ 22.60	2,000 gal
Additional gallons		11.30	per 1000 gal

Number of Customers:


	<u>Inside City</u>	<u>Outside City</u>
Water	<u>22,676</u>	<u>12,197</u>
Sewer	<u>20,829</u>	<u>971</u>

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER - AWWA METHOD
June 30, 2016

AWWA Free Water Audit Software: Reporting Worksheet		WAS v5.0 American Water Works Association. Copyright © 2014, All Rights Reserved.	
<p>Water Audit Report for: City of Kingsport Reporting Year: 2016 7/2015 - 6/2016</p> <p>Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades</p> <p>All volumes to be entered as: MILLION GALLONS (US) PER YEAR</p> <p>To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below</p> <p>Master Meter and Supply Error Adjustments</p> <p>Enter negative % or value for under-registration Enter positive % or value for over-registration</p>			
WATER SUPPLIED			
Volume from own sources: + ? 7 5,567.521 MG/Yr			
Water imported: + ? 7 4.005 MG/Yr			
Water exported: + ? n/a 0.000 MG/Yr			
WATER SUPPLIED: 5,543.807 MG/Yr			
AUTHORIZED CONSUMPTION			
Billed metered: + ? 9 3,572.198 MG/Yr			
Billed unmetered: + ? n/a 0.000 MG/Yr			
Unbilled metered: + ? 9 529.243 MG/Yr			
Unbilled unmetered: + ? 8 52.592 MG/Yr			
AUTHORIZED CONSUMPTION: 4,154.033 MG/Yr			
WATER LOSSES (Water Supplied - Authorized Consumption) 1,389.774 MG/Yr			
Apparent Losses			
Unauthorized consumption: + ? 13.860 MG/Yr			
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed			
Customer metering inaccuracies: + ? 10 41.429 MG/Yr			
Systematic data handling errors: + ? 8 8.930 MG/Yr			
Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed			
Apparent Losses: 64.219 MG/Yr			
Real Losses (Current Annual Real Losses or CARL)			
Real Losses = Water Losses - Apparent Losses: 1,325.555 MG/Yr			
WATER LOSSES: 1,389.774 MG/Yr			
NON-REVENUE WATER			
NON-REVENUE WATER: 1,971.609 MG/Yr			
= Water Losses + Unbilled Metered + Unbilled Unmetered			
SYSTEM DATA			
Length of mains: + ? 10 846.0 miles			
Number of active AND inactive service connections: + ? 10 39,205			
Service connection density: + ? 46 conn./mile main			
Are customer meters typically located at the curbside or property line? Yes			
Average length of customer service line: + ? (length of service line, beyond the property boundary, that is the responsibility of the utility)			
Average length of customer service line has been set to zero and a data grading score of 10 has been applied			
Average operating pressure: + ? 10 112.5 psi			
COST DATA			
Total annual cost of operating water system: + ? 10 \$14,595,525 \$/Year			
Customer retail unit cost (applied to Apparent Losses): + ? 8 \$7.90 \$/1000 gallons (US)			
Variable production cost (applied to Real Losses): + ? 8 \$372.77 \$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses			
WATER AUDIT DATA VALIDITY SCORE:			
*** YOUR SCORE IS: 79 out of 100 ***			
A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score			
PRIORITY AREAS FOR ATTENTION:			
Based on the information provided, audit accuracy can be improved by addressing the following components:			
1: Volume from own sources			
2: Unauthorized consumption			
3: Systematic data handling errors			

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF UNACCOUNTED FOR WATER - AWWA METHOD
June 30, 2016



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

WAS v5.0
 American Water Works Association
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Water Audit Report for: City of Kingsport

Reporting Year: 2016 7/2015 - 6/2016

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 79 out of 100 ***

System Attributes:

	Apparent Losses:	64.219	MG/Yr	
	+ Real Losses:	1,325.555	MG/Yr	
	= Water Losses:	1,389.774	MG/Yr	
<div style="display: flex; align-items: center;"> ? Unavoidable Annual Real Losses (UARL): </div> <div style="display: flex; align-items: center;"> <div style="border: 1px solid black; flex-grow: 1; text-align: center;">429.42</div> <div style="text-align: right; margin-left: 5px;">MG/Yr</div> </div>				
Annual cost of Apparent Losses: \$507,328				
Annual cost of Real Losses: \$494,127 <div style="float: right; font-size: small;"> Valued at Variable Production Cost Return to Reporting Worksheet to change this assumption </div>				

Performance Indicators:

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	35.6%	
		Non-revenue water as percent by cost of operating system:	8.3%	
<div style="display: flex; align-items: center;"> <div style="width: 15%; text-align: right;">Operational Efficiency:</div> <div style="width: 5%; font-size: 3em; line-height: 1;">{</div> <div style="width: 45%;"> <p>Apparent Losses per service connection per day: 4.49 gallons/connection/day</p> <p>Real Losses per service connection per day: 92.63 gallons/connection/day</p> <p>Real Losses per length of main per day*: N/A</p> <p>Real Losses per service connection per day per psi pressure: 0.82 gallons/connection/day/psi</p> </div> </div>				
From Above, Real Losses = Current Annual Real Losses (CARL): 1,325.56 million gallons/year				
<div style="display: flex; align-items: center;"> ? Infrastructure Leakage Index (ILI) [CARL/UARL]: </div> <div style="display: flex; align-items: center;"> <div style="border: 1px solid black; flex-grow: 1; text-align: center;">3.09</div> </div>				

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

Table 25

**CITY OF KINGSPORT, TENNESSEE
TOP TEN WATER CUSTOMERS
For the Fiscal Year Ended June 30, 2016**

<u>Customer Name</u>	<u>Consumption (in gallons)</u>	<u>Revenue</u>	<u>Revenue as % of FY16 Water Sales</u>
Eastman Chemical Company	842,515,300	\$ 1,594,287	12.91%
Domtar Paper Company, LLC	80,592,900	154,050	1.25%
BAE Systems	66,848,200	116,413	0.94%
Kingsport Housing Authority	34,877,600	71,491	0.58%
Wellmont Health System	38,977,300	69,101	0.56%
Warriors Path State Park	9,262,200	46,323	0.38%
Indian Path Hospital	20,151,900	35,451	0.29%
North Greene Utility District	12,679,900	34,758	0.28%
Cross Creek Apartments	10,506,200	29,115	0.24%
MeadowView Conference Resort	14,286,300	28,073	0.23%
	<u>1,130,697,800</u>	<u>\$ 2,179,062</u>	<u>17.65%</u>

Source: City of Kingsport Finance Department

Table 26

**CITY OF KINGSFORT, TENNESSEE
TOP TEN SEWER CUSTOMERS
For the Fiscal Year Ended June 30, 2016**

<u>Customer Name</u>	<u>Treatment (in gallons)</u>	<u>Revenue</u>	<u>Revenue as % of FY16 Sewer User Fees</u>
Eastman Chemical Company	208,588,000	\$ 1,572,983	12.07%
Kingsport Housing Authority	34,846,400	263,979	2.03%
Wellmont Health System	17,327,700	130,305	1.00%
BAE Systems	16,736,200	125,856	0.97%
Allandale Falls Apt, LLC	14,436,700	108,564	0.83%
Indian Path Hospital	13,108,400	98,665	0.76%
Holston Manor	12,329,700	92,719	0.71%
Model City II, L.P.	12,140,400	91,321	0.70%
Domtar Paper Co, LLC	11,464,500	86,254	0.66%
Warriors Path State Park	7,312,500	82,643	0.63%
	<u>348,290,500</u>	<u>\$ 2,653,289</u>	<u>20.36%</u>

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF BONDS PAYABLE - FUTURE REQUIREMENTS
JUNE 30, 2016

Table 27

GENERAL OBLIGATION AND REVENUE BONDS											
GENERAL OBLIGATION BONDS			GENERAL OBLIGATION AND REVENUE BONDS								
GENERAL FUND SUPPORTED			REVENUE SUPPORTED BONDS								
Fiscal Year	General Obligation Bonds (3)		Water Bonds (1)		Sewer Bonds (1)		Storm Water Bonds (1)		Aquatic Center Bonds MeadowView Convention Center Bonds and Cattails Golf Course Bonds (2)		Combined Bonds and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2017	\$ 7,379,781	\$ 4,012,961	\$ 2,056,049	\$ 695,497	\$ 4,235,337	\$ 1,729,018	\$ 80,420	\$ 50,998	\$ 1,775,413	\$ 876,117	\$ 22,891,591
2018	7,779,330	3,844,648	1,762,106	639,420	3,864,733	1,583,924	82,713	52,403	1,691,114	983,215	22,283,606
2019	7,145,712	3,578,394	1,702,572	595,576	3,431,042	1,455,377	84,012	49,646	1,751,663	919,430	20,713,424
2020	6,727,040	3,353,710	1,622,021	559,141	3,071,914	1,360,673	86,743	46,509	2,067,284	856,488	19,751,523
2021	7,052,674	3,091,630	1,684,693	513,932	3,169,725	1,252,496	89,823	43,034	1,908,086	769,813	19,575,906
2022	7,018,295	2,835,167	1,634,111	474,068	2,887,417	1,158,480	92,911	39,198	1,982,264	695,919	18,817,830
2023	7,451,106	2,561,565	1,558,102	429,814	2,634,959	1,048,177	96,114	35,394	2,054,719	619,110	18,489,060
2024	7,685,647	2,271,212	1,598,993	388,864	2,687,794	956,222	99,913	31,417	2,142,655	539,543	18,402,260
2025	7,879,878	1,959,787	1,601,067	346,070	2,716,257	860,274	102,211	27,282	2,210,588	456,119	18,159,533
2026	8,162,754	1,649,717	1,550,988	304,161	2,796,500	771,684	105,421	22,993	2,297,534	369,348	18,031,100
2027	8,491,955	1,328,451	924,799	261,289	2,878,625	677,618	109,351	18,488	2,385,272	279,044	17,354,892
2028	6,312,426	1,032,129	946,965	224,144	2,892,339	575,333	112,905	14,211	2,455,364	204,401	14,770,217
2029	5,148,213	811,030	979,035	185,715	2,985,406	475,142	116,171	10,154	2,516,176	147,765	13,374,807
2030	4,327,639	608,621	1,013,544	145,376	3,080,522	367,258	68,957	5,468	1,119,338	68,447	10,805,170
2031	3,124,800	426,832	754,617	103,017	2,666,902	255,137	27,439	2,099	336,241	30,757	7,727,841
2032	3,245,528	313,054	784,445	76,232	1,658,303	167,564	28,541	1,070	353,182	19,174	6,647,093
2033	2,289,112	200,106	542,049	48,403	1,238,840	109,996	0	0	85,000	7,000	4,520,506
2034	2,369,627	121,897	561,688	29,249	1,283,685	66,334	0	0	90,000	3,600	4,526,080
2035	1,479,276	39,563	279,199	8,991	651,525	20,178	0	0	0	0	2,478,732
2036	359,941	11,698	99,491	3,233	215,566	7,006	0	0	0	0	696,935
	<u>\$ 111,430,734</u>	<u>\$ 34,052,172</u>	<u>\$ 23,656,534</u>	<u>\$ 6,032,192</u>	<u>\$ 51,047,391</u>	<u>\$ 14,897,891</u>	<u>\$ 1,383,645</u>	<u>\$ 450,364</u>	<u>\$ 29,221,893</u>	<u>\$ 7,845,290</u>	<u>\$ 280,018,106</u>
						Principal	Interest	Total			
General Obligation Bonds - Supported By General Fund Revenue						\$ 111,430,734	\$ 34,052,172	\$ 145,482,906			
General Obligation and Revenue Bonds - Supported By Dedicated Revenue						105,309,463	29,225,737	134,535,200			
TOTAL						<u>\$ 216,740,197</u>	<u>\$ 63,277,909</u>	<u>\$ 280,018,106</u>			

Notes: Future interest requirements above reflect interest on TMBF bonds at the maximum possible rate. Interest shown is net of Build America Bonds (BABS) subsidy for applicable bond issues.

- (1) General Obligation secured, but paid from revenues of the individual fund.
- (2) General Obligation secured, but paid from local option sales tax collections.
- (3) Includes General Obligation secured debt of the Solid Waste Management Fund paid by General Fund Revenue.

Source: City of Kingsport Finance Department

Table 28

CITY OF KINGSPORT, TENNESSEE
SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
For the Fiscal Year Ended June 30, 2016

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
Jeff Fleming	City Manager	\$ 152,491	\$ 5,000
J. Michael Billingsley	City Attorney	125,644	0
James H. Demming	City Recorder/Chief Financial Officer/ City Treasurer	113,827	759,000
Lyle Ailshie	Director of Schools	174,553	0
David Quillen	Chief of Police	93,840	0
John Clark	Mayor	3,000	0
Mike McIntire	Vice-Mayor	2,400	0
Darrell Duncan	Alderman	2,400	0
Colette George	Alderwoman	2,400	0
Michele Mitchell	Alderman	2,400	0
Tommy Olterman	Alderman	2,400	0
Tom Parham	Alderman	2,400	0

Source: City of Kingsport Finance Department

Table 29

**CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF INSURANCE IN FORCE
June 30, 2016**

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-213-16	7/1/15-7/1/18 Annual Renewal 7/1/15-7/1/16	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 5,000,000 5,000,000 Replacement 5,000,000	\$ 164,714
Safety National Casualty Corporation	SP4052060	1/1/16-1/1/17	Worker's Compensation	Statutory	141,617
<u>Government Crime</u>					
Travelers Insurance Co.	105981870	7/1/15-7/1/16	Employee Blanket Dishonesty (Schools)	500,000	4,394
Travelers Casualty & Surety Company	106463733	2/1/16-2/1/19	Crime	2,000,000	3,289
<u>Unemployment Compensation</u>					
City of Kingsport	Self insured				
<u>Property and Casualty</u>					
Travelers	KTK-CMB-9A14090-0-15	12/31/15-12/31/16	Buildings and Contents	526,500,000	160,500
EMC Insurance Companies	5A0-73-30---17	2/13/16-2/13/17	Justice Center Commercial/ Gen Property	13,543,000	10,192
Great American Insurance Company	MAC 0-99-12-47-00	8/1/15-8/1/16	Aquatic Center Property Insurance	23,000,000	15,018
Hartford Insurance Company	87053342652016	1/25/16-1/25/17	Flood Insurance Aquatic center	23,000,000	1,889
Hartford Insurance Co.	20MSCYQ7488	5/26/16-5/26/17	Grand Piano - Allandale		534
Great American Assurance Company	MAC409558001	2/1/16-2/1/17	911 Building	3,690,000	6,025
<u>Boiler and Machinery</u>					
The Cincinnati Insurance Co.	BEP2646328	1/1/16-1/1/17	Boilers and Machinery	100,000	5,292
<u>Public Officials Bond</u>					
Liberty Mutual Insurance Company	82C001612	3/1/16-3/1/17	Bond - Treasurer (J. Demming) (State of Tennessee Schools)	1,277,000	4,721
Liberty Mutual Insurance Company	82C012047	3/1/16-3/1/17	Bond - Recorder/Treasurer (J. Demming)	759,000	2,277
Travelers Insurance Company	106151564	6/29/14-indefinite	Bond - City Manager (J. Fleming)	5,000	100
Travelers Insurance Company	105795556	1/1/15-1/1/16	Bond - City Judge (W. K. Rogers)	1,000	100
Western Surety Company	58368775	4/4/16-4/4/17	Blanket Notary Errors and Omissions	25,000	650
<u>Other</u>					
Stadium General Liability / Hunter Wright Property - D.B. High School Montgomery Insurance Company	CBP9566738	3/8/16-3/8/17	General Liability/ Scoreboard/ Public Address system	2,000,000	1,339
ACE Tank Save	G24730086 004	10/12/15 - 10/12/16	Above ground storage tanks		7,634
Freberg Insurance Company	FEI-EST-10955-03	11/1/15-11/1/16	Fuel Tank Environmental		645
Hanover Insurance	IH5A19679502	1/14/16-1/14/17	Employee Tools Coverage		9,252
HCC Life Insurance Company	HCL15136	01/01/16 - 01/31/17	Aggregate Stop Loss	10,692,020	25,210
Total Premium				\$	565,392

Source: City of Kingsport

**INDEPENDENT AUDITOR'S 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, Tennessee
Kingsport, Tennessee 37660

We have audited, 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 the requirements prescribed by the Comptroller of the Treasury, State of Tennessee, 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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Kingsport, Tennessee's basic financial statements and have issued our report thereon dated January 13, 2017. Our report includes a reference to other auditors who audited the financial statements of the Emergency Communications District (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 of the financial statements, we considered the City of Kingsport, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Kingsport, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kingsport, Tennessee's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in

internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. The finding is listed as item **2016-001**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kingsport, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item **2016-002**.

City of Kingsport, Tennessee's Responses to Findings

The City of Kingsport, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Kingsport, Tennessee's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
January 13, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Honorable Mayor and Board of Aldermen
City of Kingsport, Tennessee
Kingsport, Tennessee 37660

Report on Compliance for Each Major Federal Program

We have audited the City of Kingsport, Tennessee's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Kingsport, Tennessee's major federal programs for the year ended June 30, 2016. The City of Kingsport, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kingsport, Tennessee's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kingsport, Tennessee'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Kingsport, Tennessee's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Kingsport, Tennessee, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item **2016-002**. Our opinion on each major federal program is not modified with respect to this matter.

The City of Kingsport, Tennessee's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Kingsport, Tennessee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Kingsport, Tennessee's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 of Kingsport, Tennessee'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questions costs as item **2016-001**, that we consider to be a material weakness.

The City of Kingsport, Tennessee's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in our audit of compliance and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
January 13, 2017

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Section I - Summary of Auditor's Results

1. The auditor's report expresses an **unmodified opinion** on the financial statements of the City of Kingsport, Tennessee.
2. **One material weakness** relating to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements of the City of Kingsport, Tennessee were disclosed during the audit.
4. **One material weakness** relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for the City of Kingsport, Tennessee expresses an **unmodified opinion** on all major federal programs.
6. The audit disclosed **one audit finding** relating to major programs.
7. The programs tested as major programs include:

<u>Name of Program</u>	<u>CFDA Number</u>
Child Nutrition	10.553, 10.555, & 10.559
Title I	84.010
Capitalization Grants for Drinking Water	66.468
State Revolving Loan Funds	
Public Works Program Raw Water Conveyance Upgrade	11.300

8. The **threshold** used for distinguishing Type A and B programs was **\$750,000**.
9. The City of Kingsport, Tennessee was **not** determined to be a **low risk auditee**.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Section II and Section III– Findings and Questioned Costs - Financial Statement Audit and Major Federal Award programs Audit

2016-001: Federal Grant Expenditures (Material Weakness)

Condition: The City failed to properly identify expenses related to a federal grant as well as record a receivable and grant revenue.

Cause: The City does not have an adequate review process to ensure that all expenses related to grants are properly recorded and reported

Effect: The City's SEFA did not include all federal expenditures for the fiscal year. Additionally not all federal grant revenue and related receivables were recorded.

Recommendation: When the City accepts a grant or loan involving federal funds, related expenses should be tracked in accordance with the agreement. When grant funds are earned in accordance with the grant agreement a receivable and revenue should be recorded, and reimbursement requests sent at that time. Additionally the City should develop internal control procedures to ensure the accuracy and completeness of the program information and expenditure amounts reported in the SEFA, including controls over the accuracy of the CFDA numbers.

Management Response: We acknowledge certain federal expenditures were left off the original schedule of expenditures of federal awards (SEFA). However the grant revenue not recorded was more of a timing issue. Finance staff was aware of the grant in question but no requests for reimbursement had been filed by the project manager and we did not realize allowable expenditures had occurred before yearend. The SEFA included with this report includes all FY2016 federal expenditures and revenue has been accrued to match the allowable expenditures for this grant. In the future finance staff will communicate more thoroughly with project managers to determine the status of grant projects. Finance staff will review BMA agendas to prepare a list of new grants in process and who to contact regarding that grant in order to prevent new grants from being overlooked before requests have been prepared.

Section III and Section IV - Findings and Questioned Costs – Major Federal Award Programs Audit and State of Tennessee

2016-002: Child Nutrition (CFDA 10.553, 10.555 & 10.559)

Condition: The City failed to properly classify between free and reduced meals based on information on the application.

Cause: The City does not have a review process after the applications have been categorized into the system.

Effect: Impermissible benefits could be awarded which would also affect the reimbursement rate received from the federal agency.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Section III and Section IV - Findings and Questioned Costs – Major Federal Award Programs Audit and State of Tennessee (Continued)

Recommendation: Applications for free and reduced lunch should be reviewed by an individual independent of the input process. Once they have been input into the computer system individual should ensure that each is properly classified and agrees to the applications received.

Management Response: Some applications for free and reduced lunch are reviewed, although not 100 percent. Timing is critical during the application process and in order to ensure that the student starts receiving benefits, as soon as possible, not all applications are reviewed. In addition to some applications being reviewed, personnel check for reasonableness when entering the information into the system. It is possible that one or two applications may be improperly categorized.

When the state performed their administrative review, they manually calculated 500 applications and did not find any that had been calculated incorrectly. We believe this was an isolated incident.

CITY OF KINGSPORT, TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

Financial Statement Audit

2014-001: Capital Asset Recording (Material Weakness)

Condition: The City failed to properly report several capital assets. Construction period interest was calculated on certain items and capitalized as a portion of the cost of the asset after the assets were completed and placed in service. Additionally the City failed to record certain assets in the capital asset software and begin depreciation at the time they were placed in service. The Industrial Development Board also failed to properly record construction in progress and the related payable.

Current Year Status: This issue was not noted during the current year.

Major Federal Award Programs Audit

None

State of Tennessee

None

Cover Photo:

*City BMA members and staff survey work on the
City's \$16,500,000 raw water intake project.*