

# *City of Kingsport, Tennessee*

*Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2003*

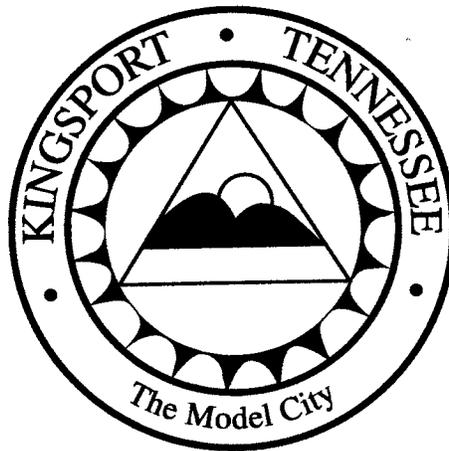


Hot Air Balloon Race  
Kingsport's Annual Fun Fest Celebration

Photo courtesy of the  
Kingsport Times News

*City of Kingsport, Tennessee*  
*Comprehensive Annual Financial Report*

*June 30, 2003*



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





CITY OF KINGSPORT, TENNESSEE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2003

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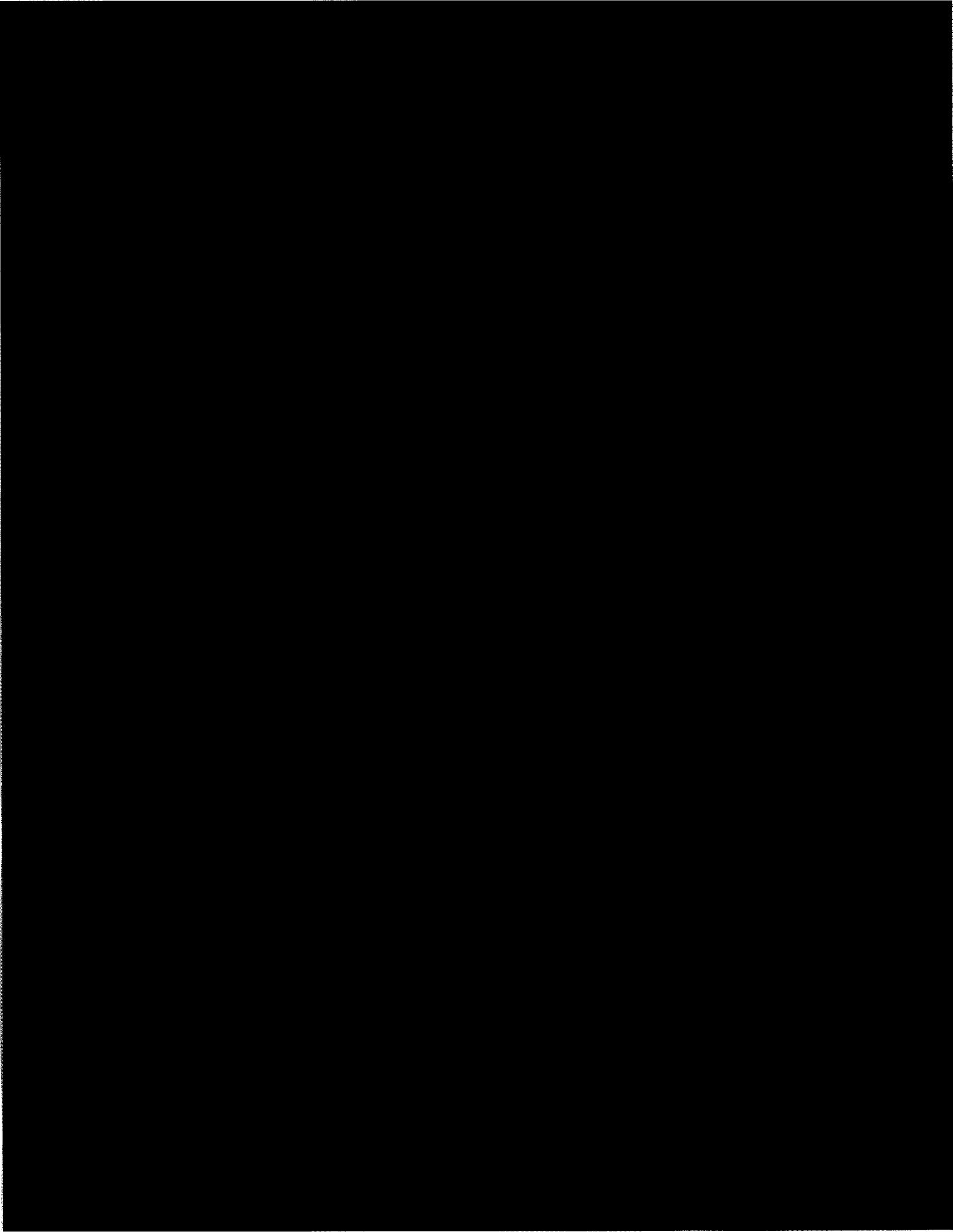
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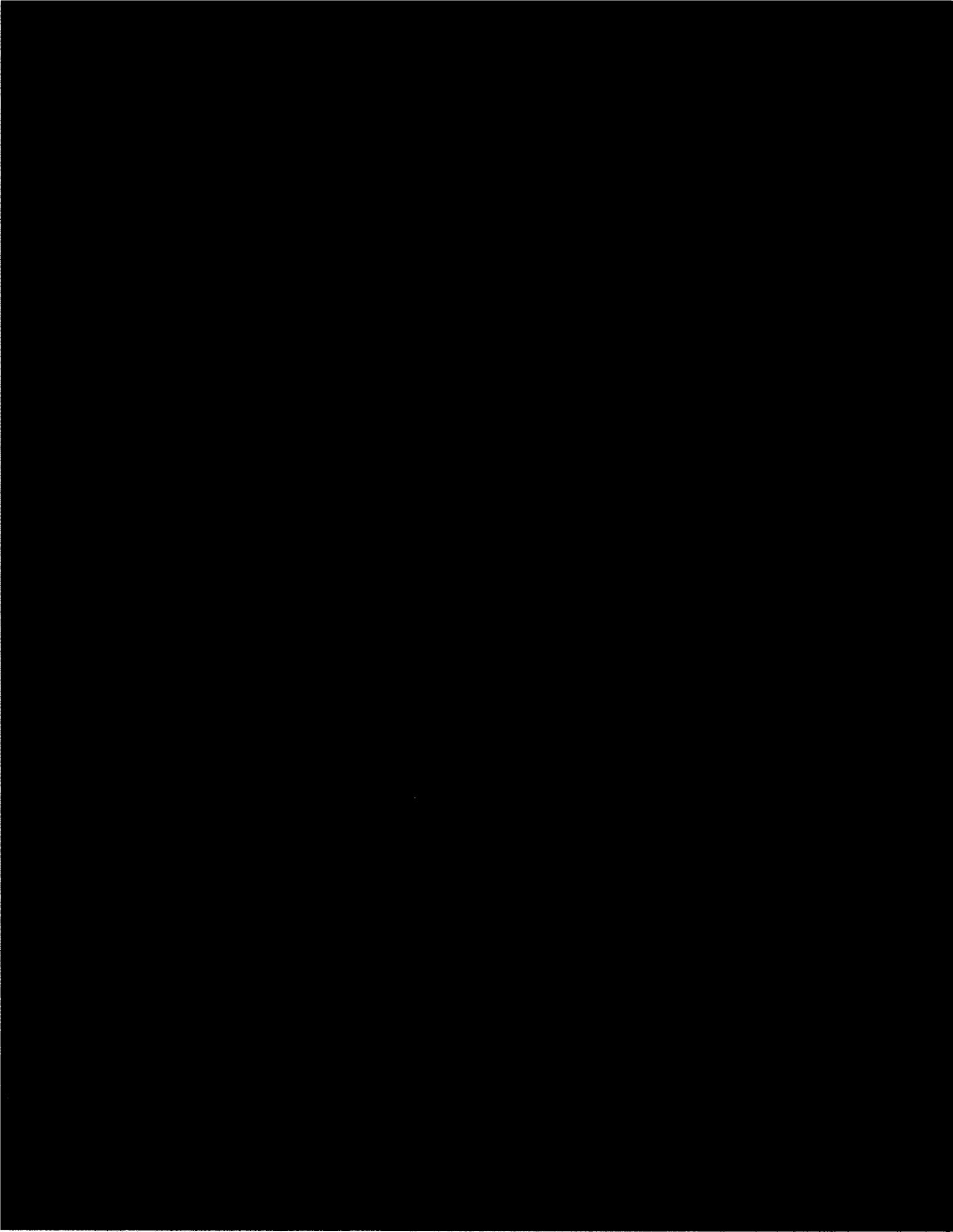
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## CITY OF KINGSPORT, TENNESSEE

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December 15, 2003

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 twelve 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, 2003.

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.

The City of Kingsport's financial statements have been audited by Blackburn, Childers & Steagall, PLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Kingsport for the fiscal year ended June 30, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Kingsport's financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component 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 44 square miles and serves a population of 44,362. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Aldermen.

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

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

The 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. Transfers of appropriations between departments, however, require the approval of the BMA. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on pages 27 through 29 as part of the basic financial statements for the City's funds.

### **Factors Affecting Financial Condition**

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

**Local economy.** The City of Kingsport encompasses approximately 44 square miles and has an estimated 2003 population of 44,362. It is located in northeast Tennessee and is part of a metropolitan area known as the Tri-Cities, which includes the Cities of Kingsport, Johnson City and Bristol.

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

The economic base of the City consists of a balance between large manufacturing industries, support industries, service-oriented business and retail. Economic development activities are supported by the City through annual contributions to the Chamber of Commerce's economic development programs, funding for the Kingsport Economic Development Board (KEDB) of the City of Kingsport and the construction of appropriate water, sewer, roadway and drainage infrastructure to developable commercial and industrial properties within the City. The KEDB was organized to acquire and facilitate development of property for the purpose of maintaining and increasing employment opportunities by inducing industrial and commercial businesses to locate to or remain in the City. Through the acquisition of developable properties by the KEDB and the development of these sites, the City is well positioned for future growth.

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

Weyerhaeuser completed a \$475,000,000 construction project that modernized their plant located in Kingsport. Although there will be no significant impact on employment figures, this investment solidifies their commitment to the Kingsport area.

**Cash management policies and practices.** The City's investment policy is to minimize market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by Federal Depository Insurance or collateralized. All collateral, on deposit, was held by the financial institution's investment department. The majority of investments held by the government during the fiscal year ended June 30, 2003 are classified in the category of lowest risk as defined by Governmental Accounting Standards Board.

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

**Risk management.** The Risk Management Program includes all lines of loss exposure. These exposure areas include: Workers' Compensation, Property Damage, General Liability, Errors and Omission; Crime; Boiler and Machinery; and Accidental Death and Dismemberments. Specific

and aggregate reinsurance is maintained to cover those losses in excess of City Self Insurance reserves. Please see Note 5.A to the financial statements for more information.

**Pension and other post employment benefits.** The City of Kingsport provides pension benefits for all of its employees through two state-wide plans managed by the Tennessee Consolidated Retirement system. The City of Kingsport also provides post retirement health care benefits for certain retirees and their dependents. Additional information on the City's pension arrangements and post employment benefits can be found in the financial statements.

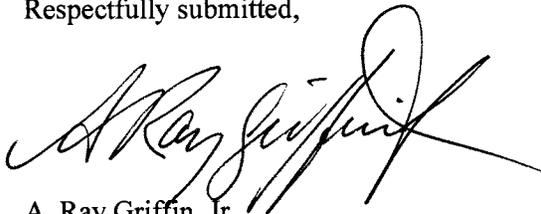
**Awards.** The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kingsport for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2002. This was the third 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 it's 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, 2002. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

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

Respectfully submitted,



A. Ray Griffin, Jr.  
City Manager



James H. Demming  
City Recorder/CFO

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# 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, 2002

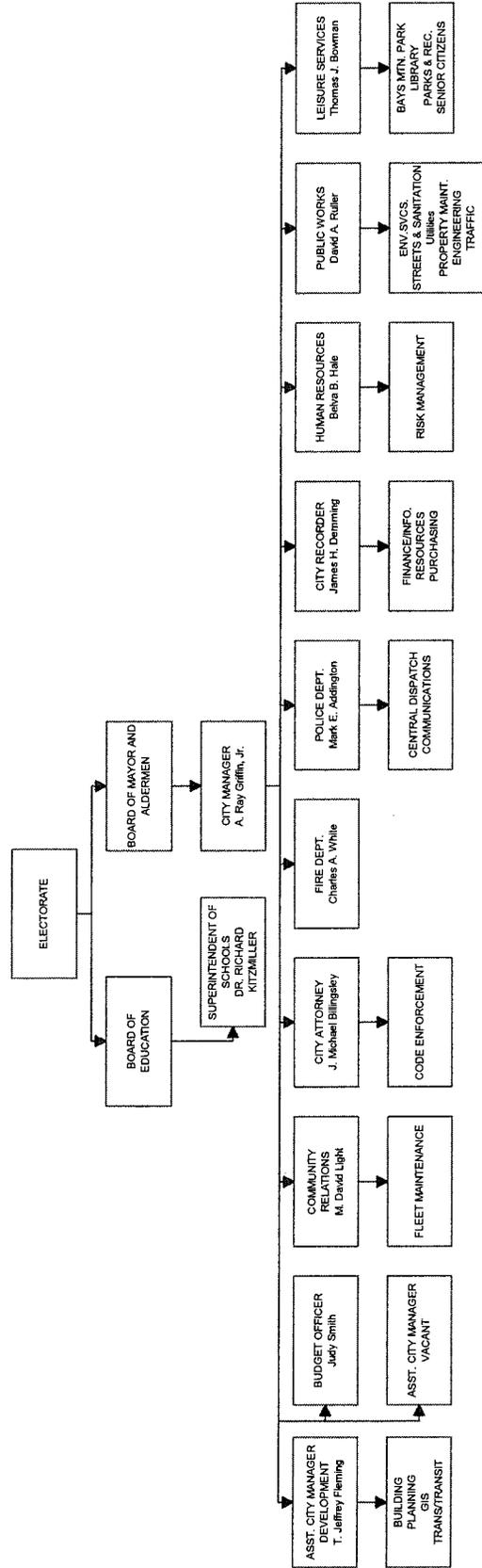
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# CITY OF KINGSPORT



CITY OF KINGSPORT, TENNESSEE  
HISTORY AND ORGANIZATION

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

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

CITY OF KINGSPORT, TENNESSEE  
LIST OF ELECTED AND APPOINTED OFFICIALS  
June 30, 2003

BOARD OF MAYOR AND ALDERMEN

Jeanette D. Blazier	Mayor
Larry Munsey	Vice Mayor
David Clark	Alderman
Roy L. Harmon	Alderman
C. Ken Marsh, Jr.	Alderman
Gary Mayes	Alderman
Mike O'Neill	Alderman

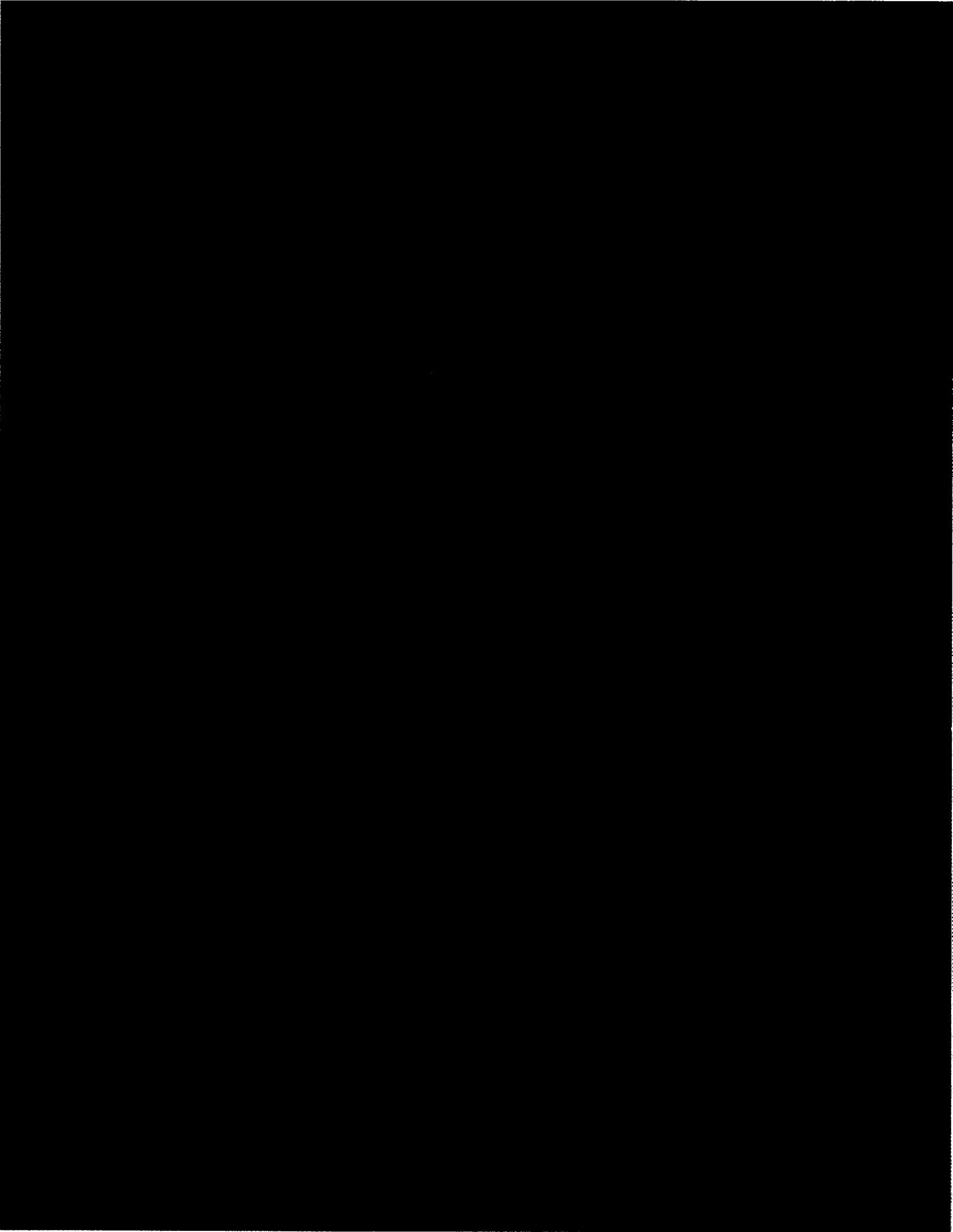
CHARTER OFFICERS

A. Ray Griffin, Jr.	City Manager
James H. Demming	City Recorder/Chief Financial Officer
Keith E. Smith	City Treasurer
J. Michael Billingsley	City Attorney
Mark E. Addington	Police Chief
J. Robert Boatright	City Judge
Dr. Richard Kitzmiller	Superintendent of Schools

DEPARTMENT HEADS

Thomas J. Bowman	Leisure Services Director
Charles A. White	Fire Chief
David Ruller	Public Works Director
T. Jeffrey Fleming	Assistant City Manager for Development
Belva Hale	Human Resources Director
Judy A. Smith	Budget Director





CITY OF KINGSPORT, TENNESSEE

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2003

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

American Institute of Certified Public Accountants  
Polaris International

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee (the "City") and the Industrial Development Board, a discretely presented component unit, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the basic financial statements of the Emergency Communications District, a discretely presented component unit, as of and for the year ended June 30, 2003. Those basic financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the City's financial statements, insofar as it relates to the amounts included for the Emergency Communications District, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund, the general purpose school fund and the debt service fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditors' Report  
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 11 through 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements, supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are not a required part of the basic financial statements. The combining and individual fund financial statements, schedules of capital assets used in the operation of governmental funds, schedule of operating costs for enterprise funds and schedules of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. 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 express no opinion on them.

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

November 26, 2003

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CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2003  
(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, 2003. 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 4 of this report. Please note that certain restatement of prior year comparative information has occurred. This restatement resulted from revenue and expense reclassifications and the prior period adjustments discussed in the footnotes of these financial statements.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$390,081 (net assets). Of this amount, \$43,405 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$8,302.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$36,321, an increase of \$2,793 in comparison with the prior year. Approximately 75% of this total amount, \$27,341, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$14,920, or 29% of total general fund expenditures including transfers out.
- The City's total gross debt decreased by \$1,188 (1%) during the current fiscal year.

**Overview of the Financial Statements**

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

**Government-wide financial statements**

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

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

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

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2003

(amounts expressed in thousands)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, highway transportation planning, economic and physical development, culture and recreation and education. The business-type activities of the City include water, sewer, solid waste, conference center and golf course. The government-wide financial statements can be found on pages 21 and 22 of this report.

**Fund financial statements**

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

**Governmental funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the citywide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty-three (23) individual government 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 23-32 of this report.

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

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

**Proprietary funds**

The City maintains eight (8) different types of proprietary funds, including enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, solid waste, convention center and golf course activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for vehicle maintenance and replacement and self-insurance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water, sewer, solid waste, convention center and golf course activities, which are considered to be major funds of the City. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 33-37 of this report.

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38-95 of this report.

**Other information**

The combining statements referred to earlier in connection with nonmajor governmental funds, budget comparison schedules for funds with legal budgets other than the general fund and other major special revenue funds, and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 96-120 of this report.

**Governmental-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceed liabilities by \$390,081 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (87%) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF KINGSPORT, TENNESSEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended June 30, 2003

(amounts expressed in thousands)

**City of Kingsport's Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 96,294	\$ 90,244	\$ 21,641	\$ 23,712	\$ 117,935	\$ 113,956
Capital assets	<u>287,583</u>	<u>291,504</u>	<u>164,609</u>	<u>157,814</u>	<u>452,192</u>	<u>449,318</u>
Total assets	<u>383,877</u>	<u>381,748</u>	<u>186,250</u>	<u>181,526</u>	<u>570,127</u>	<u>563,274</u>
Long-term liabilities outstanding	52,735	55,320	74,402	72,975	127,137	128,295
Other liabilities	<u>49,321</u>	<u>45,598</u>	<u>3,588</u>	<u>5,932</u>	<u>52,909</u>	<u>51,530</u>
Total liabilities	<u>102,056</u>	<u>100,918</u>	<u>77,990</u>	<u>78,907</u>	<u>180,046</u>	<u>179,825</u>
Net assets:						
Invested in capital assets, net of related debt	235,345	234,544	103,253	98,946	338,598	333,490
Restricted	7,010	8,981	1,068	1,046	8,078	10,027
Unrestricted	<u>39,466</u>	<u>37,305</u>	<u>3,939</u>	<u>2,627</u>	<u>43,405</u>	<u>39,932</u>
Total net assets	<u>\$281,821</u>	<u>\$280,830</u>	<u>\$108,260</u>	<u>\$102,619</u>	<u>\$390,081</u>	<u>\$383,449</u>

A portion of the City's net assets \$8,078 (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$43,405 may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets increased by \$8,302 during the current fiscal year. About 30% of this increase (\$2,462) was from the governmental activities while the remaining 70% of the increase (\$5,840) was from the business-type activities. The primary reason for this increase is due to the increase in ongoing revenues exceeding similar increases in ongoing expenses.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2003:

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

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,089	\$ 5,149	\$ 22,741	\$ 22,269	\$ 26,830	\$ 27,418
Operating Grants & Contributions	24,420	22,876	-	-	24,420	22,876
Capital Grants & Contributions	1,629	821	-	200	1,629	1,021
General Revenues:						
Property Taxes	36,399	35,254	-	-	36,399	35,254
Sales Taxes	24,133	23,874	-	-	24,133	23,874
Other Taxes & Intergovernmental	4,013	4,115	-	-	4,013	4,115
Unrestricted Investment Earnings	673	1,118	295	442	968	1,560
Grants and Contributions Not Restricted to Specific Programs	565	986	-	-	565	986
Other	937	641	6	(5)	943	636
Total Revenues	<u>\$ 96,858</u>	<u>\$ 94,834</u>	<u>\$ 23,042</u>	<u>\$ 22,906</u>	<u>\$119,900</u>	<u>\$117,740</u>
Expenses:						
General Government	\$ 5,295	\$ 5,530	\$ -	\$ -	\$ 5,295	\$ 5,530
Public Safety	13,395	12,631	-	-	13,395	12,631
Public Works	9,225	9,279	-	-	9,225	9,279
Highway Transportation Planning	2,366	2,034	-	-	2,366	2,034
Economic and Physical Development	3,066	3,128	-	-	3,066	3,128
Culture and Recreation	4,469	4,096	-	-	4,469	4,096
Education	50,950	47,840	-	-	50,950	47,840
Interest on Long-term Debt	2,329	2,713	-	-	2,329	2,713
Other	314	234	-	-	314	234
Water	-	-	7,503	8,216	7,503	8,216
Sewer	-	-	6,824	8,015	6,824	8,015
Solid Waste Management	-	-	2,915	2,794	2,915	2,794
Conference Center	-	-	1,701	2,117	1,701	2,117
Golf Course	-	-	1,246	1,351	1,246	1,351
Total Expenses	<u>91,409</u>	<u>87,485</u>	<u>20,189</u>	<u>22,493</u>	<u>111,598</u>	<u>109,978</u>

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

Increase in net assets before transfers	<u>5,449</u>	<u>7,349</u>	<u>2,853</u>	<u>413</u>	<u>8,302</u>	<u>7,762</u>
Transfers	<u>(2,987)</u>	<u>(5,067)</u>	<u>2,987</u>	<u>5,067</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>2,462</u>	<u>2,282</u>	<u>5,840</u>	<u>5,480</u>	<u>8,302</u>	<u>7,762</u>
Net assets, beginning of period	280,830	278,548	102,619	97,139	383,449	375,687
Prior period adjustment	<u>(1,471)</u>	<u>-</u>	<u>(199)</u>	<u>-</u>	<u>(1,670)</u>	<u>-</u>
Net assets, beginning of period (restated)	<u>279,359</u>	<u>278,548</u>	<u>102,420</u>	<u>97,139</u>	<u>381,779</u>	<u>375,687</u>
Net assets, end of period	<u>\$281,821</u>	<u>\$280,830</u>	<u>\$108,260</u>	<u>\$102,619</u>	<u>\$390,081</u>	<u>\$383,449</u>

**Governmental activities**

Governmental activities increased the City's net assets by \$2,462, thereby accounting for 30% of the total growth in the net assets of the City. This increase is primarily due to favorable operating results for the fiscal year. Additional information related to this increase can be found in Note 2 on page 48-50 of this report.

**Business-type activities**

Business-type activities increased the City's net assets by \$5,840, accounting for 70 percent of the total growth in the City's net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities increased by \$472 over the previous fiscal year while the operating expenses, excluding depreciation, decreased by approximately \$700.
- The City budgeted and achieved an overall increase in net income to provide funds for capital expansion and debt repayments as indicated in the Statement of Cash Flows located on pages 36 and 37 of this report.

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

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

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kingsport's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Kingsport's governmental funds reported combined ending fund balances of \$36,321, an increase of \$2,793 in comparison with the prior year. Approximately 75% of this total amount, \$27,341, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for spending because it has already been committed to: 1) advances to golf course (\$3,078), 2) liquidate contracts and purchase orders of the prior period (\$5,392) and for a 3) variety of other restricted purposes (\$510).

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$14,920 while total fund balance reached \$18,298. As a matter of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out.

Unreserved fund balance represents 29% of total general fund expenditures and transfers out, while total fund balance represents 36% of that same amount. The fund balance of the City's General Fund increased by only \$761 as a result of the current fiscal year operations.

The general-purpose school fund has a total fund balance of \$3,289, of which most is unreserved. The net increase in fund balance during the current year in the general-purpose school fund was \$602.

The capital project fund has a total fund balance of \$10,732, of which \$4,056 is encumbered at year-end and \$6,676 is unreserved but designated for approved capital projects. The net increase in this fund balance of \$1,968 was primarily due to the recording of receipts from a short-term note for \$4,000 that was issued just prior to June 30, 2003.

The debt service fund has a total fund balance of \$0. This represents a decrease of \$15 as compared to the previous fiscal year. Debt service expenditures (principal and interest) totalled \$22,069 for fiscal year 2003. This was approximately \$12,700 greater than the debt service expenditures paid in fiscal year 2002. The primary reason for this increase was due to approximately \$12,200 of existing bonds being advanced refunded in fiscal year 2003. Further information on this refunding is contained in the footnotes to these financial statements.

Nonmajor (other) governmental funds have a fund balance of \$4,002. The net decrease in fund balance during the current year in non-major governmental funds was \$538. This net decrease is primarily attributed to a one time \$1,300 transfer out of the regional sales tax revenue fund.

**Proprietary funds**

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

Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$3,337 and \$3,545, respectively. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget represent a \$1,760 increase in appropriations and include the following:

\$ 750	Funding for high school renovation project
425	Funding for skate park and certain street paving projects
168	Funding for FY2002 outstanding purchase orders/encumbrances
115	Funding for Reservoir Road culvert replacement project
96	Appropriation of state funds for public safety salary supplements
94	Purchase thermal imaging cameras
57	City portion of grant agreement for Broad Street project
<u>55</u>	Other miscellaneous
<u>\$ 1,760</u>	

Of this increase, approximately \$96 was to be funded out of miscellaneous growth related increases in various revenue sources or one-time receipts or grant activity. The remaining \$1,664 was to be budgeted from available fund balance. During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus reducing the need to draw upon existing fund balance.

**Capital Asset and Debt Administration**

**Capital Assets**

The City's investment in capital assets for its governmental and business type activities as of June 30, 2003, amounts to \$452,192 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

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

- Construction continued and/or began on various utility renovation and expansion projects including the Downtown Water Transmission Line replacement project and sewer system plant and lift station renovation projects. Business-type construction in progress at the close of the fiscal year had reached \$21,807.
- Construction continued and/or began on a variety of general governmental facilities including the Regional Center for Applied Technology facility, renovation of the Dobyons-Bennett High School and various street and bridge improvement projects. Construction in progress at the close of the fiscal year pertaining to these type facilities is \$20,292.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 10,755	\$ 10,143	\$ 4,961	\$ 4,961	\$ 15,716	\$ 15,104
Buildings and systems	58,852	61,734	131,053	124,946	189,905	186,680
Improvements other than buildings	5,926	6,223	6,157	6,473	12,083	12,696
Machinery and equipment	11,444	10,943	631	815	12,075	11,758
Software	64	93	-	-	64	93
Infrastructure	180,250	184,401	-	-	180,250	184,401
Construction in progress	<u>20,292</u>	<u>17,967</u>	<u>21,807</u>	<u>20,619</u>	<u>42,099</u>	<u>38,586</u>
Total capital assets	<u>\$ 287,583</u>	<u>\$ 291,504</u>	<u>\$164,609</u>	<u>\$157,814</u>	<u>\$ 452,192</u>	<u>\$ 449,318</u>

Additional information on the City's capital assets can be found in Note 4.C on pages 55-58 of this report.

**Long-term debt**

At the end of the current fiscal year, the City had total gross debt outstanding of \$127,594. 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	
	2003	2002	2003	2002	2003	2002
Notes Payable	\$ 4,450	\$ 554	\$ 210	\$ 280	\$ 4,660	\$ 834
General obligation bonds	48,434	54,766	61,664	62,043	110,098	116,809
Loans from other governments	_____	_____	<u>12,836</u>	<u>11,139</u>	<u>12,836</u>	<u>11,139</u>
Total long-term debt	<u>\$ 52,884</u>	<u>\$ 55,320</u>	<u>\$ 74,710</u>	<u>\$ 73,462</u>	<u>\$127,594</u>	<u>\$ 128,782</u>

During the current fiscal year, the City issued general obligation refunding bonds to refinance portions of the City's outstanding Series 1993 and 1997 General Obligation Bonds. The result is expected to be a decrease in future debt service payments of \$370 over the next six years.

The City's total debt decreased by \$1,188 (1%) during the current fiscal year. The City maintains an A1 rating from Moody's Investors Service for its General Obligation debt.

CITY OF KINGSPORT, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

The City is subject to debt limitations imposed by its Charter. The total bonded indebtedness (excluding general obligation debt supported by utility operations and assessments) shall not exceed 20% of the assessed taxable value of property within the City. The current debt limitation for the City of Kingsport is significantly in excess of the outstanding general obligation debt. Additional information on the City's long-term debt can be found in Note 4.E on pages 61-86 of this report.

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

- The unemployment rate for the municipal service area is currently 5.9%, which is an increase of 0.2% from a year ago. This compares to the state's average unemployment rate of 5.3% as of June 30, 2003.
- Inflationary trends in the region are comparable to national indices.
- Housing starts for this fiscal year were 102, compared to the previous year of 85.
- Growth in local sales tax collections is expected to be approximately 1% in FY2004.

Short term interest rates on investments for the City's operating funds declined significantly during fiscal year 2003 with the federal funding rate being reduced from 1.75% to 1.00% by the Federal Reserve Board.

All of these factors were considered in preparing the City's budget for the 2004 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$14,920. The City has appropriated \$1,348 of this amount for spending in the fiscal year 2004 budget. It is intended that use of available fund balance will minimize the need to raise taxes or charges during the fiscal year 2004.

Water, sewer and solid waste rates were increased for the 2004 budget year. The water and sewer rates were increased by an average of 8% and 6% percent respectively for all customers. These rate increases were necessary to fund operations and to finance debt service on the new debt scheduled to be issued during the fiscal year.

**Requests for Information**

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

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CITY OF KINGSPORT, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2003

(amounts expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Board	Emergency Communications District
<b>ASSETS:</b>					
Cash in Bank	\$ 778	5	783	507	964
Cash with Fiscal Agent	-	37	37	-	-
Equity in Pooled Cash and Investments	31,201	5,217	36,418	-	-
Long-Term Certificates of Deposit	549	-	549	283	-
Investments	2,107	884	2,991	21	-
Receivables, net	27,934	3,004	30,938	36	31
Due from Other Governments	18,151	515	18,666	-	21
Due from Component Unit	11	25	36	-	-
Internal Balances	3,078	(3,078)	-	-	-
Inventories	347	458	805	-	-
Prepays	143	20	163	-	6
Land Held for Sale or Development	-	-	-	5,802	-
Restricted Assets:					
Cash	10,244	13,884	24,128	-	-
Investments	1,589	59	1,648	201	-
Receivables	-	-	-	535	-
Capital Assets:					
Land	10,755	4,961	15,716	-	-
Buildings and System	85,458	187,800	273,258	-	-
Improvements other than Buildings	9,480	7,898	17,378	71	-
Machinery and Equipment	27,322	3,614	30,936	-	210
Software	144	-	144	-	-
Infrastructure	253,981	-	253,981	-	-
Construction in Progress	20,292	21,807	42,099	-	-
Less: Accumulated Depreciation	(119,849)	(61,471)	(181,320)	(43)	(61)
Other Assets, net	162	611	773	-	-
<b>Total Assets</b>	<b>383,877</b>	<b>186,250</b>	<b>570,127</b>	<b>7,413</b>	<b>1,171</b>
<b>LIABILITIES:</b>					
Accounts Payable and Other Current Liabilities	8,802	1,296	10,098	12	6
Compensated Absences Payable	2,121	385	2,506	-	-
Matured Bonds and Interest Payable	375	68	443	-	-
Accrued Interest Payable	-	783	783	-	-
Due to Primary Government	-	-	-	36	-
Due to Other Governments	335	-	335	-	-
Unearned Revenues	37,484	-	37,484	-	-
Liabilities Payable from Restricted Assets	59	586	645	-	-
Arbitrage Rebate Payable	145	470	615	-	-
Noncurrent Liabilities:					
Due Within One Year	11,060	9,148	20,208	-	-
Due in More Than One Year	41,675	65,254	106,929	-	-
<b>Total Liabilities</b>	<b>102,056</b>	<b>77,990</b>	<b>180,046</b>	<b>48</b>	<b>6</b>
<b>NET ASSETS:</b>					
Invested in Capital Assets, Net of Related Debt	235,345	103,253	338,598	28	149
Restricted for:					
Debt Service	-	73	73	-	-
Capital Improvements	6,722	995	7,717	-	-
Perpetual Care (nonexpendable)	154	-	154	-	-
Unrestricted	39,600	3,939	43,539	7,337	1,016
<b>Total Net Assets</b>	<b>\$ 281,821</b>	<b>108,260</b>	<b>390,081</b>	<b>7,365</b>	<b>1,165</b>

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2003**  
(amounts expressed in thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets					
	Expenses	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	
<b>Primary Government:</b>										
<b>Governmental Activities:</b>										
General Government	5,295	406	144	991	(3,754)	-	(3,754)	-	-	-
Public Safety	13,395	274	333	-	(12,788)	-	(12,788)	-	-	-
Public Works	9,225	-	-	-	(9,225)	-	(9,225)	-	-	-
Highway Transportation Planning	2,366	49	1,833	441	(43)	-	(43)	-	-	-
Economic and Physical Development	3,066	241	597	-	(2,228)	-	(2,228)	-	-	-
Culture and Recreation	4,469	519	135	-	(3,815)	-	(3,815)	-	-	-
Education	50,950	2,600	21,378	197	(26,775)	-	(26,775)	-	-	-
Interest on Long-Term Debt	2,329	-	-	-	(2,329)	-	(2,329)	-	-	-
Other	314	-	-	-	(314)	-	(314)	-	-	-
<b>Total Governmental Activities</b>	<b>91,409</b>	<b>4,089</b>	<b>24,420</b>	<b>1,629</b>	<b>(61,271)</b>	<b>-</b>	<b>(61,271)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Business-Type Activities:</b>										
Water	7,503	10,708	-	-	-	3,205	3,205	-	-	-
Sewer	6,824	10,429	-	-	-	3,605	3,605	-	-	-
Solid Waste Management	2,915	383	-	-	-	(2,532)	(2,532)	-	-	-
MeadowView Conference Resort and Convention Center	1,701	248	-	-	-	(1,453)	(1,453)	-	-	-
Cattails at MeadowView Golf Course	1,246	973	-	-	-	(273)	(273)	-	-	-
<b>Total Business-Type Activities</b>	<b>20,189</b>	<b>22,741</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,552</b>	<b>2,552</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>111,598</b>	<b>26,830</b>	<b>24,420</b>	<b>1,629</b>	<b>(61,271)</b>	<b>2,552</b>	<b>(58,719)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Component Units:</b>										
Industrial Development Board	70	2	-	-	-	-	-	(68)	-	-
Emergency Communications District	282	439	-	-	-	-	-	-	157	157
<b>Total Component Units</b>	<b>352</b>	<b>441</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(68)</b>	<b>157</b>	<b>157</b>
<b>General Revenues:</b>										
Property Taxes					36,399		36,399			
Sales Taxes					24,133		24,133			
Alcoholic Beverage Taxes					1,318		1,318			
Occupational Licenses and Business Taxes					1,272		1,272			
Hotel/Motel Taxes					764		764			
Income Taxes					659		659			
Grants and Contributions Not Restricted to Specific Programs					565		565			
Unrestricted Investment Earnings					673	295	968	16	23	23
Gain (Loss) on Disposal of Capital Assets					4	6	10	-	-	-
Miscellaneous					933	-	933	-	-	-
Transfers					(2,987)	2,987	-	-	-	-
<b>Total General Revenues and Transfers</b>					<b>63,733</b>	<b>3,288</b>	<b>67,021</b>	<b>16</b>	<b>23</b>	<b>23</b>
<b>Change in Net Assets</b>					<b>2,462</b>	<b>5,840</b>	<b>8,302</b>	<b>(52)</b>	<b>180</b>	<b>180</b>
<b>Net Assets - Beginning</b>					<b>280,830</b>	<b>102,619</b>	<b>383,449</b>	<b>7,417</b>	<b>985</b>	<b>985</b>
<b>Prior Period Adjustments</b>					<b>(1,471)</b>	<b>(199)</b>	<b>(1,670)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Assets - Ending</b>					<b>281,821</b>	<b>108,260</b>	<b>390,081</b>	<b>7,365</b>	<b>1,165</b>	<b>1,165</b>

See accompanying notes to the basic financial statements.

**CITY OF KINGSFORD, TENNESSEE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2003**  
(amounts expressed in thousands)

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>						
Cash in Bank	\$ 7	-	-	-	771	778
Equity in Pooled Cash and Investments	13,894	6,927	375	4,553	422	26,171
Long-Term Certificates of Deposit	-	-	-	-	199	199
Investments	-	-	-	-	2,107	2,107
Taxes Receivable, net	27,436	-	-	-	-	27,436
Accounts Receivable, net	406	20	-	11	7	444
Due from Other Governments	3,926	12,250	-	180	1,795	18,151
Due from Other Funds	3,773	249	-	-	-	4,022
Due from Component Unit	11	-	-	-	-	11
Inventories	-	32	-	-	74	106
Prepays	8	1	-	-	-	9
Cash - Restricted	-	-	-	5,371	-	5,371
Investments - Restricted	-	-	-	1,163	-	1,163
<b>Total Assets</b>	<b>49,461</b>	<b>19,479</b>	<b>375</b>	<b>11,278</b>	<b>5,375</b>	<b>85,968</b>

**LIABILITIES AND FUND BALANCES:**

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Liabilities:</b>						
Accounts Payable	268	296	-	487	196	1,247
Compensated Absences Payable	1,726	315	-	-	-	2,041
Other Liabilities	1,403	4,718	-	-	-	6,121
Due to Other Governments	119	216	-	-	-	335
Due to Other Funds	-	-	-	-	944	944
Deferred Revenue	27,502	10,645	-	-	233	38,380
Matured Interest Payable	-	-	375	-	-	375
Contracts Payable	-	-	-	59	-	59
Arbitrage Rebate Payable	145	-	-	-	-	145
<b>Total Liabilities</b>	<b>31,163</b>	<b>16,190</b>	<b>375</b>	<b>546</b>	<b>1,373</b>	<b>49,647</b>

**Fund Balances:**

	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Reserved for:						
Encumbrances	271	385	-	4,056	680	5,392
Cattails at Meadowview Golf Course Fund	3,078	-	-	-	-	3,078
Industrial Park	21	-	-	-	-	21
Career Ladder	-	187	-	-	-	187
Inventories	-	32	-	-	74	106
Prepays	8	1	-	-	-	9
Perpetual Care	-	-	-	-	154	154
Projects	-	15	-	-	18	33
Unreserved, Reported in:						
General Fund	14,920	-	-	-	-	14,920
Special Revenue Funds	-	2,669	-	-	3,063	5,732
Capital Projects Fund	-	-	-	6,676	13	6,689
<b>Total Fund Balances</b>	<b>18,298</b>	<b>3,289</b>	<b>-</b>	<b>10,732</b>	<b>4,002</b>	<b>36,321</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 49,461</b>	<b>19,479</b>	<b>375</b>	<b>11,278</b>	<b>5,375</b>	<b>85,968</b>

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 ASSETS  
June 30, 2003  
(amounts expressed in thousands)

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

Total Fund Balances of Governmental Funds	\$	36,321
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		281,249
Property tax assessments are reported as revenue in the government-wide statements in the period in which an enforceable legal claim arises against property owners. In governmental funds, these assessments are not available to finance current period expenditures and are reported as deferred revenue until paid by property owners.		896
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		132
Internal service funds are used by management to charge the costs of fleet maintenance and employee insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		15,958
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(52,735)</u>
Net Assets of Governmental Activities	\$	<u>281,821</u>

See accompanying notes to the basic financial statements.

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

**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2003

(amounts expressed in thousands)

<u>REVENUES:</u>	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Taxes	\$ 28,147	16,951	-	-	-	45,098
Licenses and Permits	264	-	-	-	-	264
Intergovernmental	18,010	16,877	-	936	10,195	46,018
Charges for Services	839	1,207	-	-	1,457	3,503
Fines and Forfeitures	312	-	-	-	109	421
Investment Earnings	357	-	49	30	52	488
Contributions and Donations	12	-	-	55	252	319
Miscellaneous	84	192	-	-	-	276
<b>Total Revenues</b>	<b>48,025</b>	<b>35,227</b>	<b>49</b>	<b>1,021</b>	<b>12,065</b>	<b>96,387</b>

EXPENDITURES:

Current:

General Government	5,357	-	-	-	169	5,526
Public Safety	12,590	-	-	-	44	12,634
Public Works	4,299	-	-	-	-	4,299
Highway Transportation Planning	-	-	-	-	2,366	2,366
Economic and Physical Development	2,282	-	-	-	534	2,816
Culture and Recreation	3,253	-	-	-	21	3,274
Education	-	41,094	-	-	5,724	46,818
Miscellaneous	309	-	-	-	-	309
Debt Service:						
Principal	-	-	19,770	-	-	19,770
Interest	-	-	2,299	-	-	2,299
Bond Issuance Costs	-	-	123	-	-	123
Miscellaneous	-	-	5	-	-	5
Capital Outlay	125	419	-	6,554	404	7,502
<b>Total Expenditures</b>	<b>28,215</b>	<b>41,513</b>	<b>22,197</b>	<b>6,554</b>	<b>9,262</b>	<b>107,741</b>

Excess (Deficiency) of Revenues  
Over (Under) Expenditures

	19,810	(6,286)	(22,148)	(5,533)	2,803	(11,354)
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OTHER FINANCING SOURCES (USES):

Transfer In	3,340	13,128	8,978	3,501	711	29,658
Transfers Out	(22,389)	(6,240)	-	-	(4,052)	(32,681)
Bond Proceeds	-	-	13,155	4,000	-	17,155
<b>Total Other Financing Sources (Uses)</b>	<b>(19,049)</b>	<b>6,888</b>	<b>22,133</b>	<b>7,501</b>	<b>(3,341)</b>	<b>14,132</b>
Net Change in Fund Balances	761	602	(15)	1,968	(538)	2,778
Fund Balances, July 1, 2002	17,537	2,687	15	8,764	4,540	33,543
<b>Fund Balances, June 30, 2003</b>	<b>\$ 18,298</b>	<b>3,289</b>	<b>-</b>	<b>10,732</b>	<b>4,002</b>	<b>36,321</b>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2003  
 (amounts expressed in thousands)

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

Net Change in Fund Balances of Governmental Funds	\$	2,778
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of general fixed assets in the current period exceeded capital outlays.</p>		(3,082)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		282
<p>Internal service funds are used by management to charge the costs of fleet maintenance and employee insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		(233)
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		<u>2,717</u>
Change in Net Assets of Governmental Activities	\$	<u><u>2,462</u></u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE

GENERAL FUND

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

For the Year Ended June 30, 2003

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Taxes:				
General Property Taxes	\$ 23,442	24,292	25,061	769
Gross Receipts Taxes	2,782	2,776	3,086	310
Licenses and Permits	264	298	264	(34)
Intergovernmental:				
Federal	170	144	145	1
State	3,837	3,939	4,249	310
County	13,417	13,417	13,430	13
Local	-	231	186	(45)
Charges for Services	1,157	979	839	(140)
Fines and Forfeitures	327	327	312	(15)
Investment Earnings	650	650	357	(293)
Contributions and Donations	-	13	12	(1)
Miscellaneous	67	78	84	6
<b>Total Revenues</b>	<b>46,113</b>	<b>47,144</b>	<b>48,025</b>	<b>881</b>
<b><u>EXPENDITURES:</u></b>				
General Government:				
Board of Mayor and Aldermen	98	107	106	1
Judicial	25	25	21	4
City Attorney	382	385	346	39
City Manager	261	298	272	26
Special Programs	1,247	1,311	1,262	49
Public Information Office	127	108	101	7
Personnel	615	666	660	6
Purchasing	211	212	192	20
Finance Administration	1,406	1,512	1,390	122
Information Services	857	799	790	9
Geographic Information	230	220	217	3
<b>Total General Government</b>	<b>5,459</b>	<b>5,643</b>	<b>5,357</b>	<b>286</b>
Public Safety:				
Police Administration	1,417	1,217	1,191	26
Jail Operations	219	207	207	-
Training	62	60	60	-
Accreditation	6	5	5	-
Investigations	959	1,004	1,003	1
Patrol Division	3,746	3,795	3,755	40
Animal Control	119	98	79	19
Central Dispatch	692	718	656	62
Communications	183	194	177	17
Fire Control and Prevention	5,324	5,459	5,457	2
<b>Total Public Safety</b>	<b>12,727</b>	<b>12,757</b>	<b>12,590</b>	<b>167</b>

(Continued)

CITY OF KINGSPORT, TENNESSEE

GENERAL FUND

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

For the Year Ended June 30, 2003

(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES (CONTINUED):</u>				
Public Works:				
Administration	353	238	217	21
Street Cleaning	-	338	302	36
Street Maintenance	1,420	1,347	1,312	35
Property Maintenance	88	66	65	1
Building Maintenance	1,109	1,247	1,136	111
Grounds Maintenance	1,069	702	674	28
Parks Maintenance	197	604	593	11
Total Public Works	<u>4,236</u>	<u>4,542</u>	<u>4,299</u>	<u>243</u>
Economic and Physical Development:				
Administration	221	166	158	8
Planning	346	298	294	4
Metropolitan Planning Office	135	166	163	3
Transportation	849	674	661	13
Engineering	674	631	615	16
Code Enforcement	402	420	391	29
Total Economic and Physical Development	<u>2,627</u>	<u>2,355</u>	<u>2,282</u>	<u>73</u>
Culture and Recreation:				
Administration	245	230	216	14
Parks and Recreation Centers	202	206	203	3
Swimming Pools	106	98	93	5
Athletics	561	539	505	34
Cultural Arts	217	221	216	5
Allandale	188	201	166	35
Senior Citizens Center	345	339	307	32
Bays Mountain Park	855	859	793	66
Library	753	789	754	35
Total Culture and Recreation	<u>3,472</u>	<u>3,482</u>	<u>3,253</u>	<u>229</u>
Miscellaneous	<u>277</u>	<u>1,671</u>	<u>309</u>	<u>1,362</u>
Capital Outlay	<u>196</u>	<u>151</u>	<u>125</u>	<u>26</u>
Total Expenditures	<u>28,994</u>	<u>30,601</u>	<u>28,215</u>	<u>2,386</u>
Excess of Revenues Over Expenditures	<u>17,119</u>	<u>16,543</u>	<u>19,810</u>	<u>3,267</u>

(Continued)

CITY OF KINGSPORT, TENNESSEE  
GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	5,606	6,497	3,340	3,157
Transfers Out	<u>(22,725)</u>	<u>(23,040)</u>	<u>(22,389)</u>	<u>(651)</u>
Total Other Financing Sources (Uses)	<u>(17,119)</u>	<u>(16,543)</u>	<u>(19,049)</u>	<u>2,506</u>
Net Change in Fund Balances	-	-	761	761
Fund Balances, July 1, 2002	<u>17,537</u>	<u>17,537</u>	<u>17,537</u>	<u>-</u>
Fund Balances, June 30, 2003	<u>\$ 17,537</u>	<u>17,537</u>	<u>18,298</u>	<u>761</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
General Property Taxes	10,570	11,072	11,056	(16)
Pick Up Taxes	85	115	122	7
Clerk and Masters Tax	140	110	156	46
Business Taxes	-	-	76	76
Local Option Sales Tax	5,303	5,403	5,457	54
Other Statutory Local Taxes	115	127	84	(43)
Intergovernmental:				
Federal	175	230	226	(4)
State	16,242	16,602	16,591	(11)
County	-	45	60	15
Charges for Services	1,199	1,231	1,207	(24)
Investment Earnings	175	-	-	-
Miscellaneous	105	174	192	18
<b>Total Revenues</b>	<b>34,109</b>	<b>35,109</b>	<b>35,227</b>	<b>118</b>
<u>EXPENDITURES:</u>				
Instruction:				
Regular	22,385	23,312	22,894	418
Special Education	3,385	3,400	3,399	1
Vocational	839	854	845	9
Adult Education	189	194	193	1
<b>Total Instruction</b>	<b>26,798</b>	<b>27,760</b>	<b>27,331</b>	<b>429</b>
Student Support Services:				
Attendance	53	43	37	6
Health Services	309	300	300	-
Other	1,206	1,236	1,233	3
<b>Total Student Support Services</b>	<b>1,568</b>	<b>1,579</b>	<b>1,570</b>	<b>9</b>
Instructional Staff Support Services:				
Regular	2,053	1,905	1,881	24
Special Education	298	267	266	1
Vocational	135	121	122	(1)
Adult Education	135	134	132	2
<b>Total Instructional Staff Support Services</b>	<b>2,621</b>	<b>2,427</b>	<b>2,401</b>	<b>26</b>
General Administrative Support Services:				
Board of Education	740	640	637	3
Office of the Superintendent	668	803	806	(3)
<b>Total General Administrative Support Services</b>	<b>1,408</b>	<b>1,443</b>	<b>1,443</b>	<b>-</b>

(Continued)

CITY OF KINGSPORT, TENNESSEE  
GENERAL PURPOSE SCHOOL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES (CONTINUED):</u>				
School Administrative Support Services	2,072	1,984	1,968	16
Business Administrative Support Services	190	195	185	10
Operations and Maintenance Support Services:				
Operations	3,045	3,100	3,113	(13)
Plant Maintenance	1,464	1,465	1,456	9
Total Operations and Maintenance Support Services	<u>4,509</u>	<u>4,565</u>	<u>4,569</u>	<u>(4)</u>
Student Transportation Support Services	1,089	1,042	1,039	3
Noninstructional Services:				
After School Programs	51	46	37	9
Community Service	659	608	551	57
Total Noninstructional Services	<u>710</u>	<u>654</u>	<u>588</u>	<u>66</u>
Capital Outlay	490	566	419	147
Total Expenditures	<u>41,455</u>	<u>42,215</u>	<u>41,513</u>	<u>702</u>
Deficiency of Revenues Under Expenditures	<u>(7,346)</u>	<u>(7,106)</u>	<u>(6,286)</u>	<u>820</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	14,070	13,117	13,128	11
Transfers Out	(6,724)	(6,011)	(6,240)	(229)
Total Other Financing Sources (Uses)	<u>7,346</u>	<u>7,106</u>	<u>6,888</u>	<u>(218)</u>
Net Change in Fund Balances	-	-	602	602
Fund Balances, July 1, 2002	<u>2,687</u>	<u>2,687</u>	<u>2,687</u>	<u>-</u>
Fund Balances, June 30, 2003	<u>\$ 2,687</u>	<u>2,687</u>	<u>3,289</u>	<u>602</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE

DEBT SERVICE FUND

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

For the Year Ended June 30, 2003

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES -</u>				
Investment Earnings	\$ 6	6	49	43
Total Revenues	6	6	49	43
<u>EXPENDITURES:</u>				
Principal	7,706	19,744	19,770	(26)
Interest	2,507	2,298	2,299	(1)
Bond Issuance Costs	-	127	123	4
Miscellaneous	6	6	5	1
Total Expenditures	10,219	22,175	22,197	(22)
Excess of Revenues Over Expenditures	(10,213)	(22,169)	(22,148)	21
<u>OTHER FINANCING SOURCES:</u>				
Transfers In	10,213	9,017	8,978	39
Bond Proceeds	-	13,152	13,155	(3)
Total Other Financing Sources	10,213	22,169	22,133	36
Net Change in Fund Balance	-	-	(15)	(15)
Fund Balance, July 1, 2002	15	15	15	-
Fund Balance, June 30, 2003	\$ 15	15	-	(15)

See accompanying notes to the basic financial statements.

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**CITY OF KINGSPORT, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

June 30, 2003

(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
<b>ASSETS:</b>								
Current Assets:								
Cash in Bank	\$ -	-	-	-	5	5	-	-
Cash with Fiscal Agent	37	-	-	-	-	37	-	-
Equity in Pooled Cash and Investments	2,896	2,101	185	35	-	5,217	5,030	-
Long-Term Certificates of Deposit	-	-	-	-	-	-	350	-
Investments	-	-	-	877	7	884	-	-
Receivables, net	1,493	1,476	18	-	17	3,004	54	-
Due from Other Governments	-	505	10	-	-	515	-	-
Due from Component Unit	11	14	-	-	-	25	-	-
Inventories	396	-	-	-	62	458	241	-
Prepays	20	-	-	-	-	20	134	-
Total Current Assets	4,853	4,096	213	912	91	10,165	5,809	-
Noncurrent Assets:								
Restricted Assets:								
Cash	2,144	11,655	-	85	-	13,884	4,873	-
Investments	59	-	-	-	-	59	426	-
Total Restricted Assets	2,203	11,655	-	85	-	13,943	5,299	-
Capital Assets:								
Land	640	516	1,308	1,515	982	4,961	15	-
Buildings and System	56,955	108,007	144	21,536	1,158	187,800	-	-
Improvements other than Buildings	-	-	1,790	137	5,971	7,898	-	-
Machinery and Equipment	1,301	1,036	19	852	406	3,614	17,054	-
Construction in Progress	11,415	10,383	-	9	-	21,807	-	-
Less: Accumulated Depreciation	(23,241)	(32,319)	(651)	(3,647)	(1,613)	(61,471)	(10,735)	-
Total Capital Assets	47,070	87,623	2,610	20,402	6,904	164,609	6,334	-
Other Assets:								
Deposits	-	-	-	-	-	-	30	-
Unamortized Bond Costs	186	311	-	73	41	611	-	-
Total Other Assets	186	311	-	73	41	611	30	-
Total Noncurrent Assets	49,459	99,589	2,610	20,560	6,945	179,163	11,663	-
Total Assets	54,312	103,685	2,823	21,472	7,036	189,328	17,472	-

(Continued)

CITY OF KINGSFORD, TENNESSEE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

June 30, 2003

(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
<b>LIABILITIES:</b>								
<b>Current Liabilities:</b>								
Accounts Payable	469	499	74	1	10	1,053	429	
Due to Other Funds	-	-	-	-	3,078	3,078	-	
Compensated Absences Payable	192	120	73	-	-	385	80	
Retainages Payable	387	199	-	-	-	586	-	
Arbitrage Rebate Payable	172	298	-	-	-	470	-	
Matured Bonds Payable	35	-	-	-	-	35	-	
Matured Interest Payable	33	-	-	-	-	33	-	
Accrued Interest Payable	224	432	-	127	-	783	-	
General Obligation Bonds - Current	2,514	3,805	-	1,750	391	8,460	-	
State Revolving Loan - Current	-	688	-	-	-	688	-	
Other Payables	243	-	-	-	-	243	1,005	
<b>Total Current Liabilities</b>	<b>4,269</b>	<b>6,041</b>	<b>147</b>	<b>1,878</b>	<b>3,479</b>	<b>15,814</b>	<b>1,514</b>	
<b>Noncurrent Liabilities:</b>								
General Obligation Bonds Payable	15,174	26,080	-	7,510	4,132	52,896	-	
(Net of Deferred Refunding Cost)	1,881	10,267	-	-	-	12,148	-	
State Revolving Loan Payable	210	-	-	-	-	210	-	
Consolidated Utility Acquisition Payable	17,265	36,347	-	7,510	4,132	65,254	-	
<b>Total Noncurrent Liabilities</b>	<b>21,534</b>	<b>42,388</b>	<b>147</b>	<b>9,388</b>	<b>7,611</b>	<b>81,068</b>	<b>1,514</b>	
<b>NET ASSETS:</b>								
Invested in Capital Assets, Net of Related Debt	29,382	57,738	2,610	11,142	2,381	103,253	6,334	
Restricted for Debt Service	59	14	-	-	-	73	-	
Restricted for Capital Improvements	-	-	-	976	19	995	-	
Unrestricted	3,337	3,545	66	(34)	(2,975)	3,939	9,624	
<b>Total Net Assets</b>	<b>32,778</b>	<b>61,297</b>	<b>2,676</b>	<b>12,084</b>	<b>(575)</b>	<b>108,260</b>	<b>15,958</b>	

See accompanying notes to the basic financial statements.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
<u>OPERATING REVENUES:</u>								
Charges and Fees	\$ 10,460	10,256	383	248	973	22,320	7,284	
Penalties and Fines	245	173	-	-	-	418	-	
Miscellaneous	3	-	-	-	-	3	-	
Total Operating Revenues	10,708	10,429	383	248	973	22,741	7,284	
<u>OPERATING EXPENSES:</u>								
Operating Costs	5,753	3,017	2,785	585	872	13,012	6,604	
Depreciation	1,324	2,548	130	670	280	4,952	1,137	
Total Operating Expenses	7,077	5,565	2,915	1,255	1,152	17,964	7,741	
Operating Income (Loss)	3,631	4,864	(2,532)	(1,007)	(179)	4,777	(457)	
<u>NONOPERATING REVENUES (EXPENSES):</u>								
Investment Earnings	88	189	3	13	2	295	185	
Interest Expense	(398)	(1,211)	-	(428)	(89)	(2,126)	-	
Gain (Loss) on Disposal of Capital Assets	-	-	-	2	4	6	4	
Amortization Expense	(25)	(45)	-	(18)	(5)	(93)	-	
Other	(3)	(3)	-	-	-	(6)	-	
Total Nonoperating Revenues (Expenses)	(338)	(1,070)	3	(431)	(88)	(1,924)	189	
Income (Loss) Before Contributions and Transfers	3,293	3,794	(2,529)	(1,438)	(267)	2,853	(268)	
Transfers In	-	-	2,535	2,548	-	5,083	35	
Transfers Out	(1,217)	(780)	-	(99)	-	(2,096)	-	
Change in Net Assets	2,076	3,014	6	1,011	(267)	5,840	(233)	
Net Assets, July 1, 2002	30,663	58,283	2,670	11,325	(322)	102,619	16,191	
Prior Period Adjustments - Miscellaneous Expense Adjustments	39	-	-	(252)	14	(199)	-	
Net Assets, June 30, 2003	\$ 32,778	61,297	2,676	12,084	(575)	108,260	15,958	

See accompanying notes to the basic financial statements.

**CITY OF KINGSPORT, TENNESSEE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
\$	11,220	11,273	398	248	991	24,130	7,283	
	(2,190)	(1,846)	(1,453)	(677)	(435)	(6,601)	(4,306)	
	(3,004)	(1,226)	(1,315)	-	(155)	(5,700)	(1,064)	
	6,026	8,201	(2,370)	(429)	401	11,829	1,913	
	(1,217)	(780)	-	(99)	-	(2,096)	-	
	-	-	2,535	2,548	-	5,083	-	
	(1,217)	(780)	2,535	2,449	-	2,987	-	
	3,081	7,044	-	-	-	10,125	-	
	(6,711)	(5,173)	-	(19)	-	(11,903)	(1,372)	
	(2,508)	(4,161)	-	(1,700)	(371)	(8,740)	-	
	(401)	(1,187)	-	(436)	(89)	(2,113)	-	
	1	-	-	-	4	5	7	
	(31)	(61)	-	-	-	(92)	-	
	(3)	(4)	-	-	-	(7)	-	
	(6,572)	(3,542)	-	(2,155)	(456)	(12,725)	(1,365)	
	5	-	-	75	78	158	1,191	
	-	-	-	(156)	(20)	(176)	(1,151)	
	88	189	3	13	2	295	185	
	93	189	3	(68)	60	277	225	
	(1,670)	4,068	168	(203)	5	2,368	773	
	6,747	9,688	17	323	-	16,775	9,130	
	\$ 5,077	13,756	185	120	5	19,143	9,903	

(Continued)

**CASH FLOWS FROM OPERATING ACTIVITIES:**

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

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

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

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Proceeds from Capital Debt  
Acquisition and Construction of Capital Assets  
Principal Paid on Capital Debt  
Interest Paid on Capital Debt  
Proceeds from Sales of Capital Assets  
Bond Issue Costs Paid  
Fiscal Agent Fees Paid  
Net Cash Used by Capital and Related Financing Activities

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Proceeds from Sales and Maturities of Investments  
Purchase of Investments  
Interest Received  
Net Cash Provided (Used) by Investing Activities  
Net Increase (Decrease) in Cash and Cash Equivalents  
Cash and Cash Equivalents, July 1, 2002  
Cash and Cash Equivalents, June 30, 2003

CITY OF KINGSPORT, TENNESSEE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
\$	3,631	4,864	(2,532)	(1,007)	(179)	4,777	(457)
	1,324	2,548	130	670	280	4,952	1,137
	18	(6)	25	-	18	55	(48)
	494	850	(10)	-	-	1,334	-
	24	-	-	-	(8)	16	(2)
	(15)	-	-	-	-	(15)	(24)
	279	(17)	6	(29)	(42)	197	369
	-	-	-	-	332	332	-
	23	6	11	-	-	40	11
	232	(44)	-	(63)	-	125	-
	16	-	-	-	-	16	927
\$	6,026	8,201	(2,370)	(429)	401	11,829	1,913

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

Operating Income (Loss)	
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	
(Increase) Decrease in Assets:	
Receivables	
Due from Other Governments	
Inventories	
Prepays	
Increase (Decrease) in Liabilities:	
Accounts Payable	
Due to Other Funds	
Compensated Absences Payable	
Retainages Payable	
Other Payables	

Net Cash Provided (Used) by Operating Activities

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

Cash in Bank	\$	-	-	-	-	-	-
Cash with Fiscal Agent		37	-	-	-	5	-
Equity in Pooled Cash and Investments		2,896	2,101	185	35	37	-
Restricted Assets - Cash		2,144	11,655	-	85	13,884	5,030
Cash and Cash Equivalents, June 30, 2003	\$	5,077	13,756	185	120	19,143	4,873
							9,903

See accompanying notes to the basic financial statements.

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CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

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

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

Effective July 1, 2001, the City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. Accordingly, retroactive reporting of infrastructure amounts is reflected in these financial statements.

**A. Reporting entity**

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

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**A. Reporting entity (continued)**

**Discretely Presented Component Units**

Proprietary Fund Type

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

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

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

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

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

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

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

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

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

The City reports the following nonmajor governmental funds:

The *Purvis soccer building fund* accounts for funds donated to the City for the construction of a building at Indian Highland Park to provide dressing rooms, storage space and public restrooms to be used by the Dobyons-Bennett High School boys and girls soccer program.

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

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

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

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

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

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

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

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

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

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

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

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

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

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

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

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

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

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

The 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.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

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

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

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

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

Additionally, the City reports the following fund types:

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

The *permanent fund* accounts for nonexpendable assets left to the City by the late Harvey Brooks, consisting of his home (Allandale Mansion) and other tangible and intangible assets. The fund's earnings are used for the maintenance and operation of the estate.

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

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

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

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

*1. Deposits and investments*

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

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

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

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

Specifically, the LGIP was established under Tennessee Code Annotated Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as Certificates of Deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. The longest maturity held within the LGIP as of June 30, 2002 was 13 months and by law the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares.

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

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

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

2. *Receivables and payables*

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

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

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

3. *Inventories and prepaid items*

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

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

4. *Restricted assets*

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

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

5. *Capital assets*

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the water fund and sewer fund during the current fiscal year was \$898 and \$1,786, respectively. Of these amounts, \$500 and \$575, respectively, were included as part of the cost of capital assets under construction in each of these funds in connection with water and sewer line replacement and extension construction projects.

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

<u>Assets</u>	<u>Years</u>
Roads and bridges	50
Buildings and building improvements	30
Golf course improvements	15
Landfill improvements	25
Utility lines	45
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. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental and proprietary funds.

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

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

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

*7. Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*8. Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*9. Use of estimates*

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$281,249 difference are as follows:

Governmental funds capital assets	\$ 390,363
Less: accumulated depreciation	<u>(109,114)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>281,249</u>

Another element of that reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$132 difference are as follows:

Deferred bond issuance costs	\$ 157
Less: accumulated amortization	<u>(25)</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>132</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 \$52,735 difference are as follows:

Bonds payable	\$ 48,285
Notes payable	<u>4,450</u>
Net adjustment to reduce <i>fund balances - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>52,735</u>

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of general fixed assets in the current period exceeded capital outlays.” The details of this \$(3,082) difference are as follows:

Capital outlay	\$ 7,502
Depreciation expense	<u>(10,584)</u>
Net adjustment to reduce <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(3,082)</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 \$282 difference are as follows:

Deferred property taxes as of June 30, 2003	\$ 896
Prior years’ property taxes collected during current year	<u>(614)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>282</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 \$(233) difference are as follows:

Investment earnings	\$ 185
Gain on disposals of capital assets	4
Transfers in	35
Operating expenses	<u>(457)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(233)</u>

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

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

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$2,717 difference are as follows:

Principal repayments	\$ 19,770
Issuance of general obligation bonds	(17,155)
Bond issuance costs, net of amortization	<u>102</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets governmental activities</i>	\$ <u>2,717</u>

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

**A. Budgetary information**

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

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

The City Manager has the authority to transfer the unused portion of any item or appropriation within the same department and to transfer funds from the vehicle repair and maintenance account of one department to the vehicle repair and maintenance account of another department. Any revisions that alter the total expenditures of any fund must be approved by the BMA. Expenditures may not exceed appropriations at the fund level. Supplemental appropriations may be authorized by the BMA through the adoption of appropriate ordinances during the year.

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

**A. Budgetary information (continued)**

Formal budgetary accounting is employed as a management control for all funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the general fund, certain special revenue funds, debt service fund, proprietary funds and the permanent fund. Budgets for the remaining special revenue funds and capital projects funds are made on a project basis, spanning more than one fiscal year. Budgetary control is exercised at the departmental level or by project.

Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. Encumbrance reservations are presented in the general, general purpose school, capital projects, state street aid, urban mass transportation administration, community development, drug, local law enforcement, public law 93-380, and special school project funds.

**B. Excess of expenditures over appropriations**

For the year ended June 30, 2003, expenditures exceeded appropriations in the following nonmajor governmental funds:

	<u>Amount</u>
school food and nutrition services	\$ 60
public library commission	4

These overexpenditures were funded by greater than anticipated revenues in the case of the school food and nutrition services and by available fund balance in the case of the public library commission.

**C. Deficit fund equity**

The special revenue general projects fund and Cattails at Meadowview Golf Course fund had deficit fund balances of \$(5) and \$(575), respectively as of June 30, 2003. Both funds incurred expenses that were not planned. The City plans to transfer funds from other funds to cover the expenditures.

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

**A. Deposits and investments**

At year end, the City's carrying amount of deposits was \$59,928 and the bank balance was \$61,468. Of the bank balance, \$500 was covered by federal depository insurance with the remaining balance of \$60,968 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

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

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

The carrying amount of deposits for the IDBK, a discretely presented component unit, was \$790 and the bank balance was \$766. Of the bank balance, \$100 was covered by federal depository insurance or by collateral held by the entity's agent in the IDBK's name. Of the remaining balance, \$286 was covered by the Securities Investor Protection Corporation, and \$380 was collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the IDBK's name.

The carrying amount of deposits for the ECD, also a discretely presented component unit, was \$964 and the bank balance was \$966. Of the bank balance, \$300 was covered by federal depository insurance or by collateral held by the entity's agent in the ECD's name. Of the remaining balance, \$666 was collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the ECD's name.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, the City's investment balances were as follows:

	Category			Reported Amount	Fair Value
	1	2	3		
Corporate Stock	\$ <u>13</u>	-	-	<u>13</u>	<u>13</u>
Total	\$ <u>13</u>	<u>-</u>	<u>-</u>	13	13

Investments not subject to categorization:

State of Tennessee LGIP	<u>6,615</u>	<u>6,615</u>
Total Investments	\$ <u>6,628</u>	<u>6,628</u>

At year end, the IDBK's investment balances were as follows:

	Category			Reported Amount	Fair Value
	1	2	3		
U.S. Government Securities	\$ <u>21</u>	-	-	<u>21</u>	<u>21</u>
Total Investments	\$ <u>21</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>21</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, 2003.

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

**B. Receivables**

Receivables as of June 30, 2003 for the City's individual major funds and nonmajor, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Purpose School</u>	<u>Capital Projects</u>	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste Management</u>	<u>Cattails at Meadowview Golf Course</u>	<u>Internal Service Funds</u>	<u>Nonmajor and Other Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Receivables											
Taxes	\$ 27,844	-	-	-	-	-	-	-	-	27,844	-
Accounts	426	43	11	1,602	1,766	54	17	54	7	3,980	67
Intergovernmental	<u>3,926</u>	<u>12,250</u>	<u>180</u>	-	<u>505</u>	<u>10</u>	-	-	<u>1,795</u>	<u>18,666</u>	<u>21</u>
Gross receivables	32,196	12,293	191	1,602	2,272	65	17	54	1,802	50,490	88
Less: allowances for uncollectibles	<u>(417)</u>	<u>(23)</u>	<u>(-)</u>	<u>(98)</u>	<u>(276)</u>	<u>(36)</u>	<u>(-)</u>	<u>(-)</u>	<u>(-)</u>	<u>(850)</u>	<u>(-)</u>
Net total receivables	\$ <u>31,779</u>	<u>12,270</u>	<u>191</u>	<u>1,504</u>	<u>1,995</u>	<u>28</u>	<u>17</u>	<u>54</u>	<u>1,802</u>	<u>49,640</u>	<u>88</u>

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

Uncollectibles related to property taxes	\$ 61
Uncollectibles related to water sales	7
Uncollectibles related to sewer charges	15
Uncollectibles related to solid waste charges	<u>27</u>
Total uncollectibles of the current fiscal year	<u>\$ 110</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS

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

**B. Receivables (continued)**

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

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	\$ 26,388	26,388
Delinquent property taxes receivable (general fund)	896	-
Other taxes receivable (general fund)	218	218
Property taxes receivable (general purpose school fund)	10,641	10,641
Grant drawdowns receivable (general purpose school fund)	4	4
Grant drawdowns prior to meeting all eligibility requirements (public law 93-830 fund)	-	233
	<u>\$ 38,147</u>	<u>37,484</u>
Total deferred / unearned revenue for governmental funds		

Property taxes which are delinquent at year end are earned but not available. The tax year 2003 property taxes are unearned and unavailable, but are recorded as receivable on the levy date, as described in Note 1.

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NOTES TO THE FINANCIAL STATEMENTS  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2003 was as follows:

**Primary government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 10,143	-	-	612	10,755
Construction in Progress	17,967	6,312	(3,987)	-	20,292
Total capital assets, not being depreciated	<u>28,110</u>	<u>6,312</u>	<u>(3,987)</u>	<u>612</u>	<u>31,047</u>
Capital assets, being depreciated:					
Buildings	83,703	3,022	-	(1,267)	85,458
Improvements other than buildings	9,138	342	-	-	9,480
Equipment	25,657	1,633	(315)	347	27,322
Software	144	-	-	-	144
Infrastructure	253,357	624	-	-	253,981
Total capital assets, being depreciated	<u>371,999</u>	<u>5,621</u>	<u>(315)</u>	<u>(920)</u>	<u>376,385</u>
Less accumulated depreciation for:					
Buildings	(21,969)	(4,637)	-	-	(26,606)
Improvements other than buildings	(2,915)	(639)	-	-	(3,554)
Equipment	(14,714)	(1,459)	295	-	(15,878)
Software	(51)	(29)	-	-	(80)
Infrastructure	(68,956)	(4,775)	-	-	(73,731)
Total accumulated depreciation	<u>(108,605)</u>	<u>(11,539)</u>	<u>295</u>	<u>-</u>	<u>(119,849)</u>
Total capital assets, being depreciated, net	<u>263,394</u>	<u>(5,918)</u>	<u>(20)</u>	<u>(920)</u>	<u>256,536</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 291,504</u>	<u>394</u>	<u>(4,007)</u>	<u>(308)</u>	<u>287,583</u>

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

**C. Capital assets (continued)**

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
<b>Business-type activities:</b>					
Capital assets, not being depreciated					
<i>Water</i>					
Land	\$ 640	-	-	-	640
Construction in Progress	5,762	6,871	(1,218)	-	11,415
<i>Sewer</i>					
Land	516	-	-	-	516
Construction in Progress	14,857	4,547	(9,021)	-	10,383
<i>Solid waste management</i>					
Land	1,308	-	-	-	1,308
<i>Meadowview Conference Resort and Convention Center</i>					
Land	1,515	-	-	-	1,515
Construction in Progress	-	9	-	-	9
<i>Cattails at Meadowview Golf Course</i>					
Land	982	-	-	-	982
Total capital assets, not being depreciated	<u>25,580</u>	<u>11,427</u>	<u>(10,239)</u>	<u>-</u>	<u>26,768</u>
Capital assets, being depreciated					
<i>Water</i>					
Buildings and system	55,856	1,099	-	-	56,955
Equipment and machinery	1,321	8	(28)	-	1,301
<i>Sewer</i>					
Buildings and system	98,402	9,605	-	-	108,007
Equipment and machinery	995	41	-	-	1,036
<i>Solid waste management</i>					
Buildings and system	144	-	-	-	144
Improvements other than Buildings	1,790	-	-	-	1,790
Equipment and machinery	19	-	-	-	19
<i>Meadowview Conference Resort and Convention Center</i>					
Buildings	21,788	-	-	(252)	21,536
Improvements other than Buildings	95	42	-	-	137
Equipment	852	-	-	-	852
<i>Cattails at Meadowview Golf Course</i>					
Buildings	1,158	-	-	-	1,158
Improvements other than Buildings	5,958	-	-	13	5,971
Equipment	400	18	(12)	-	406
Total capital assets, being depreciated	<u>188,778</u>	<u>10,813</u>	<u>(40)</u>	<u>(239)</u>	<u>199,312</u>

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

**C. Capital assets (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Less accumulated depreciation for:					
<u>Water</u>					
Buildings and system	(20,943)	(1,277)	-	-	(22,220)
Equipment and machinery	(1,001)	(47)	27	-	(1,021)
<u>Sewer</u>					
Buildings and system	(28,898)	(2,510)	-	-	(31,408)
Equipment and machinery	(873)	(38)	-	-	(911)
<u>Solid waste management</u>					
Buildings and system	(44)	(3)	-	-	(47)
Improvements other than Buildings	(462)	(125)	-	-	(587)
Equipment and machinery	(15)	(2)	-	-	(17)
<u>Meadowview Conference Resort     and Convention Center</u>					
Buildings	(2,400)	(527)	-	-	(2,927)
Improvements other than Buildings	(38)	(12)	-	-	(50)
Equipment	(539)	(131)	-	-	(670)
<u>Cattails at Meadowview Golf Course</u>					
Buildings	(117)	(28)	-	-	(145)
Improvements other than Buildings	(870)	(221)	-	(13)	(1,104)
Equipment	(344)	(31)	11	-	(364)
Total accumulated depreciation	<u>(56,544)</u>	<u>(4,952)</u>	<u>38</u>	<u>(13)</u>	<u>(61,471)</u>
Total capital assets, being depreciated, net	<u>132,234</u>	<u>5,861</u>	<u>(2)</u>	<u>(252)</u>	<u>137,841</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 157,814</u>	<u>17,288</u>	<u>(10,241)</u>	<u>(252)</u>	<u>164,609</u>

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

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

Governmental activities:	
General government	\$ 275
Economic and Physical Development	250
Public safety	761
Public Works	4,926
Culture and recreation	1,195
Education	<u>4,132</u>
Total depreciation expense – governmental activities	<u>\$ 11,539</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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(amounts expressed in thousands)

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

**C. Capital assets (continued)**

Business-type activities:	
Water	\$ 1,324
Sewer	2,548
Solid waste management	130
Meadowview Conference Resort and Convention Center	670
Cattails at Meadowview Golf Course	<u>280</u>
 Total depreciation expense – business-type activities	 <u>\$ 4,952</u>

**Construction commitments**

The City has active construction projects as of June 30, 2003. 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 \$6,534 through bonded debt and local funding. In the proprietary funds, funding for construction projects has been provided and is in segregated deposit and investment accounts totaling \$13,200. Except for projects which are shared with counties or the State of Tennessee, the City could terminate any project at their discretion.

**Discretely presented component units**

Activity for the IDBK for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Signs	\$ 31	20	-	51
Improvements other than Buildings	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
Total capital assets, being depreciated	<u>51</u>	<u>20</u>	<u>-</u>	<u>71</u>
Less accumulated depreciation for:				
Signs	(20)	(3)	-	(23)
Improvements other than Buildings	<u>(19)</u>	<u>(1)</u>	<u>-</u>	<u>(20)</u>
Total accumulated depreciation	<u>(39)</u>	<u>(4)</u>	<u>-</u>	<u>(43)</u>
Total capital assets being depreciated, net	<u>12</u>	<u>16</u>	<u>-</u>	<u>28</u>
IDBK capital assets, net	<u>\$ 12</u>	<u>16</u>	<u>=</u>	<u>28</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**C. Capital assets (continued)**

Activity for the ECD for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Equipment	\$ <u>147</u>	<u>63</u>	-	210
Total capital assets, being depreciated	<u>147</u>	<u>63</u>	-	<u>210</u>
Less accumulated depreciation for:				
Equipment	(41)	(20)	-	(61)
Total accumulated depreciation	(41)	(20)	-	(61)
Total capital assets being depreciated, net	<u>106</u>	<u>43</u>	-	<u>149</u>
ECD capital assets, net	\$ <u>106</u>	<u>43</u>	-	<u>149</u>

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

The composition of interfund balances as of June 30, 2003, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
general (major)	community development (nonmajor)	\$ 179
	special revenue general projects (nonmajor)	17
	criminal forfeiture (nonmajor)	23
	Cattails at Meadowview Golf Course (major)	3,078
	urban mass transportation administration (nonmajor)	90
	state street aid (nonmajor)	31
	regional sales tax (nonmajor)	355
General purpose school (major)	school food and nutrition services (nonmajor)	70
	school local projects (nonmajor)	<u>179</u>
Total		\$ <u>4,022</u>

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government – General Fund	Component unit - IDBK	\$ 11
Primary government – Sewer Fund	Component unit - IDBK	14
Primary government – Water Fund	Component unit - IDBK	<u>11</u>
Total		\$ <u>36</u>

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

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

Interfund transfers:

Transfer Out:	Transfer in:											Total
	General Purpose School Fund	Urban Mass Transportation Administration Fund	State Street Aid Fund	Local Law Enforcement Fund	Solid Waste Management Fund	Meadowview Conference Resort and Convention Center	Fleet Maintenance Fund	Capital Projects Fund	General Fund	Debt Service Fund	Special Revenue General Projects	
General Fund	\$ 13,123	131	543	1	2,535	-	-	2,809	25	3,185	37	22,389
General Purpose School Fund	-	-	-	-	-	-	-	447	-	5,793	-	6,240
Urban Mass Transportation Administration Fund	-	-	-	-	-	-	51	245	-	-	-	296
Regional Sales Tax Revenue Fund	-	-	-	-	-	2,449	-	-	1,300	-	-	3,749
Spectral School Project Fund	5	-	-	-	-	-	-	-	-	-	-	5
Criminal Forfeiture Fund	-	-	-	25	-	-	-	-	-	-	-	25
Drug Fund	-	-	-	29	-	-	-	-	-	-	-	29
Allandale Fund	-	-	-	-	-	-	-	-	2	-	-	2
Fleet Maintenance Fund	-	-	-	-	-	-	-	-	31	-	-	31
Water Fund	-	-	-	-	-	-	15	-	1,202	-	-	1,217
Sewer Fund	-	-	-	-	-	-	-	-	780	-	-	780
Totals	\$ 13,128	131	543	55	2,535	2,449	66	3,501	3,340	8,978	37	34,763

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

**E. Long-term debt**

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2003, the following bonds outstanding are considered to be defeased:

<u>Date of Refunding</u>		<u>Amount</u>	<u>Issues Refunded</u>
11/01/98	General Obligation	\$ 13,745	1991, 1992, 1994
11/01/98	Sewer System Revenue	4,505	1992, 1992, 1994
11/01/98	Water System Revenue	1,950	1991, 1994
11/01/98	Taxable Industrial Park General Obligation	620	1989
04/01/99	General Obligation	2,410	1991, 1992, 1994
04/01/02	Convention Center General Obligation	9,280	1992
08/28/02	General Obligation	<u>7,010</u>	1993, 1997
	Total	\$ <u>39,520</u>	

Governmental Activities:

**Notes Payable:**

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

<u>General Fund:</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2003</u>
Capital Outlay Note	8/1/00	279	5.2827 to 5.3316%	\$ 140
Capital Outlay Note	5/1/03	4,000	1.7500%	<u>4,000</u>
				\$ <u>4,140</u>

Capital Outlay Note payable issued August 1, 2000 debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 70	7	77
2005	<u>70</u>	<u>4</u>	<u>74</u>
	\$ <u>140</u>	<u>11</u>	<u>151</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**E. Long-term debt**

**Notes Payable (continued):**

Capital Outlay Note payable issued May 1, 2003 debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ <u>4,000</u>	<u>41</u>	<u>4,041</u>
	\$ <u>4,000</u>	<u>41</u>	<u>4,041</u>

The City also issued a Note Payable with the State of Tennessee as a Loan for Qualified Zone Academy Projects. This note was issued in November 1999 for \$414 with a maturity date of November 11, 2011. Annual principal payments are \$34 and the interest is variable. As of June 30, 2003, \$310 is outstanding.

**Bonds Payable:**

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

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

<u>Debt Service Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2003</u>
1993 Public Improvement Refunding	8/1,2/1	04/01/93	21,688	4.620%-5.125%	\$ 3,644
1997 Public Improvement	1/7,7/1	02/01/97	13,450	4.150%-5.200%	4,455
1998 Taxable Industrial Park	3/1,9/1	11/01/98	1,635	5.160%-5.680%	625
1998 General Obligation Refunding	3/1,9/1	11/01/98	14,700	4.000%-5.000%	14,165

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

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

**Bonds Payable (continued):**

<u>Debt Service Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2003</u>
1999 General Obligation Refunding and Improvement Bonds	3/1,9/1	04/01/99	5,975	4.000%-4.500%	4,965
1999 General Obligation Refunding and Improvement Bonds	3/1,9/1	04/01/99	9,560	4.000%	2,420
1999 General Obligation Bonds	3/1,9/1	10/01/99	2,035	4.600%-5.500%	1,735
2000 General Obligation Bonds	3/1, 9/1	11/21/00	1,630	4.450%-5.100%	1,455
2001 General Obligation Bonds	4/1, 10/1	11/06/01	2,620	2.300%-4.650%	2,470
2002A General Obligation Refunding Bonds	1/1, 7/1	08/28/02	12,500	4.000%-4.500%	<u>12,500</u>
Total General Obligation Bonds					\$ <u>48,434</u>

General Obligation Public Improvement Refunding Bonds issued April 1, 1993, debt service requirements to maturity are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,936	136	2,072
2005	<u>1,708</u>	<u>44</u>	<u>1,752</u>
	<u>\$ 3,644</u>	<u>180</u>	<u>3,824</u>

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

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

**Bonds Payable (continued):**

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,035	196	1,231
2005	1,085	144	1,229
2006	1,140	88	1,228
2007	<u>1,195</u>	<u>30</u>	<u>1,225</u>
	\$ <u>4,455</u>	<u>458</u>	<u>4,913</u>

Taxable Industrial Park Bonds issued November 1, 1998, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 300	27	327
2005	<u>325</u>	<u>9</u>	<u>334</u>
	\$ <u>625</u>	<u>36</u>	<u>661</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 545	646	1,191
2005	3,420	558	3,978
2006	5,725	353	6,078
2007	2,810	154	2,964
2008	<u>1,665</u>	<u>42</u>	<u>1,707</u>
	\$ <u>14,165</u>	<u>1,753</u>	<u>15,918</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

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

**Bonds Payable (continued):**

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 365	213	578
2005	380	198	578
2006	395	183	578
2007	410	167	577
2008	430	150	580
2009	445	133	578
2010	465	114	579
2011	485	93	578
2012	505	72	577
2013	530	49	579
2014	<u>555</u>	<u>24</u>	<u>579</u>
	<u>\$ 4,965</u>	<u>1,396</u>	<u>6,361</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ <u>2,420</u>	<u>97</u>	<u>2,517</u>
	<u>\$ 2,420</u>	<u>97</u>	<u>2,517</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

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

**Bonds Payable (continued):**

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 110	88	198
2005	115	83	198
2006	120	78	198
2007	125	72	197
2008	130	66	196
2009	135	60	195
2010	145	53	198
2011	150	46	196
2012	160	38	198
2013	170	30	200
2014	175	20	195
2015	<u>200</u>	<u>11</u>	<u>211</u>
	<u>\$ 1,735</u>	<u>645</u>	<u>2,380</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 95	71	166
2005	95	66	161
2006	100	62	162
2007	105	57	162
2008	110	52	162
2009	115	47	162
2010	125	42	167
2011	130	36	166
2012	135	29	164
2013	140	23	163
2014	150	16	166
2015	<u>155</u>	<u>8</u>	<u>163</u>
	<u>\$ 1,455</u>	<u>509</u>	<u>1,964</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

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

**Bonds Payable (continued):**

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 150	98	248
2005	155	94	249
2006	160	88	248
2007	175	82	257
2008	175	75	250
2009	180	68	248
2010	185	61	246
2011	195	53	248
2012	200	46	246
2013	210	38	248
2014	220	29	249
2015	225	20	245
2016	<u>240</u>	<u>10</u>	<u>250</u>
	\$ <u>2,470</u>	<u>762</u>	<u>3,232</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ -	528	528
2005	-	527	527
2006	-	528	528
2007	2,500	478	2,978
2008	4,500	337	4,837
2009	<u>5,500</u>	<u>124</u>	<u>5,624</u>
	\$ <u>12,500</u>	<u>2,522</u>	<u>15,022</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

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

**Bonds Payable (continued):**

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 6,956	2,100	9,056
2005	7,283	1,723	9,006
2006	7,640	1,380	9,020
2007	7,320	1,040	8,360
2008	7,010	722	7,732
Next Five Years	10,305	1,255	11,560
Next Five Years	<u>1,920</u>	<u>138</u>	<u>2,058</u>
	<u>\$ 48,434</u>	<u>8,358</u>	<u>56,792</u>

Business Activities:

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

**Notes Payable:**

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

	Date Issued	Amount Issued	Interest Rate	Outstanding June 30, 2003
<u>Water Fund:</u>				
Note Payable – Colonial Heights				
Customers	9/23/85	3,000	-	\$ 210
State Revolving Loan – DWF#98-009	3/25/98	2,000	3.675%	1,881
<u>Sewer Fund:</u>				
State Revolving Loan – SRF#96-088	3/28/96	6,600	4.067%	5,953
State Revolving Loan – SRF#98-119	2/28/99	2,419	3.50%	2,152
State Revolving Loan – SRF#99-123	6/28/99	2,781	3.50%	2,508
State Revolving Loan – SRF#00-140	7/1/00	1,220	4.21%	<u>342</u>
Total				<u>\$ 13,046</u>

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

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

**Notes Payable (continued):**

Note payable to City of Johnson City, Tennessee for Colonial Heights customers issued September 23, 1985, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 70	-	70
2005	70	-	70
2006	<u>70</u>	<u>-</u>	<u>70</u>
	<u>\$ 210</u>	<u>-</u>	<u>210</u>

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

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 102	67	169
2005	105	64	169
2006	109	60	169
2007	113	56	169
2008	118	51	169
2009	122	47	169
2010	127	42	169
2011	131	38	169
2012	136	33	169
2013	141	28	169
2014	147	22	169
2015	152	17	169
2016	158	11	169
2017	164	5	169
2018	<u>56</u>	<u>1</u>	<u>57</u>
	<u>\$ 1,881</u>	<u>542</u>	<u>2,423</u>

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

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

**Notes Payable (continued):**

A \$6,600 line to provide for all or a portion of a wastewater facility project including various sewer improvements to correct the inflow/infiltration problems as required by an agreed order entered on May 18, 1995, with the Tennessee Water Quality Control Board.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 352	236	588
2005	366	221	587
2006	382	206	588
2007	397	190	587
2008	414	173	587
2009	431	156	587
2010	449	139	588
2011	468	120	588
2012	486	101	587
2013	507	80	587
2014	528	59	587
2015	550	37	587
2016	573	15	588
2017	<u>50</u>	<u>2</u>	<u>52</u>
	<u>\$ 5,953</u>	<u>1,735</u>	<u>7,688</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

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

**Notes Payable (continued):**

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 115	75	190
2005	118	70	188
2006	122	66	188
2007	127	62	189
2008	131	57	188
2009	136	52	188
2010	141	48	189
2011	146	42	188
2012	151	37	188
2013	157	32	189
2014	162	26	188
2015	168	20	188
2016	174	14	188
2017	181	8	189
2018	<u>123</u>	<u>2</u>	<u>125</u>
	\$ <u>2,152</u>	<u>611</u>	<u>2,763</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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**4. DETAILED NOTES ON ALL FUNDS (CONTINUED):**

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

**Notes Payable (continued):**

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 119	87	206
2005	133	83	216
2006	138	78	216
2007	143	73	216
2008	148	68	216
2009	153	63	216
2010	159	57	216
2011	165	51	216
2012	171	45	216
2013	177	39	216
2014	184	32	216
2015	189	27	216
2016	196	20	216
2017	204	12	216
2018	212	4	216
2019	<u>17</u>	<u>1</u>	<u>18</u>
	<u>\$ 2,508</u>	<u>740</u>	<u>3,248</u>

In addition to the above loans, the City has one revolving credit line which is still being drawn against for projects which are not yet complete. At current, the City is making interest payments only. Principal payments will begin upon substantial completion of the projects.

A \$1,220 line to provide for the sanitary sewer system was approved at 4.24%.

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

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

**Notes Payable (continued):**

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

Fiscal Year Ending June 30	Principal	Interest <sup>1</sup>	Total
2004	\$ 758	465	1,223
2005	792	438	1,230
2006	821	410	1,231
2007	780	381	1,161
2008	811	349	1,160
Next Five Years	4,554	1,250	5,804
Next Five Years	4,172	334	4,506
Thereafter	<u>358</u>	<u>1</u>	<u>359</u>
	<u>\$ 13,046</u>	<u>3,628</u>	<u>16,674</u>

<sup>1</sup>The interest calculation for the State Revolving Loan is based on the outstanding balance at year end for the item listed above. It is unknown at this time when the city will begin principal payments. Therefore, the entire \$342 is included in the "thereafter" information.

**Bonds Payable:**

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

	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2003
<u>MeadowView Conference Resort and Convention Center Fund:</u>					
2002 General Obligation Refunding Bond	4/1,10/1	4/25/02	9,585	3.50%-5.00%	<u>9,440</u>
Total MeadowView Conference Resort and Convention Center Fund (before deferred debt refunding costs \$180)					<u>\$ 9,440</u>

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

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

**Bonds Payable (continued):**

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2003</u>
<u>Cattails at MeadowView Golf Course Fund:</u>					
1995 Golf Course-TMBF	Monthly	5/22/95	4,750	Variable	\$ 3,138
1998 Golf Course-TMBF	Monthly	1998	1,450	Variable	<u>1,385</u>
Total Cattails at MeadowView Golf Course Fund					<u>\$ 4,523</u>
<u>Water Fund:</u>					
1965 Waterworks	11/1,5/1	05/22/65	275	4.30%-5.00%	\$ 15
1978 Waterworks	1/1,7/1	04/06/78	450	5.00%	255
1993 Water System Improvement Refunding	8/1,2/1	04/01/93	8,272	4.40%-5.125%	1,586
1994 Water System Improvement	12/1,6/1	12/01/93	1,710	5.80%-6.20%	340
1997 Water System Improvement	1/1,7/1	02/01/97	1,710	4.00%-5.20%	1,220
1998 Water Refunding	3/1,9/1	11/01/98	2,145	4.00%-4.125%	2,020
1999 Water Refunding and Improvement	3/1,9/1	04/1/99	2,820	4.00%-4.65%	2,340
1999 Water System Improvement	3/1,9/1	10/1/99	6,120	4.60%-5.50%	5,210
2001 Water System Improvement	4/1,10/1	11/6/01	2,140	2.30%-4.65%	2,015
2002 Water and Sewer Revenue and Tax Bonds	6/1,12/1	12/12/02	2,725	3.00%-4.35%	<u>2,725</u>
Total Water Fund (before deferred debt refunding costs of \$67)					<u>\$17,726</u>

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

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

**Bonds Payable (continued):**

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2003</u>
<u>Sewer Fund:</u>					
1992 Sewer System Improvement	3/1,9/1	9/1/92	4,800	4.90%-5.90%	\$ 370
1993 Sewer System Improvement Refunding	8/1,2/1	4/1/93	10,250	4.40%-5.125%	1,780
1994 Sewer System Improvement	12/1,6/1	12/1/93	4,225	5.70%-6.30%	600
1997 Sewer System Improvement	1/1,7/1	2/1/97	3,815	4.00%-5.20%	2,735
1998 Sewer Refunding	3/1,9/1	11/1/98	4,880	4.00%-5.00%	4,675
1999 Sewer Refunding	3/1,9/1	4/1/99	3,155	4.00%-4.65%	2,620
1999 Sewer System Improvement	3/1,9/1	10/1/99	10,245	4.60%-5.50%	8,725
2000 Sewer System Improvement	3/1,9/1	11/21/00	635	4.45%-5.10%	565
2001 Sewer System Improvement	4/1,10/1	11/6/01	2,790	2.30%-4.65%	2,630
2002 Water and Sewer Revenue and Tax Bonds	6/1,12/1	12/12/02	5,275	3.00%-4.35%	<u>5,275</u>
Total Sewer Fund (before deferred debt refunding costs of \$184)					\$ <u>29,975</u>

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

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

**Bonds Payable (continued):**

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,750	350	2,100
2005	1,810	287	2,097
2006	1,880	218	2,098
2007	1,955	141	2,096
2008	<u>2,045</u>	<u>51</u>	<u>2,096</u>
	<u>\$ 9,440</u>	<u>1,047</u>	<u>10,487</u>

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

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>TMBF Series</u>		<u>Total</u>
	<u>1998</u>	<u>1995</u>	
2004	\$ 68	323	391
2005	72	341	413
2006	76	360	436
2007	80	379	459
2008	85	400	485
2009	89	421	510
2010	94	445	539
2011	99	469	568
2012	105	-	105
2013	110	-	110
2014	117	-	117
2015	123	-	123
2016	130	-	130
2017	<u>137</u>	<u>-</u>	<u>137</u>
	<u>\$ 1,385</u>	<u>3,138</u>	<u>4,523</u>

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

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

**Bonds Payable (continued):**

Tri-County Utility District Bonds issued May 1965 debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ <u>15</u>	<u>1</u>	<u>16</u>
	\$ <u>15</u>	<u>1</u>	<u>16</u>

Note: The City assumed the operation and all related assets and liabilities of the Tri-County Utility District on May 1, 1977.

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 15	12	27
2005	15	12	27
2006	15	11	26
2007	15	10	25
2008	15	9	24
2009	20	9	29
2010	20	8	28
2011	20	7	27
2012	20	5	25
2013	20	4	24
2014	25	3	28
2015	25	2	27
2016	<u>30</u>	<u>1</u>	<u>31</u>
	\$ <u>255</u>	<u>93</u>	<u>348</u>

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

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

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

**Bonds Payable (continued):**

Water System Improvement Refunding Bonds issued April 1, 1993, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 874	58	932
2005	<u>712</u>	<u>19</u>	<u>731</u>
	\$ <u>1,586</u>	<u>77</u>	<u>1,663</u>

Water System Improvement Bonds issued December 1, 1993, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ <u>340</u>	<u>10</u>	<u>350</u>
	\$ <u>340</u>	<u>10</u>	<u>350</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 110	62	172
2005	115	56	171
2006	120	50	170
2007	130	44	174
2008	135	38	173
2009	140	31	171
2010	150	24	174
2011	155	17	172
2012	<u>165</u>	<u>9</u>	<u>174</u>
	\$ <u>1,220</u>	<u>331</u>	<u>1,551</u>

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

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

**Bonds Payable (continued):**

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 310	76	386
2005	675	56	731
2006	705	28	733
2007	<u>330</u>	<u>7</u>	<u>337</u>
	<u>\$ 2,020</u>	<u>167</u>	<u>2,187</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 170	100	270
2005	180	94	274
2006	185	86	271
2007	195	79	274
2008	200	71	271
2009	210	63	273
2010	220	54	274
2011	230	44	274
2012	240	34	274
2013	250	23	273
2014	<u>260</u>	<u>11</u>	<u>271</u>
	<u>\$ 2,340</u>	<u>659</u>	<u>2,999</u>

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

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

**Bonds Payable (continued):**

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 330	265	595
2005	345	249	594
2006	360	233	593
2007	375	217	592
2008	395	199	594
2009	415	179	594
2010	435	158	593
2011	460	136	596
2012	485	113	598
2013	510	87	597
2014	535	60	595
2015	<u>565</u>	<u>31</u>	<u>596</u>
	<u>\$ 5,210</u>	<u>1,927</u>	<u>7,137</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 125	80	205
2005	130	76	206
2006	130	71	201
2007	140	67	207
2008	140	61	201
2009	145	55	200
2010	150	50	200
2011	160	44	204
2012	165	37	202
2013	170	31	201
2014	180	24	204
2015	185	16	201
2016	<u>195</u>	<u>8</u>	<u>203</u>
	<u>\$ 2,015</u>	<u>620</u>	<u>2,635</u>

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

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

**Bonds Payable (continued):**

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 155	103	258
2005	160	97	257
2006	165	92	257
2007	170	87	257
2008	175	82	257
2009	180	76	256
2010	195	70	265
2011	200	62	262
2012	205	54	259
2013	210	46	256
2014	215	38	253
2015	220	29	249
2016	235	20	255
2017	<u>240</u>	<u>10</u>	<u>250</u>
	<u>\$ 2,725</u>	<u>866</u>	<u>3,591</u>

Sewer System Improvement Bonds issued September 1, 1992, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ <u>370</u>	<u>10</u>	<u>380</u>
	\$ <u>370</u>	<u>10</u>	<u>380</u>

Sewer System Improvement Refunding Bonds issued April 1, 1993, debt service requirements to maturity as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,115	62	1,177
2005	<u>665</u>	<u>17</u>	<u>682</u>
	<u>\$ 1,780</u>	<u>79</u>	<u>1,859</u>

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

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

**Bonds Payable (continued):**

Sewer System Improvement Bonds issued December 1, 1993, debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ <u>600</u>	<u>18</u>	<u>618</u>
	\$ <u>600</u>	<u>18</u>	<u>618</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 245	138	383
2005	260	126	386
2006	270	113	383
2007	285	99	384
2008	300	85	385
2009	315	70	385
2010	335	55	390
2011	355	38	393
2012	<u>370</u>	<u>19</u>	<u>389</u>
	\$ <u>2,735</u>	<u>743</u>	<u>3,478</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 235	204	439
2005	1,265	168	1,433
2006	1,325	109	1,434
2007	1,385	51	1,436
2008	<u>465</u>	<u>10</u>	<u>475</u>
	\$ <u>4,675</u>	<u>542</u>	<u>5,217</u>

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

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

**Bonds Payable (continued):**

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 195	112	307
2005	200	105	305
2006	210	97	307
2007	215	88	303
2008	225	79	304
2009	235	70	305
2010	245	60	305
2011	255	49	304
2012	265	38	303
2013	280	26	306
2014	<u>295</u>	<u>13</u>	<u>308</u>
	\$ <u>2,620</u>	<u>737</u>	<u>3,357</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 550	444	994
2005	575	418	993
2006	605	391	996
2007	635	363	998
2008	665	332	997
2009	695	300	995
2010	730	265	995
2011	770	228	998
2012	810	188	998
2013	850	146	996
2014	895	100	995
2015	<u>945</u>	<u>52</u>	<u>997</u>
	\$ <u>8,725</u>	<u>3,227</u>	<u>11,952</u>

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

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

**Bonds Payable (continued):**

The Sewer portion of the General Obligation Bonds, Series 2000 issued November 21, 2000, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 35	27	62
2005	40	26	66
2006	40	24	64
2007	40	22	62
2008	45	20	65
2009	45	18	63
2010	45	16	61
2011	50	14	64
2012	50	11	61
2013	55	9	64
2014	60	6	66
2015	<u>60</u>	<u>3</u>	<u>63</u>
	\$ <u>565</u>	<u>196</u>	<u>761</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 160	105	265
2005	165	100	265
2006	170	94	264
2007	185	87	272
2008	185	80	265
2009	190	72	262
2010	200	65	265
2011	205	57	262
2012	215	49	264
2013	220	40	260
2014	230	31	261
2015	240	22	262
2016	<u>265</u>	<u>12</u>	<u>277</u>
	\$ <u>2,630</u>	<u>814</u>	<u>3,444</u>

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

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

**Bonds Payable (continued):**

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 300	200	500
2005	315	188	503
2006	320	178	498
2007	330	169	499
2008	340	158	498
2009	350	147	497
2010	365	135	500
2011	380	121	501
2012	395	106	501
2013	405	90	495
2014	420	74	494
2015	430	57	487
2016	455	40	495
2017	<u>470</u>	<u>20</u>	<u>490</u>
	<u>\$ 5,275</u>	<u>1,683</u>	<u>6,958</u>

Total annual debt service requirements for enterprise fund revenue bonds, excluding the interest requirements on the TML bonds totaling \$4,523 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2003	\$ 8,390	2,775	11,165
2004	8,040	2,435	10,475
2005	6,936	2,155	9,091
2006	6,844	1,910	8,754
2007	5,815	1,675	7,490
Next Five Years	17,457	5,369	22,826
Next Five Years	<u>8,182</u>	<u>683</u>	<u>8,865</u>
	<u>\$ 61,664</u>	<u>17,002</u>	<u>78,666</u>

The total on the balance sheet has been reduced by deferred debt refunding costs of \$251.

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

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

**Advance and Current Refundings**

The City issued \$12,500 of Series 2002A General Obligation Refunding Bonds to provide resources that were placed in an irrevocable trust for the purpose of generating resources for the future debt service payments of \$7,010 on the City's outstanding Series 1993 and 1997 General Obligation Bonds. As a result, the refunded bonds are considered to be defeased. The reacquisition price exceeded the net carrying amount of the old debt by \$305. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt which is the same as the life of the new debt issued in the basic financials. This advance refunding was undertaken to reduce the total debt service payments over the next six years by \$370 and resulted in an economic gain of \$298.

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due within</u> <u>One Year</u>
<b>Governmental activities:</b>					
General Obligation Debt	\$ 54,766	12,500	18,832	48,434	6,956
Capital Outlay Note	-	4,000	-	4,000	4,000
Capital Outlay Note	209	-	69	140	70
Notes Payable-State	<u>345</u>	<u>-</u>	<u>35</u>	<u>310</u>	<u>34</u>
Totals	<u>\$ 55,320</u>	<u>16,500</u>	<u>18,936</u>	<u>52,884</u>	<u>11,060</u>
<b>Business-type activities:</b>					
General Obligation Debt	\$ 62,043	-	8,379	53,664	7,935
Water and Sewer Tax Revenue Bonds	-	8,000	-	8,000	455
Less: deferred amounts for refunding	<u>(487)</u>	<u>-</u>	<u>(179)</u>	<u>(308)</u>	<u>-</u>
Total Bonds Payable	61,556	8,000	8,200	61,356	8,390
State Revolving Notes	11,139	2,031	334	12,836	688
Consolidated Utility Payable	<u>280</u>	<u>-</u>	<u>70</u>	<u>210</u>	<u>70</u>
Totals	<u>\$ 72,975</u>	<u>10,031</u>	<u>8,604</u>	<u>74,402</u>	<u>9,148</u>

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

**F. Closure and postclosure costs**

The City operates a demolition landfill with a remaining life of approximately 70 years. Upon closure, federal and state laws require the landfill to be monitored for two years at the City's expense. Based upon information received from the State of Tennessee, the expected postclosure costs are immaterial to the solid waste management fund and therefore have not been recorded. The demolition landfill does not fall under the same monitoring guidelines as a sanitation landfill.

**5. OTHER INFORMATION:**

**A. Risk management**

The City carries insurance coverage through the Tennessee Municipal League (TML) Risk Management Pool for general liability, automobile, and errors and omissions coverage. Although TML is a risk management pool and the policy contains an assessment clause, no assessment has been levied during the time the City has participated in this program. The City's workers' compensation coverage is self-funded and administered by Tri-State Claims Service. The City carries a specific excess workers' compensation reinsurance agreement through Midwest Employers Casualty Company. The City carries additional coverage for public officials and other employees through U.S. Fidelity and Guaranty Company and property insurance through Cincinnati Insurance Company, Allianz, and Commercial Union. There has been no significant reduction in insurance coverage from the prior year, and the City has not had any settlements in the last three years, which were not covered by insurance. For the period July 1, 2002 to July 1, 2003 policy period, the City received a rebate from TML of \$96.

In addition to the above insurance, the City provides medical insurance to current employees and post-employment health care benefits through the State of Tennessee through December 31, 2002. Effective January 1, 2003 medical insurance was provided through a self funded health insurance plan for City employees. School system employee's benefits continued to be provided through the State of Tennessee. The State funds this health insurance program and charges member municipalities and counties a specified premium amount per employee. Participants pay premiums as determined by the City based on the State's specified premium amount. The State carries stop-loss insurance based on all member municipalities and counties as a whole.

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

	<u>Year Ended</u> <u>June 30, 2003</u>	<u>Year Ended</u> <u>June 30, 2002</u>
Claims Accrued, Beginning	\$ 78	48
Claims Incurred	544	488
Claims Paid	<u>(517)</u>	<u>(458)</u>
Claims Accrued, Ending	\$ <u>105</u>	<u>78</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**A. Risk management (continued)**

The City's estimate of claims accrued at year-end is based on actual claims paid during July, multiplied by a factor of three, which is used as the estimate for August and September.

**B. Prior period adjustments**

<u>Government-wide governmental activities:</u>	
Fixed assets and depreciation expense	\$(1,471)
 <u>Water fund:</u>	
Construction project expense	39
 <u>Meadowview Conference Resort and Convention Center fund:</u>	
Reimbursement of construction costs	(252)
 <u>Cattails at Meadowview Golf Course fund:</u>	
Legal fees	14

The fixed assets and depreciation expense of government-wide governmental activities were adjusted in the current year in the amount of \$(1,471) for internal service fund depreciation expense and adjustments resulting from the closure of certain long-term construction projects.

The water fund was adjusted in the current year in the amount of \$39 for a construction project expense that was recorded twice in fiscal year 2002.

The Meadowview Conference Resort and Convention Center fund was adjusted in the current year in the amount of \$(252) for a reimbursement of construction costs that were not appropriately recorded as revenue in the year received.

The Cattails at Meadowview Golf Course fund was adjusted in the current year in the amount of \$14 for legal fees that were not appropriately expensed in the year incurred.

**C. Subsequent Events**

In December 2003, the City sold \$7,950 of General Obligation Bonds, Series 2003, for the purpose of (a) financing certain public works projects, consisting of school improvements within the City and the construction and improvement of recreational facilities within the City, including additional ball fields, the acquisition of all other property real and personal, connected with such work, and to pay legal fiscal, administrative and engineering costs, (b) prepaying the outstanding principal of, and paying interest on, that certain \$4,000 General Obligation Capital Outlay Note, Series 2003, dated May 1, 2003, the proceeds of which were used for the purpose of financing the construction and improvement of recreational facilities within the City, and (c) paying costs incident to the issuance and sale of the General Obligation Bonds.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**C. Subsequent Events (continued)**

The City also sold \$5,900 of Water and Sewer System Revenue and Tax Bonds, Series 2003, for the purpose of financing the costs of public works projects, consisting of the construction, erection, repair, improvement, and extension of the water and sewer systems of the City, the acquisition of all property, real and personal, connected with such work, and to pay legal, administrative, and engineering costs, and to pay costs incident to the issuance and sale of the Water and Sewer Bonds.

**D. Contingencies**

**Primary government**

The City has recorded an arbitrage rebate liability in the water fund, sewer fund and general fund. The bonds, through 2000, have been independently reviewed and it has been determined that no arbitrage rebate liability exists for those years. At June 30, 2003 the water fund and sewer fund had arbitrage rebate liabilities recorded of \$172 and \$298, respectively. These arbitrage rebate liabilities are not directly related to any bond issue however, are recorded in anticipation of future liabilities. At June 30, 2003 the general fund has an arbitrage rebate liability of \$145 recorded. This is an estimation of the amount that will be due for the 1997, March 1999 and October 2000 issues.

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

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

**Discretely presented component units**

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

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**D. Contingencies (continued)**

**Discretely presented component units (continued)**

The IDBK issued \$6,140 Multifamily Housing Revenue Bonds, Series 2003A and \$100 Multifamily Housing Revenue Bonds, Series 2003B. The bond proceeds were disbursed directly to a non-profit organization (NPO) which will use the funds to finance the acquisition and rehabilitation of a 257-unit multifamily housing project located in Kingsport, Tennessee. The bonds are secured by assignment of the revenue from the project, in accordance with an agreement between the IDBK and the NPO, which was created for the specific purpose of acquiring the operating the aforementioned project. The said project and related liability are on the NPO's books. The NPO is responsible for making the bond payments. However, in the event that the NPO defaulted, the IDBK would have to pay off the bonds if they wanted to retain the project. As of June 30, 2003, \$6,240 was outstanding on these bonds.

**E. Post-employment health care benefits**

The BMA has provided for post-employment health care benefits. All employees (including schools) who retire before the age of 65 receive the same health care benefits, at the same cost as current active employees. Currently, the City pays 70% of the lowest premium and the retiree is responsible for the remaining 30%. For employees that retire after attaining the age of 65, the City and Schools purchase a Medicare supplement at no cost to the retiree. All terminated employees, other than retirees, are eligible to continue coverage at their cost under COBRA regulations, which is administered through the State of Tennessee health plan (through December 31, 2003) and after January 1, 2003 through John Deere as part of the City's change to self-insurance. As of June 30, 2003, there were approximately 420 retirees. For the year ended June 30, 2003, approximately \$520 was paid for post-retirement benefits by the City. The City funds the plan on a pay-as-you-go basis. The School retirees are covered under the State of Tennessee Local Education Health Insurance Plan with a portion of the premium reimbursed by the State.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**F. Pension plan**

**Plan description**

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

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

**Funding policy**

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

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2003 was 11.45% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**F. Pension plan (continued)**

**Annual pension cost**

For the year ending June 30, 2003, the City's annual pension cost of \$3,247 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2001 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.50% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.00 % annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2001 was 14 years.

**Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2003	\$3,247	100.00%	\$ -
June 30, 2002	2,424	100.00%	-
June 30, 2001	2,332	100.00%	-

**Required supplementary information**

**Schedule of Funding Progress for Kingsport**

	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 01, 2001	\$ 91,035	101,307	10,272	89.86%	26,519	38.73%
July 01, 1999	80,976	86,815	5,839	93.27%	25,256	23.12%
June 30, 1997	69,883	69,883	-	100.00%	23,145	0.0%

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**F. Pension plan (continued)**

**Plan description**

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

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

**Funding policy**

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2003 was 3.40% of annual covered payroll. The employer contribution requirement for City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2003, 2002, and 2001 were, \$813, \$862, \$814, respectively, equal to the required contributions for each year.

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
 (amounts expressed in thousands)

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

**G. Joint Ventures:**

**Tri-Cities Airport**

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

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

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

Audited information as of June 30, 2003 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 5,232
Operating Expenses	(4,784)
Depreciation	(2,137)
Amortization	(6)
Other Income	287
Capital Contributions	<u>2,175</u>
Change in Net Assets	767
Net Assets, July 1	<u>35,899</u>
Net Assets, June 30	\$ <u>36,666</u>
Total Assets	\$ 43,772
Total Liabilities	<u>(7,106)</u>
Total Net Assets	\$ <u>36,666</u>

CITY OF KINGSPORT, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

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

**G. Joint Ventures (continued)**

**Phipps Bend Joint Venture**

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

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

Note Receivable from Phipps Bend Venture	\$ 535
20% interest in capital of Phipps Bend Joint Venture	<u>201</u>
Total Investment	\$ <u>736</u>

**H. 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, 2002 and 2001, the taxes assessed on the above mentioned taxpayer accounted for approximately 30% and 27%, respectively, of total property taxes assessed.

CITY OF KINGSPORT, TENNESSEE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2003

(amounts expressed in thousands)

	Special Revenue Funds							Total Special Revenue Funds	Capital Project	Permanent Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds				
ASSETS:											
Cash in Bank	-	-	7	-	-	755	762	-	9	771	
Equity in Pooled Cash and Investments	-	-	268	-	-	141	409	13	-	422	
Long-Term Certificates of Deposit	-	-	-	-	-	199	199	-	-	199	
Investments	-	-	169	-	1,738	55	1,962	-	145	2,107	
Accounts Receivable, net	-	3	-	4	-	-	7	-	-	7	
Due from Other Governments	207	9	-	417	472	690	1,795	-	-	1,795	
Inventories	-	-	-	-	-	74	74	-	-	74	
Total Assets	207	12	444	421	2,210	1,914	5,208	13	154	5,375	
LIABILITIES AND FUND BALANCES:											
Liabilities:											
Accounts Payable	19	-	-	149	2	26	196	-	-	196	
Due to Other Funds	179	17	23	121	355	249	944	-	-	944	
Deferred Revenue	-	-	-	-	-	233	233	-	-	233	
Total Liabilities	198	17	23	270	357	508	1,373	-	-	1,373	
Fund Balances:											
Reserved for Encumbrances	-	-	165	357	-	158	680	-	-	680	
Reserved for Inventories	-	-	-	-	-	74	74	-	-	74	
Reserved for Perpetual Care	-	-	-	-	-	(33)	-	-	154	154	
Reserved for Projects	-	-	51	-	-	1,207	18	-	-	18	
Unreserved, Undesignated	9	(5)	205	(206)	1,853	1,207	3,063	13	-	3,076	
Total Fund Balances	9	(5)	421	151	1,853	1,406	3,835	13	154	4,002	
Total Liabilities and Fund Balances	\$ 207	12	444	421	2,210	1,914	5,208	13	154	5,375	

See Independent Auditors' Report.

**CITY OF KINGSPORT, TENNESSEE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Special Revenue Funds							Total Special Revenue Funds	Capital Project	Permanent Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds				
<b>REVENUES:</b>											
Federal Government	\$ 519	132	69	441	-	3,931	5,092	-	-	5,092	
State Government	43	-	-	1,570	2,860	630	5,103	-	-	5,103	
Charges for Services	-	-	-	49	15	1,393	1,457	-	-	1,457	
Fines and Forfeitures	-	-	109	-	-	-	109	-	-	109	
Investment Earnings	-	-	3	-	33	14	50	-	2	52	
Contributions and Donations	-	10	-	-	24	218	252	-	-	252	
<b>Total Revenues</b>	<b>562</b>	<b>142</b>	<b>181</b>	<b>2,060</b>	<b>2,932</b>	<b>6,186</b>	<b>12,063</b>	<b>-</b>	<b>2</b>	<b>12,065</b>	
<b>EXPENDITURES:</b>											
General and Administrative	-	166	3	-	-	-	169	-	-	169	
School Food Service	-	-	-	-	-	2,445	2,445	-	-	2,445	
School Federal Projects	-	-	-	-	-	2,538	2,538	-	-	2,538	
Economic and Physical Development	534	-	-	-	-	-	534	-	-	534	
Public Safety	-	-	44	-	-	-	44	-	-	44	
Highway Transportation Planning	-	-	-	2,366	-	-	2,366	-	-	2,366	
Culture and Recreation	-	-	-	-	21	-	21	-	-	21	
Education	-	-	-	-	-	741	741	-	-	741	
Capital Outlay	30	-	130	38	-	206	404	-	-	404	
<b>Total Expenditures</b>	<b>564</b>	<b>166</b>	<b>177</b>	<b>2,404</b>	<b>21</b>	<b>5,930</b>	<b>9,262</b>	<b>-</b>	<b>-</b>	<b>9,262</b>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2)	(24)	4	(344)	2,911	256	2,801	-	2	2,803	
<b>OTHER FINANCING SOURCES (USES) -</b>											
Operating Transfers	-	37	-	378	(3,749)	(5)	(3,339)	-	(2)	(3,341)	
Net Change in Fund Balances	(2)	13	4	34	(838)	251	(538)	-	-	(538)	
Fund Balances, July 1, 2002	11	(18)	417	117	2,691	1,155	4,373	13	154	4,540	
Fund Balances, June 30, 2003	\$ 9	(5)	421	151	1,853	1,406	3,835	13	154	4,002	

See Independent Auditors' Report.

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

June 30, 2003

(amounts expressed in thousands)

	Criminal Forfeiture Fund	Drug Fund	Local Law Enforcement Fund	Total Public Safety Funds
<u>ASSETS:</u>				
Cash in Bank	-	7	-	7
Equity in Pooled Cash and Investments	-	207	61	268
Investments	26	-	143	169
Total Assets	<u>26</u>	<u>214</u>	<u>204</u>	<u>444</u>

LIABILITIES AND FUND BALANCES:

<u>Liabilities:</u>				
Due to Other Funds	23	-	-	23
Total Liabilities	<u>23</u>	<u>-</u>	<u>-</u>	<u>23</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	-	9	156	165
Reserved for Projects	3	-	48	51
Unreserved, Undesignated	-	205	-	205
Total Fund Balances	<u>3</u>	<u>214</u>	<u>204</u>	<u>421</u>
Total Liabilities and Fund Balances	<u>\$ 26</u>	<u>214</u>	<u>204</u>	<u>444</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Criminal Forfeiture Fund</u>	<u>Drug Fund</u>	<u>Local Law Enforcement Fund</u>	<u>Total Public Safety Funds</u>
<u>REVENUES:</u>				
Federal Government	\$ -	-	69	69
Fines and Forfeitures	-	109	-	109
Investment Earnings	1	-	2	3
<u>Total Revenues</u>	<u>1</u>	<u>109</u>	<u>71</u>	<u>181</u>
<u>EXPENDITURES:</u>				
General and Administrative	-	3	-	3
Public Safety	-	44	-	44
Capital Outlay	-	77	53	130
<u>Total Expenditures</u>	<u>-</u>	<u>124</u>	<u>53</u>	<u>177</u>
Excess of Revenues Over Expenditures	1	(15)	18	4
<u>OTHER FINANCING SOURCES (USES) -</u>				
Operating Transfers	(25)	(29)	54	-
Net Change in Fund Balances	(24)	(44)	72	4
Fund Balance, July 1, 2002	27	258	132	417
Fund Balance, June 30, 2003	<u>\$ 3</u>	<u>214</u>	<u>204</u>	<u>421</u>

See Independent Auditors' Report.

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

June 30, 2003

(amounts expressed in thousands)

	Urban Mass Transportation Administration Fund	State Street Aid Fund	Total Transportation Funds
<u>ASSETS:</u>			
Accounts Receivable, net	\$ 4	-	4
Due from Other Governments	197	220	417
Total Assets	<u>201</u>	<u>220</u>	<u>421</u>
<u>LIABILITIES AND FUND BALANCES:</u>			
<u>Liabilities:</u>			
Accounts Payable	6	143	149
Due to Other Funds	90	31	121
Total Liabilities	<u>96</u>	<u>174</u>	<u>270</u>
<u>Fund Balances:</u>			
Reserved for Encumbrances	260	97	357
Unreserved, Undesignated	(155)	(51)	(206)
Total Fund Balances	<u>105</u>	<u>46</u>	<u>151</u>
Total Liabilities and Fund Balances	<u>\$ 201</u>	<u>220</u>	<u>421</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Urban Mass Transportation Administration Fund</u>	<u>State Street Aid Fund</u>	<u>Total Transportation Funds</u>
<u>REVENUES:</u>			
Federal Government	441	-	441
State Government	314	1,256	1,570
Charges for Services	49	-	49
Total Revenues	804	1,256	2,060
<u>EXPENDITURES:</u>			
Highway Transportation Planning	578	1,788	2,366
Capital Outlay	27	11	38
Total Expenditures	605	1,799	2,404
Deficiency of Revenues Under Expenditures	199	(543)	(344)
<u>OTHER FINANCING SOURCES -</u>			
Operating Transfers	(165)	543	378
Net Change in Fund Balances	34	-	34
Fund Balance, July 1, 2002	71	46	117
Fund Balance, June 30, 2003	\$ 105	46	151

See Independent Auditors' Report.

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

June 30, 2003

(amounts expressed in thousands)

ASSETS:	Regional Sales Tax Revenue Fund	Steadman Cemetery Trust Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
Investments	\$ 1,614	16	15	83	10	1,738
Due from Other Governments	472	-	-	-	-	472
Total Assets	<u>2,086</u>	<u>16</u>	<u>15</u>	<u>83</u>	<u>10</u>	<u>2,210</u>

LIABILITIES AND FUND BALANCES:

Liabilities:	Regional Sales Tax Revenue Fund	Steadman Cemetery Trust Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
Accounts Payable	-	-	-	-	2	2
Due to Other Funds	355	-	-	-	-	355
Total Liabilities	<u>355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>357</u>
<u>Fund Balances -</u>						
Unreserved, Undesignated	1,731	16	15	83	8	1,853
Total Fund Balances	<u>1,731</u>	<u>16</u>	<u>15</u>	<u>83</u>	<u>8</u>	<u>1,853</u>
Total Liabilities and Fund Balances	<u>\$ 2,086</u>	<u>16</u>	<u>15</u>	<u>83</u>	<u>10</u>	<u>2,210</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Regional Sales Tax Revenue Fund	Steadman Cemetery Trust Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
<u>REVENUES:</u>						
State Government	\$ 2,860	-	-	-	-	2,860
Charges for Services	-	-	-	-	15	15
Investment Earnings	32	-	-	1	-	33
Contributions and Donations	-	-	-	22	2	24
Total Revenues	<u>2,892</u>	<u>-</u>	<u>-</u>	<u>23</u>	<u>17</u>	<u>2,932</u>
<u>EXPENDITURES -</u>						
Culture and Recreation	-	-	4	5	12	21
Total Expenditures	<u>-</u>	<u>-</u>	<u>4</u>	<u>5</u>	<u>12</u>	<u>21</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,892	-	(4)	18	5	2,911
<u>OTHER FINANCING USES -</u>						
Operating Transfers	(3,749)	-	-	-	-	(3,749)
Net Change in Fund Balances	(857)	-	(4)	18	5	(838)
Fund Balance, July 1, 2002	2,588	16	19	65	3	2,691
Fund Balance, June 30, 2003	<u>\$ 1,731</u>	<u>16</u>	<u>15</u>	<u>83</u>	<u>8</u>	<u>1,853</u>

See Independent Auditors' Report.

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

June 30, 2003

(amounts expressed in thousands)

<u>ASSETS:</u>	School Food & Nutrition Services	Special School Projects Fund	Public Law 93-380 Fund	Purvis Soccer Building Fund	Palmer Center Fund	Total Education Funds
Cash in Bank	\$ 755	-	-	-	-	755
Equity in Pooled Cash and Investments	-	-	3	138	-	141
Long-Term Certificates of Deposit	199	-	-	-	-	199
Investments	-	-	-	-	55	55
Due from Other Governments	132	200	358	-	-	690
Inventories	74	-	-	-	-	74
<b>Total Assets</b>	<b>1,160</b>	<b>200</b>	<b>361</b>	<b>138</b>	<b>55</b>	<b>1,914</b>

LIABILITIES AND FUND BALANCES:

<u>Liabilities:</u>	Accounts Payable	Due to Other Funds	Deferred Revenue	Total Liabilities	Fund Balances:	Reserved for Encumbrances	Reserved for Inventories	Reserved for Projects	Unreserved, Undesignated	Total Fund Balances	Total Liabilities and Fund Balances
Accounts Payable	2	12	12	26	-	-	-	-	-	158	184
Due to Other Funds	70	179	-	249	-	-	-	-	-	74	323
Deferred Revenue	-	-	233	233	-	-	-	-	-	(33)	200
<b>Total Liabilities</b>	<b>72</b>	<b>191</b>	<b>245</b>	<b>508</b>	<b>1,014</b>	<b>42</b>	<b>(33)</b>	<b>-</b>	<b>138</b>	<b>1,207</b>	<b>1,715</b>
<b>Fund Balances:</b>	<b>-</b>	<b>74</b>	<b>-</b>	<b>-</b>	<b>1,088</b>	<b>116</b>	<b>9</b>	<b>116</b>	<b>200</b>	<b>1,406</b>	<b>1,406</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,160</b>	<b>200</b>	<b>361</b>	<b>138</b>	<b>55</b>	<b>1,914</b>	<b>138</b>	<b>55</b>	<b>1,914</b>	<b>1,914</b>	<b>1,914</b>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	School Food & Nutrition Services	Special School Projects Fund	Public Law 93-380 Fund	Purvis Soccer Building Fund	Palmer Center Fund	Total Education Funds
<u>REVENUES:</u>						
Federal Government	\$ 995	161	2,775	-	-	3,931
State Government	-	630	-	-	-	630
Charges for Services	1,375	18	-	-	-	1,393
Investment Earnings	12	-	-	1	1	14
Contributions and Donations	81	-	-	137	-	218
<b>Total Revenues</b>	<b>2,463</b>	<b>809</b>	<b>2,775</b>	<b>138</b>	<b>1</b>	<b>6,186</b>
<u>EXPENDITURES:</u>						
School Food Service	2,445	-	-	-	-	2,445
School Federal Projects	-	-	2,538	-	-	2,538
Education	-	741	-	-	-	741
Capital Outlay	23	62	121	-	-	206
<b>Total Expenditures</b>	<b>2,468</b>	<b>803</b>	<b>2,659</b>	<b>-</b>	<b>-</b>	<b>5,930</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5)	6	116	138	1	256
<u>OTHER FINANCING USES -</u>						
Operating Transfers	-	(5)	-	-	-	(5)
<b>Net Change in Fund Balances</b>	<b>(5)</b>	<b>1</b>	<b>116</b>	<b>138</b>	<b>1</b>	<b>251</b>
Fund Balance, July 1, 2002	1,093	8	-	-	54	1,155
<b>Fund Balance, June 30, 2003</b>	<b>\$ 1,088</b>	<b>9</b>	<b>116</b>	<b>138</b>	<b>55</b>	<b>1,406</b>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final	
<u>REVENUES:</u>			
Investment Earnings	\$ -	-	1
Contributions and Donations	-	25	(25)
Total Revenues	-	25	(24)
<u>OTHER FINANCING USES -</u>			
Transfers Out	-	(25)	-
Total Other Financing Uses	-	(25)	-
Net Change in Fund Balance	-	-	(24)
Fund Balance, July 1, 2002	27	27	-
Fund Balance, June 30, 2003	\$ 27	27	(24)

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE

DRUG FUND

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

For the Year Ended June 30, 2003

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Fines and Forfeitures	\$ 75	109	109	-
Contributions and Donations	76	71	-	(71)
Total Revenues	151	180	109	(71)
<u>EXPENDITURES:</u>				
General and Administrative	10	6	3	3
Public Safety	55	52	44	8
Capital Outlay	86	93	77	16
Total Expenditures	151	151	124	27
Excess of Revenues Over Expenditures	-	29	(15)	(44)
<u>OTHER FINANCING USES -</u>				
Transfers Out	-	(29)	(29)	-
Total Other Financing Uses	-	(29)	(29)	-
Net Change in Fund Balance	-	-	(44)	(44)
Fund Balance, July 1, 2002	258	258	258	-
Fund Balance, June 30, 2003	\$ 258	258	214	(44)

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<u>REVENUES -</u>				
State Government	\$ 1,132	1,132	1,256	124
Total Revenues	1,132	1,132	1,256	124
<u>EXPENDITURES:</u>				
Highway Transportation Planning	2,000	1,892	1,788	104
Capital Outlay	-	18	11	7
Total Expenditures	2,000	1,910	1,799	111
Excess of Revenues Over Expenditures	(868)	(778)	(543)	235
<u>OTHER FINANCING SOURCES -</u>				
Transfers In	868	778	543	235
Total Other Financing Sources	868	778	543	235
Net Change in Fund Balance	-	-	-	-
Fund Balance, July 1, 2002	46	46	46	-
Fund Balance, June 30, 2003	\$ 46	46	46	-

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
State Government	\$ 2,721	2,860	139
Investment Earnings	40	32	(8)
<u>Total Revenues</u>	2,761	2,892	131
<u>OTHER FINANCING USES -</u>			
Transfers Out	(4,061)	(3,749)	(312)
<u>Total Other Financing Uses</u>	(4,061)	(3,749)	(312)
<u>Net Change in Fund Balance</u>	(1,300)	(857)	443
Fund Balance, July 1, 2002	2,588	2,588	-
Fund Balance, June 30, 2003	\$ 1,288	1,731	443

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

For the Year Ended June 30, 2003  
 (amounts expressed in thousands)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>EXPENDITURES -</u>			
Culture and Recreation	\$ -	4	(4)
Total Expenditures	-	4	(4)
Net Change in Fund Balance	-	(4)	(4)
Fund Balance, July 1, 2002	19	19	-
Fund Balance, June 30, 2003	<u>\$ 19</u>	<u>15</u>	<u>(4)</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Investment Earnings	\$ 2	1	(1)
Contributions and Donations	25	22	(3)
Total Revenues	27	23	(4)
<u>EXPENDITURES -</u>			
Culture and Recreation	27	5	22
Total Expenditures	27	5	22
Net Change in Fund Balance	-	18	18
Fund Balance, July 1, 2002	65	65	-
Fund Balance, June 30, 2003	\$ 65	83	18

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Charges for Services	\$ 10	15	5
Contributions and Donations	2	2	-
Total Revenues	12	17	5
<u>EXPENDITURES -</u>			
Culture and Recreation	12	12	-
Total Expenditures	12	12	-
Net Change in Fund Balance	-	5	5
Fund Balance, July 1, 2002	3	3	-
Fund Balance, June 30, 2003	\$ 3	8	5

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Federal Government	\$ 881	995	114
State Government	30	-	(30)
Charges for Services	1,305	1,375	70
Investment Earnings	50	12	(38)
Contributions and Donations	-	81	81
<b>Total Revenues</b>	<u>2,266</u>	<u>2,463</u>	<u>197</u>
<u>EXPENDITURES:</u>			
School Food Service	2,266	2,445	(179)
Capital Outlay	142	23	119
<b>Total Expenditures</b>	<u>2,408</u>	<u>2,468</u>	<u>(60)</u>
<b>Net Change in Fund Balance</b>	<u>(142)</u>	<u>(5)</u>	<u>137</u>
<b>Fund Balance, July 1, 2002</b>	<u>1,093</u>	<u>1,093</u>	<u>-</u>
<b>Fund Balance, June 30, 2003</b>	<u>\$ 951</u>	<u>1,088</u>	<u>137</u>

See Independent Auditors' Report.

CITY OF KINGSFORT, TENNESSEE  
PURVIS SOCCER BUILDING FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Investment Earnings	\$ -	1	1
Contributions and Donations	-	137	137
<b>Total Revenues</b>	<b>-</b>	<b>138</b>	<b>138</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>138</b>	<b>138</b>
Fund Balance, July 1, 2002	-	-	-
Fund Balance, June 30, 2003	\$ -	138	138

See Independent Auditors' Report.

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>REVENUES -</u>			
Investment Earnings	\$ 1	1	-
Total Revenues	<u>1</u>	<u>1</u>	<u>-</u>
<u>EXPENDITURES -</u>			
Capital Outlay	1	-	1
Total Expenditures	<u>1</u>	<u>-</u>	<u>1</u>
Net Change in Fund Balance	-	1	1
Fund Balance, July 1, 2002	<u>54</u>	<u>54</u>	<u>-</u>
Fund Balance, June 30, 2003	<u>\$ 54</u>	<u>55</u>	<u>1</u>

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

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>REVENUES -</u>			
Investment Earnings	\$ 4	2	(2)
Total Revenues	4	2	(2)
<u>OTHER FINANCING USES -</u>			
Transfers Out	(4)	(2)	(2)
Total Other Financing Uses	(4)	(2)	(2)
Net Change in Fund Balance	-	-	-
Fund Balance, July 1, 2002	154	154	-
Fund Balance, June 30, 2003	<u>\$ 154</u>	<u>154</u>	<u>-</u>

CITY OF KINGSPORT, TENNESSEE  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
June 30, 2003  
(amounts expressed in thousands)

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Total Internal Service Funds
<u>ASSETS:</u>				
Current Assets:				
Equity in Pooled Cash and Investments	\$ 1,600	2,326	1,104	5,030
Long-Term Certificates of Deposit	-	350	-	350
Accounts Receivable	1	52	1	54
Inventories	241	-	-	241
Prepays	-	134	-	134
Total Current Assets	<u>1,842</u>	<u>2,862</u>	<u>1,105</u>	<u>5,809</u>
Capital Assets:				
Land	15	-	-	15
Machinery and Equipment	17,054	-	-	17,054
Less: Accumulated Depreciation	(10,735)	-	-	(10,735)
Total Capital Assets	<u>6,334</u>	<u>-</u>	<u>-</u>	<u>6,334</u>
Other Assets -				
Deposits	-	30	-	30
Total Other Assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Restricted Assets:				
Cash in Bank	4,873	-	-	4,873
Investments	426	-	-	426
Total Restricted Assets	<u>5,299</u>	<u>-</u>	<u>-</u>	<u>5,299</u>
Total Assets	<u>13,475</u>	<u>2,892</u>	<u>1,105</u>	<u>17,472</u>
<u>LIABILITIES:</u>				
Current Liabilities:				
Accounts Payable	243	79	107	429
Benefits Payable	-	105	900	1,005
Compensated Absences Payable	68	11	1	80
Total Current Liabilities	<u>311</u>	<u>195</u>	<u>1,008</u>	<u>1,514</u>
Total Liabilities	<u>311</u>	<u>195</u>	<u>1,008</u>	<u>1,514</u>
<u>NET ASSETS:</u>				
Invested in Capital Assets	6,334	-	-	6,334
Unrestricted	<u>6,830</u>	<u>2,697</u>	<u>97</u>	<u>9,624</u>
Total Net Assets	<u>\$ 13,164</u>	<u>2,697</u>	<u>97</u>	<u>15,958</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Fleet Operations &amp; Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
<u>OPERATING REVENUE -</u>				
Charges for Sales and Services	\$ 3,615	1,127	2,542	7,284
Total Operating Revenue	<u>3,615</u>	<u>1,127</u>	<u>2,542</u>	<u>7,284</u>
<u>OPERATING EXPENSES:</u>				
Personal Services and Benefits	909	147	19	1,075
Materials and Supplies	1,712	3	2	1,717
Contractual Services	67	40	135	242
Insurance	42	116	151	309
Insurance Claims	-	1,116	2,139	3,255
Depreciation	1,137	-	-	1,137
Miscellaneous	5	-	1	6
Total Operating Expenses	<u>3,872</u>	<u>1,422</u>	<u>2,447</u>	<u>7,741</u>
Operating Income (Loss)	(257)	(295)	95	(457)
<u>NONOPERATING REVENUES:</u>				
Gain on Disposals of Capital Assets	4	-	-	4
Investment Earnings	132	51	2	185
Income (Loss) before Transfers	(121)	(244)	97	(268)
<u>OTHER FINANCING SOURCES -</u>				
Operating Transfers	35	-	-	35
Change in Net Assets	(86)	(244)	97	(233)
Net Assets, July 1, 2002	<u>13,250</u>	<u>2,941</u>	<u>-</u>	<u>16,191</u>
Net Assets, June 30, 2003	<u>\$ 13,164</u>	<u>2,697</u>	<u>97</u>	<u>15,958</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	<u>Fleet Operations &amp; Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from Customers and Users	\$ 3,615	1,127	2,541	7,283
Payments to Suppliers	(1,612)	(1,273)	(1,421)	(4,306)
Payments to Employees	(897)	(149)	(18)	(1,064)
Net Cash Provided (Used) by Operating Activities	<u>1,106</u>	<u>(295)</u>	<u>1,102</u>	<u>1,913</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Purchases of Capital Assets	(1,372)	-	-	(1,372)
Proceeds from Sales of Capital Assets	7	-	-	7
Net Cash Used by Capital and Related Financing Activities	<u>(1,365)</u>	<u>-</u>	<u>-</u>	<u>(1,365)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Proceeds from Sales and Maturities of Investments	1,191	-	-	1,191
Purchase of Investments	(1,151)	-	-	(1,151)
Interest Received	132	51	2	185
Net Cash Provided by Investing Activities	<u>172</u>	<u>51</u>	<u>2</u>	<u>225</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(87)	(244)	1,104	773
Cash and Cash Equivalents, July 1, 2002	<u>6,560</u>	<u>2,570</u>	<u>-</u>	<u>9,130</u>
Cash and Cash Equivalents, June 30, 2003	<u>\$ 6,473</u>	<u>2,326</u>	<u>1,104</u>	<u>9,903</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>				
Operating Income (Loss)	\$ (257)	(295)	95	(457)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,137	-	-	1,137
(Increase) Decrease in Assets:				
Accounts Receivable	5	(52)	(1)	(48)
Inventories	(2)	-	-	(2)
Prepays	-	(24)	-	(24)
Increase (Decrease) in Liabilities:				
Accounts Payable	212	50	107	369
Benefits Payable	-	27	900	927
Compensated Absences Payable	11	(1)	1	11
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,106</u>	<u>(295)</u>	<u>1,102</u>	<u>1,913</u>
<b><u>RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:</u></b>				
Equity in Pooled Cash and Investments	\$ 1,600	2,326	1,104	5,030
Restricted Assets - Cash in Bank	4,873	-	-	4,873
Cash and Cash Equivalents, June 30, 2003	<u>\$ 6,473</u>	<u>2,326</u>	<u>1,104</u>	<u>9,903</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
STATEMENT OF CASH FLOWS  
DISCRETELY PRESENTED COMPONENT UNITS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Industrial Development Board	Emergency Communications District
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from Customers and Users	\$ 39	415
Payments to Suppliers	(61)	(253)
Net Cash Provided (Used) by Operating Activities	(22)	162
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>		
Purchases of Capital Assets	(20)	(63)
Net Cash Used by Capital and Related Financing Activities	(20)	(63)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sales and Maturities of Investments	265	-
Purchases of Investments	(266)	-
Interest Received	7	23
Net Cash Provided (Used) by Investing Activities	6	23
Net Increase in Cash and Cash Equivalents	(36)	122
Cash and Cash Equivalents, July 1, 2002	543	842
Cash and Cash Equivalents, June 30, 2003	\$ 507	964
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO</u>		
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (68)	157
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	4	20
(Increase) Decrease in Assets:		
Accounts Receivable	25	1
Due from Other Governments	-	(11)
Land Held for Sale or Development	3	-
Prepaid Items	-	(6)
Due from Phipps Bend Joint Venture	12	-
Increase in Accounts Payable	2	1
Net Cash Provided (Used) by Operating Activities	\$ (22)	162

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
COMPARATIVE SCHEDULES BY SOURCE  
June 30, 2003 and 2002  
(amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
<u>Governmental Funds Capital Assets:</u>		
Land	\$ 10,740	10,128
Buildings	85,458	83,703
Improvements other than Buildings	9,480	9,138
Equipment	10,268	9,825
Software	144	144
Infrastructure	253,981	253,357
Construction in Progress	<u>20,292</u>	<u>17,967</u>
Total Governmental Funds Capital Assets	<u><u>390,363</u></u>	<u><u>384,262</u></u>
 <u>Investments in Governmental Funds Capital Assets by Source:</u>		
General Obligation Bonds	319,037	318,113
Contributions from Municipalities	31	298
Federal Grants	2,861	2,925
State Grants	189	189
County Grants	64	64
Federal Revenue Sharing	261	261
General Fund Revenue	13,557	13,555
Gifts	5,620	5,620
Special Revenue Funds	24,991	21,878
Operating Revenue	3,348	3,280
Capital Lease Purchase	111	111
Notes Payable	1	1
Construction in Progress	<u>20,292</u>	<u>17,967</u>
Total Governmental Funds Capital Assets	<u><u>\$ 390,363</u></u>	<u><u>384,262</u></u>

<sup>1</sup> 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.

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

June 30, 2003

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements other than Buildings				Construction in Progress	Total
			Buildings	Equipment	Software	Infrastructure		
<u>General Government:</u>								
General Government	\$ 3,165	599	8	21	-	-	25	3,818
City Manager	-	-	21	-	-	-	-	21
Finance	-	-	-	36	-	-	-	36
Information Services	-	-	-	1,371	-	-	-	1,371
Geographic Information	-	-	-	113	-	-	-	113
<b>Total General Government</b>	<b>3,165</b>	<b>599</b>	<b>29</b>	<b>1,541</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>5,359</b>
<u>Economic and Physical Development:</u>								
Developmental Services	-	651	46	35	-	-	-	732
Transportation	-	638	11	1,067	-	-	-	1,716
Engineering	-	-	-	39	-	-	-	39
<b>Total Economic and Physical Development</b>	<b>-</b>	<b>1,289</b>	<b>57</b>	<b>1,141</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,487</b>
<u>Public Safety:</u>								
Police	91	4,411	51	299	-	-	-	4,852
Fire	218	2,139	54	324	-	-	351	3,086
Communication	-	67	-	67	-	-	-	134
Central Dispatch	-	-	78	2,168	-	-	-	2,246
<b>Total Public Safety</b>	<b>309</b>	<b>6,617</b>	<b>183</b>	<b>2,858</b>	<b>-</b>	<b>-</b>	<b>351</b>	<b>10,318</b>

(Continued)

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

June 30, 2003

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Software	Infrastructure	Construction in Progress	Total
<b>Public Works:</b>								
General and Administrative	-	315	5	33	-	-	-	353
Sanitation	-	-	-	14	-	-	-	14
Streets	-	-	590	188	-	-	4,394	5,172
Maintenance	-	-	-	58	-	-	-	58
Bridges System	-	-	-	-	-	5,329	-	5,329
Highways System	-	-	-	-	-	244,230	-	244,230
<b>Total Public Works</b>	-	<b>315</b>	<b>595</b>	<b>293</b>	-	<b>249,559</b>	<b>4,394</b>	<b>255,156</b>
<b>Culture and Recreation:</b>								
Senior Citizens	-	3,872	-	7	-	-	-	3,879
Recreation	4,611	7,529	2,057	348	-	-	1,875	16,420
Bays Mountain	250	862	316	156	-	-	17	1,601
Allandale	502	345	133	193	-	-	90	1,263
Library	133	3,621	-	52	-	4,422	59	8,287
<b>Total Culture and Recreation</b>	<b>5,496</b>	<b>16,229</b>	<b>2,506</b>	<b>756</b>	-	<b>4,422</b>	<b>2,041</b>	<b>31,450</b>
<b>Education</b>	<b>1,770</b>	<b>60,409</b>	<b>6,110</b>	<b>3,679</b>	<b>144</b>	-	<b>13,481</b>	<b>85,593</b>
<b>Total Governmental Funds Capital Assets</b>	<b>\$ 10,740</b>	<b>85,458</b>	<b>9,480</b>	<b>10,268</b>	<b>144</b>	<b>253,981</b>	<b>20,292</b>	<b>390,363</b>

<sup>1</sup> 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.

CITY OF KINGSPORT, TENNESSEE  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

Function and Activity	Governmental Funds Capital Assets July 1, 2002	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2003
<u>General Government:</u>					
General Government	\$ 3,781	37	-	-	3,818
City Manager	21	-	-	-	21
Finance	61	-	(25)	-	36
Information Services	1,395	-	(24)	-	1,371
Geographic Information	113	-	-	-	113
Total General Government	<u>5,371</u>	<u>37</u>	<u>(49)</u>	<u>-</u>	<u>5,359</u>
<u>Economic and Physical Development:</u>					
Developmental Services	732	-	-	-	732
Transportation	1,996	11	(291)	-	1,716
Engineering	39	-	-	-	39
Total Economic and Physical Development	<u>2,767</u>	<u>11</u>	<u>(291)</u>	<u>-</u>	<u>2,487</u>
<u>Public Safety:</u>					
Police	4,804	48	-	-	4,852
Fire	3,037	49	-	-	3,086
Communication	134	-	-	-	134
Central Dispatch	2,246	-	-	-	2,246
Total Public Safety	<u>10,221</u>	<u>97</u>	<u>-</u>	<u>-</u>	<u>10,318</u>
<u>Public Works:</u>					
General and Administrative	353	-	-	-	353
Sanitation	14	-	-	-	14
Streets	3,758	1,414	-	-	5,172
Maintenance	24	34	-	-	58
Bridges System	5,329	-	-	-	5,329
Highways System	243,607	623	-	-	244,230
Total Public Works	<u>253,085</u>	<u>2,071</u>	<u>-</u>	<u>-</u>	<u>255,156</u>
<u>Culture and Recreation:</u>					
Senior Citizens	3,879	-	-	-	3,879
Recreation	16,185	342	(107)	-	16,420
Bays Mountain	1,587	14	-	-	1,601
Allandale	1,261	3	(1)	-	1,263
Library	8,223	64	-	-	8,287
Total Culture and Recreation	<u>31,135</u>	<u>423</u>	<u>(108)</u>	<u>-</u>	<u>31,450</u>
<u>Education</u>	<u>81,683</u>	<u>7,885</u>	<u>(3,667)</u>	<u>(308)</u>	<u>85,593</u>
Total Governmental Funds Capital Assets	<u>\$ 384,262</u>	<u>10,524</u>	<u>(4,115)</u>	<u>(308)</u>	<u>390,363</u>

<sup>1</sup> 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.

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF OPERATING COSTS  
ENTERPRISE FUNDS

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds
<b>General and Administrative:</b>						
Personnel Services	\$ 503	234	-	-	-	737
Supplies	57	2	-	-	-	59
Contractual Services	173	169	-	-	23	365
Accounting and Finance	114	31	32	10	34	221
Insurance	137	8	-	23	7	175
Subsidies and Contributions	33	13	-	197	-	243
Base Management Fee	-	-	-	100	30	130
Taxes and Permits	-	-	-	8	-	8
Other	113	-	-	-	21	134
<b>Total General and Administrative</b>	<b>1,130</b>	<b>457</b>	<b>32</b>	<b>338</b>	<b>115</b>	<b>2,072</b>
<b>Operations:</b>						
Personnel Services	579	643	-	-	-	1,222
Supplies	257	192	-	-	-	449
Contractual Services	478	408	129	247	105	1,367
Distribution System Maintenance	2,533	-	-	-	-	2,533
Collection System Maintenance	-	1,296	-	-	-	1,296
Reading, Service and Maintenance of Meters	776	-	-	-	-	776
Environmental Services	-	21	-	-	-	21
Landfill Operations and Services	-	-	534	-	-	534
Waste Collection Services	-	-	463	-	-	463
Organic Refuse Services	-	-	1,288	-	-	1,288
Recycling Services	-	-	339	-	-	339
Golf Pro Shop	-	-	-	-	321	321
Golf Grounds	-	-	-	-	238	238
Food and Beverage	-	-	-	-	67	67
Utilities	-	-	-	-	26	26
<b>Total Operations</b>	<b>4,623</b>	<b>2,560</b>	<b>2,753</b>	<b>247</b>	<b>757</b>	<b>10,940</b>
<b>Total Operating Costs</b>	<b>\$ 5,753</b>	<b>3,017</b>	<b>2,785</b>	<b>585</b>	<b>872</b>	<b>13,012</b>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2002	Cash Receipts	Expenditures	Balance June 30, 2003
<u>SCHOOL FOOD AND NUTRITION SERVICES FUND:</u>						
Pass-Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ -	721	853	(132) *
10.553	School Breakfast Program	U.S. Department of Agriculture	-	171	171	-
Pass-Through Tennessee Department of Agriculture:						
10.550	Commodity Supplemental Feeding	U.S. Department of Agriculture	53	95	109	39 ***
Total School Food and Nutrition Services Fund			53	987	1,133	(93)
<u>PUBLIC LAW 93-380 FUND:</u>						
Pass-Through Tennessee Department of Education:						
84.010	Title I, Project 02-01	U.S. Department of Education	(105)	105	-	-
84.010	Title I, Project 02-21	U.S. Department of Education	-	82	82	-
84.010	Title I, Project 03-01	U.S. Department of Education	-	1,266	1,266	-
84.048	Title II, 02-01	U.S. Department of Education	(11)	11	-	-
84.048	Title II, 03-01	U.S. Department of Education	-	347	426	(79) *
84.048	Carl Perkins, 2002	U.S. Department of Education	(57)	57	-	-
84.048	Carl Perkins, 2003	U.S. Department of Education	-	59	158	(99) *
84.010	Title VI, 02-01	U.S. Department of Education	(5)	5	-	-
84.010	Title VI, 2003	U.S. Department of Education	-	12	12	-
84.010	Title V, 2003	U.S. Department of Education	-	-	13	(13) *
84.027	Pre-School, 01-21	U.S. Department of Education	1	-	1	-
84.027	IDEA Part B, 02-01	U.S. Department of Education	74	-	74	-
84.027	IDEA Part B, 02-21	U.S. Department of Education	-	852	852	-
84.027	IDEA Part B, 03-01	U.S. Department of Education	-	-	166	(166) *
Total Public Law 93-380			(103)	2,796	3,050	(357)

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

(Continued)

CITY OF KINGSFORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2002	Cash Receipts	Expenditures	Balance June 30, 2003
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
84.287A	Community of Learners 2003/Z-03-013004	U.S. Department of Education	1	163	197	(33) *
Pass-Through Tennessee Department of Education:						
84.196	Education for Homeless Children & Youth/Z-01-100580	U.S. Department of Education	(1)	1	-	-
84.196	Education for Homeless Children & Youth/Z-02-006103	U.S. Department of Education	(8)	16	8	-
84.196	Education for Homeless Children & Youth/Z-03-012525	U.S. Department of Education	-	18	28	(10) *
84.276	Goals 2000-Reading Rules/Z-01-006995	U.S. Department of Education	(2)	4	2	-
84.276	Reading Excellence	U.S. Department of Education	-	44	140	(96) *
84.278	Education Edge/Z-97-082540	U.S. Department of Education	(2)	2	-	-
84.184	Safe Schools	U.S. Department of Education	(7)	7	4	(4) *
64.116	Vocational Rehabilitation	U.S. Department of Education	(8)	59	60	(9) *
84.360	Dropout Prevention Program/GC-02-09426	U.S. Department of Education	(6)	6	-	-
84.349	Early Childhood Program/Z-02-007174	U.S. Department of Education	(55)	118	63	-
84.349	Early Childhood Program/GC-02-09423	U.S. Department of Education	-	18	18	-
84.349	Early Childhood Program/Z-03-015024	U.S. Department of Education	-	69	95	(26) *
84.349	Family Resource/Z-03-012857	U.S. Department of Education	-	32	34	(2) *
93.561	Job Opportunities and Basic Skills Training - Families First/Z-03-010169	U.S. Department of Health and Human Services	(2)	21	23	(4) *
Total Special School Projects Fund			(90)	578	672	(184)
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Direct Programs:						
16.710	School Resource Officer	U.S. Department of Justice	(7)	48	49	(8) *
Pass-through Tennessee Department of Transportation:						
East Kingsport Comprehensive Transportation		U.S. Department of Transportation	(39)	44	6	(1) *
Kingsport Redevelopment Transportation Corridors		U.S. Department of Transportation	(26)	32	6	-

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

CITY OF KINGSFORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

<u>CFDA Number</u>	<u>Program Name/Grant Number</u>	<u>Grantor Agency</u>	<u>Balance June 30, 2002</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2003</u>
<u>SPECIAL REVENUE GENERAL PROJECTS FUND (CONTINUED):</u>						
Pass-through Kingsport Housing and Redevelopment Authority:						
14.854	Riverview Substation	U.S. Department of Housing and Urban Development	(4)	35	34	(3) *
14.854	Cloud Substation	U.S. Department of Housing and Urban Development	(3)	31	28	-
14.854	Bike Patrol	U.S. Department of Housing and Urban Development	(1)	13	12	-
Total Special Revenue General Projects Fund			(80)	203	135	(12)
<u>COMMUNITY DEVELOPMENT FUND:</u>						
Direct Programs:						
14.218	Community Development Block Grants	U.S. Department of Housing and Urban Development	(327)	572	402	(157) *
Entitlement Grants -						
Pass-Through Tennessee Housing Development Authority:						
14.231	HOME Program/DG-9901322	U.S. Department of Housing and Urban Development	(65)	134	117	(48) *
Total Community Development Fund			(392)	706	519	(205)
<u>URBAN MASS TRANSIT ADMINISTRATION FUND:</u>						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-90-X188	U.S. Department of Transportation	(63)	136	73	-
20.507	FTA Capital/Operating/Planning TN-90-X195	U.S. Department of Transportation	-	67	105	(38) *
20.507	FTA Capital/Operating/Planning TN-90-X177	U.S. Department of Transportation	(6)	171	173	(8) *
Pass-Through Tennessee Department of Transportation:						
20.507	FTA Capital/Operating - Section 8 / GC0109079	U.S. Department of Transportation	(21)	21	-	-
20.507	Job Access/GC-01-08948	U.S. Department of Transportation	-	42	91	(49) *
20.507	FTA Capital FTA001/Z-00-097885/Job Access	U.S. Department of Transportation	(37)	52	15	-
Total Urban Mass Transit Administration Fund			(127)	489	457	(95)

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

(Continued)

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2003  
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2002	Cash Receipts	Expend- itures	Balance June 30, 2003
<u>CAPITAL PROJECTS FUND:</u>						
Pass-Through First Tennessee Development District:						
11.300	Regional Center for Applied Technology/GC-01-08930	U.S. Department of Commerce	(43)	43	-	-
Pass-Through Tennessee Department of Education:						
84.352A	Lee School Renovations/Z-02-010978-00	U.S. Department of Education	-	252	432	(180) *
84.352A	Lee School Technology/Z-02-010994-00	U.S. Department of Education	-	193	193	-
Pass-Through Tennessee Department of Transportation:						
20.507	Regional Center for Applied Technology	U.S. Department of Transportation	(155)	155	-	-
20.507	Heritage Trail / ISTE A Project STP-EN-9108	U.S. Department of Transportation	9	-	9	-
Pass-Through Upper East Tennessee Human Development Agency, Inc.:						
93.600	V.O. Dobbins Gymnasium Floor	U.S. Department of Health and Human Services	-	53	53	-
Total Capital Projects Fund			(189)	696	687	(180)
<u>GENERAL FUND:</u>						
Direct Programs:						
16.710	Patrol Division Safety Supplies	U.S. Department of Justice	-	8	8	-
Pass-Through First Tennessee Department of Health and Human Services:						
93.044	Senior Center - KINGS-2000-OTH-11 Title III Part B	U.S. Department of Health and Human Services	-	16	16	-
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(37)/Z-00-95857	Federal Highway Administration	(21)	117	128	(32) *
Total General Fund			(21)	141	152	(32)

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

CITY OF KINGSFORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2003  
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2002	Cash Receipts	Expend- itures	Balance June 30, 2003
<u>SCHOOL FUND:</u>						
Direct Programs:						
84.041	Impact Aid Maintenance and Operations	U.S. Department of Education	-	4	4	-
Pass-Through Tennessee Department of Education						
84.002	Adult Basic Education/Z-03-010339	U.S. Department of Education	(13)	97	119	(35) *
Total School Fund			(13)	101	123	(35)
<u>LOCAL LAW ENFORCEMENT FUND:</u>						
Direct Programs:						
16.592	Local Law Enforcement Block Grant Program	U.S. Department of Justice	124	69	53	140 **
Total Federal Awards			\$ (838)	6,766	6,981	(1,053)

NOTE A: BASIS OF PRESENTATION

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

NOTE B: FOOD DISTRIBUTION

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

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

See Independent Auditors' Report.

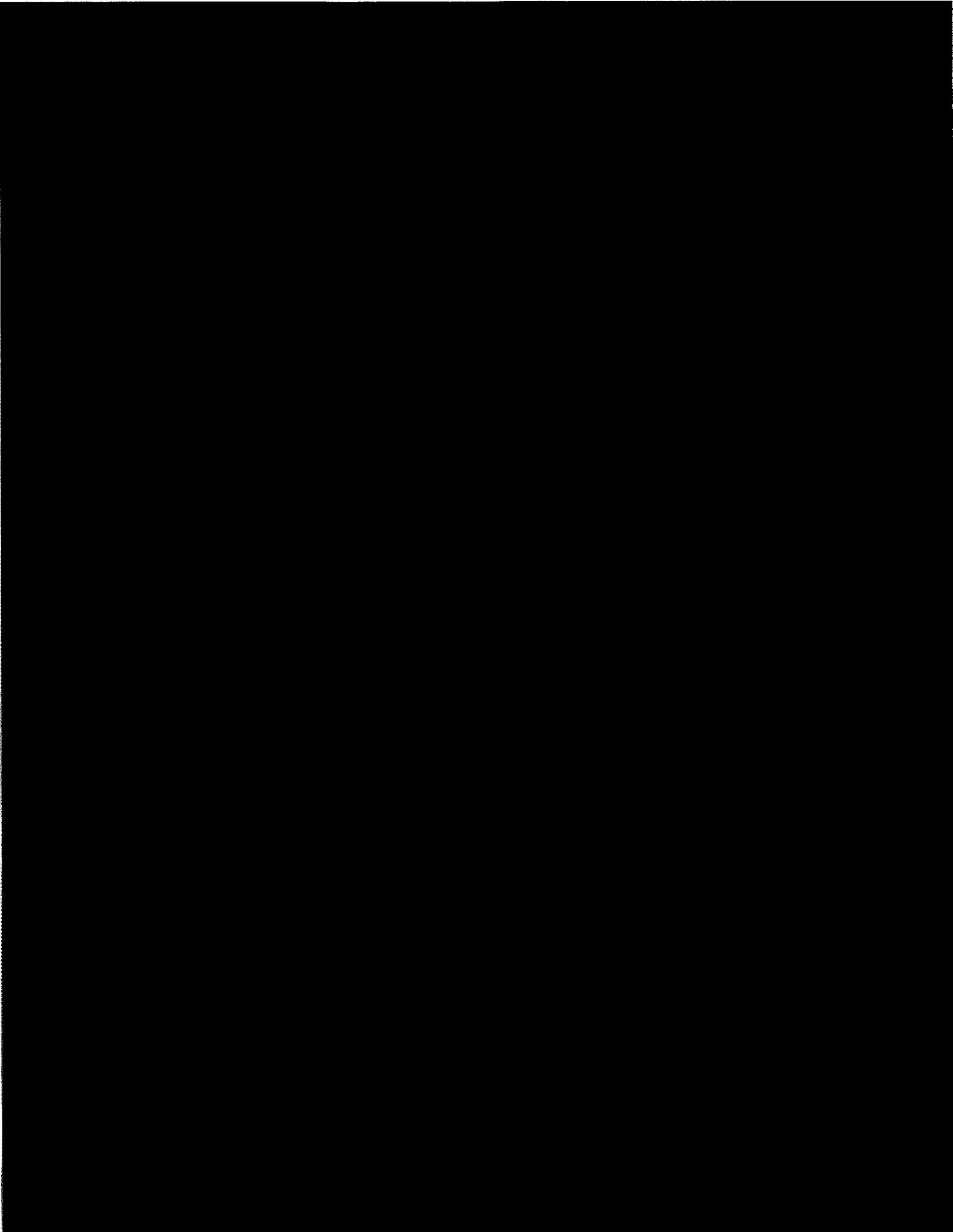
CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
For the Year Ended June 30, 2003  
(amounts expressed in thousands)

State Grant Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2002	Cash Receipts	Expenditures	Balance June 30, 2003
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Z-02-009743	Family Resource Center	Tennessee Department of Education	-	6	6	-
GG-03-09838	One-Room Drop-In School 03	Tennessee Department of Education	-	37	53	(16) *
GG-00-08339	One-Room Drop-In School 02	Tennessee Department of Education	(18)	18	-	-
GG-01-08856	One-Room Drop-In School 01	Tennessee Department of Education	(1)	1	-	-
Z-02-008741	Early Childhood Education-Pre K	Tennessee Department of Education	-	2	2	-
N/A	Beginning Teacher Training	Tennessee Department of Education	(8)	8	-	-
N/A	Tuacy Intervention Program 2002	Tennessee Department of Children's Services	1	-	1	-
N/A	Tuacy Intervention Program 2001	Tennessee Department of Children's Services	(6)	6	-	-
Total Special School Projects Fund			(32)	78	62	(16)
<u>URBAN MASS TRANSIT ADMINISTRATION FUND:</u>						
GG-02-09397	Project #TN-90-X188 Capital/Operating	Tennessee Department of Transportation	(20)	35	-	15 **
Z-03-013837	Project #TN-90-195 Capital/Operating	Tennessee Department of Transportation	-	36	54	(18) *
GG-02-09442	Project #TN-82-901-9623-04	Tennessee Department of Transportation	(154)	154	-	-
TBA	Project #82-901-9630 Capital/Operating	Tennessee Department of Transportation	-	-	54	(54) *
GG-01-08944	Project #TN-90-X177 Capital/Operating	Tennessee Department of Transportation	(2)	49	48	(1) *
GG-03-09744	Project #82-901-9642-04 Capital	Tennessee Department of Transportation	-	9	9	-
Z-00-097885	Project #98-901-9657-04/Job Access	Tennessee Department of Transportation	(37)	52	15	-
Z-00-098038	Section 8 Grant	Tennessee Department of Transportation	(8)	8	-	-
Total Urban Mass Transit Administration Fund			(221)	343	180	(58)
<u>COMMUNITY DEVELOPMENT:</u>						
HS-99E-008	HOUSE Program/DG-9901323	Tennessee Housing Development Agency	(70)	70	-	-
Z-01-98335	Emergency Shelter Grant	Tennessee Department of Human Services	(10)	51	43	(2) *
Total Community Development			(80)	121	43	(2)
<u>CAPITAL PROJECTS FUND:</u>						
Z-02-009962	Library Services Technology Act Grant	Institute of Museum and Library Services	15	-	15	-
Total Capital Projects Fund			15	-	15	-
<u>GENERAL FUND:</u>						
N/A	KINGS-2000-OTH-11	First Tennessee Department District Area Agency on Aging	-	7	34	(27) *
Total General Fund			-	7	34	(27)
Total State Awards			\$ (318)	549	334	(103)

\* Receivable    \*\* Unused Revenue

See Independent Auditors' Report.







**CITY OF KINGSFORT, TENNESSEE  
GOVERNMENT-WIDE REVENUES  
FOR THE YEARS NOTED  
(amounts expressed in thousands)**

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES				Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2003	\$26,830	\$24,554	\$1,629	\$64,545	\$565	\$968	\$943	\$120,034
2002	27,418	5,653	1,021	80,466	986	1,560	636	117,740

Source: City of Kingsport Finance Department.

Note: Information for years ended June 30, 1994 through 2001, not available.

**CITY OF KINGSPORT, TENNESSEE**  
**GOVERNMENT-WIDE EXPENDITURES BY FUNCTION**  
**FOR THE YEARS NOTED**  
(amounts expressed in thousands)

Table 2

Fiscal Year	General Government	Public Safety	Developmental Services	Public Works	Leisure Services	Education	Interest	Miscellaneous	Water	Sewer	Solid Waste Management	Meadowview Conference Resort and Convention Center	Cattails at Meadowview Golf Course	Total
2003	\$5,295	13,395	\$3,066	\$11,591	\$4,469	\$50,950	\$2,329	\$314	\$7,503	\$6,824	\$2,915	\$1,701	\$1,246	111,598
2002	5,530	12,631	3,128	11,313	4,096	47,840	2,713	234	8,216	8,015	2,794	2,117	1,351	109,978

Source: City of Kingsport Finance Department.

Note: Information for years ended June 30, 1994 through 2001, not available.

Table 3

**CITY OF KINGSPORT, TENNESSEE**  
**GENERAL GOVERNMENTAL REVENUES BY SOURCE**  
**LAST TEN FISCAL YEARS**  
 (amounts expressed in thousands)

	Taxes	Licenses and Permits	Charges for Services	Fines and Forfeitures	Inter- Governmental	Miscellaneous	Interest	Total
1994	\$18,359	\$206	\$1,970	\$288	\$44,599	\$494	\$1,364	\$67,280
1995	20,173	227	2,148	264	47,142	440	1,861	72,255
1996	20,854	278	2,296	388	47,935	405	1,949	74,105
1997	23,167	255	2,128	377	51,000	435	1,044	78,406
1998	38,812	230	4,823	428	37,891	778	1,049	84,011
1999	42,899	267	5,145	431	40,124	588	1,036	90,490
2000	40,843	209	5,518	394	40,435	704	2,207	90,310
2001	42,567	207	4,800	542	43,518	394	1,997	94,025
2002	43,644	401	4,643	506	44,025	347	761	94,327
2003	45,098	264	3,503	421	46,152	595	488	96,521

Source: City of Kingsport Finance Department.

Table 4

**CITY OF KINGSPORT, TENNESSEE**  
**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**LAST TEN FISCAL YEARS**  
(amounts expressed in thousands)

	General Government	Public Safety	Development Services	Public Works	Leisure Services	Education	Capital Outlay	Debt Service		Total
								Principal	Interest	
1994	\$4,846	\$8,836	\$1,767	\$4,706	\$2,533	\$34,529	\$11,971	\$2,723	\$3,780	\$75,691
1995	3,664	9,266	1,833	4,888	2,615	35,592	12,165	5,440	4,534	79,997
1996	3,836	9,682	1,779	5,197	2,795	35,929	22,035	5,110	4,627	90,990
1997	4,028	9,957	2,022	5,493	2,863	37,030	19,261	11,638	4,368	96,660
1998	4,051	10,344	2,036	8,753	2,767	37,312	10,192	4,602	3,801	83,858
1999	4,801	11,061	2,181	8,594	2,895	39,193	5,587	31,776	3,338	109,426
2000	5,110	11,079	2,243	9,198	2,962	40,498	7,330	5,219	3,133	86,772
2001	5,449	11,331	3,567	8,947	3,197	42,788	14,951	6,081	2,924	99,235
2002	5,546	12,196	2,978	6,482	3,190	44,589	7,368	6,628	2,761	91,738
2003	5,835	12,634	2,816	6,665	3,274	46,818	7,502	19,770	2,427	107,741

Source: City of Kingsport Finance Department.

Table 5

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

Fiscal Year Ending June 30	Year of Tax Roll	Taxes Levied	Current Collections	Current Collections as a Percentage of Levy	Current and Delinquent Collections	Current and Delinquent Collections As a Percentage of Levy	Accumulated Delinquency Fiscal Year End
1994	1993	\$ 16,003	\$ 15,600	97.5%	\$ 15,855	99.1%	\$ 969
1995	1994	17,388	17,085	98.3%	17,692	101.7%	589
1996	1995	17,974	17,590	97.9%	17,830	99.2%	751
1997	1996	19,991	19,530	97.7%	19,893	99.5%	852
1998	1997	21,469	21,037	98.0%	21,442	99.9%	894
1999	1998	22,914	22,327	97.4%	22,631	98.8%	1,134
2000	1999	22,523	21,896	97.2%	22,410	99.5%	1,236
2001	2000	22,828	22,121	96.9%	22,842	100.1%	1,135
2002	2001	23,911	23,043	96.4%	23,631	98.8%	1,434
2003	2002	24,869	24,105	96.9%	24,820	99.8%	1,429

Source: City of Kingsport Finance Department

**CITY OF KINGSFORT, TENNESSEE**  
**STATEMENT OF ASSESSED AND APPRAISAL VALUES, TAX RATE, AND TAX LEVY**  
**LAST TEN FISCAL YEARS**  
 (amounts expressed in thousands)

Fiscal Year Ended June 30	Year of Tax Roll	Real Property		Personal Property		Public Utilities (1)		Total		Ratio of Total	
		Assessed Value	Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Assessed Value to Total Estimated Appraisal Value	Tax Rate
1994	1993	\$ 474,668	\$ 1,519,570	\$ 268,639	\$ 895,463	\$ 33,516	\$ 60,939	\$ 776,823	\$ 2,475,972	31.37%	2.06
1995	1994	475,533	1,535,075	276,083	920,278	34,828	63,324	786,444	2,518,677	31.22%	2.21
1996	1995	495,064	1,602,090	250,194	833,981	32,734	59,516	777,992	2,495,587	31.17%	2.31
1997	1996	514,521	1,667,486	250,874	836,248	33,761	61,384	799,156	2,565,118	31.15%	2.51
1998	1997	592,960	1,947,227	304,776	1,015,921	35,707	64,922	933,443	3,028,070	30.83%	2.30
1999	1998	611,817	2,009,412	308,430	1,028,099	37,274	67,770	957,521	3,105,281	30.84%	2.39
2000	1999	619,811	2,041,385	289,112	1,054,196	33,217	60,394	942,140	3,155,975	29.85%	2.39
2001	2000	635,061	2,090,213	280,452	1,023,039	35,563	64,660	951,076	3,177,912	29.93%	2.39
2002	2001	729,306	2,390,997	307,946	1,026,487	39,512	71,840	1,076,764	3,489,324	30.86%	2.22
2003	2002	735,782	2,411,608	306,104	1,020,347	44,088	80,160	1,085,974	3,512,115	30.92%	2.29

Property has been assessed at the following ratios since tax year 1983 as required by State law.

Real Property:	Residential	25% of true value
Personal Property:	Industrial and Commercial	40% of true value
State Assessed Public Utilities:	Industrial and Commercial	30% of true value
	Public Utilities	55% of true value
	Public Utilities:	55% of true value

- Note 1: Includes only the property assessed by the State of Tennessee - Office of State Assessed Properties. Any locally assessed public utility property is included with all other real property assessments. Prior to tax year 1996, the assessed values for public utilities were provided by the State of Tennessee - Public Service Commission.
- Note 2: The tax rate is \$2.39 per \$100 of assessed value, equalized to \$2.46 for that portion of Kingsport inside Hawkins County. The last reappraisal of property in Hawkins County was in tax year 1996; therefore, a sales ratio adjustment was made by the State of Tennessee. The last reappraisal of property in Sullivan County was in tax year 1997. The tax levy inside Sullivan County is \$22,123 and inside Hawkins County is \$791. The 1998 property tax levy included \$7 in a special assessment for code violations that has no corresponding 1998 assessment.
- Note 3: The 1999 tax levy included \$5 in a special assessment for code violations that has no corresponding 1999 assessment.
- Note 4: The tax rate is \$2.39 per \$100 of assessed value, equalized to \$2.64 for that portion of Kingsport inside Hawkins County. The last reappraisal of property in Hawkins County was in tax year 1996; therefore, a sales ratio adjustment was made by the State of Tennessee. The last reappraisal of property in Sullivan County was in tax year 1997. The tax levy inside Sullivan County is \$21,917 and inside Hawkins County is \$899. The 2000 property tax levy included \$12 in a special assessment for code violations that has no corresponding 2000 assessment.
- Note 5: The 2001 tax levy included \$7 in a special assessment for code violations that has no corresponding 2001 assessment.

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE  
PROPERTY TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Kingsport	Sullivan County	Hawkins County
	Total Tax Rate per \$100 of Assessed Value	Total Tax Rate per \$100 of Assessed Value	Total Tax Rate per \$100 of Assessed Value
1994	2.06	2.92	3.20
1995	2.21	2.86	3.20
1996	2.31	2.86	3.40
1997	2.51	2.86	2.97
1998	2.30	2.58	2.97
1999	2.39	2.58	3.00
2000	2.39	2.58	3.00
2001	2.39	2.63	3.00
2002	2.22	2.35	2.41
2003	2.29	2.35	2.41

Source: City of Kingsport Finance Department

Table 8

**CITY OF KINGSPORT, TENNESSEE**  
**PROPERTY TAX RECEIVABLE**  
**June 30, 2003**  
 (amounts expressed in thousands)

YEAR OF TAX ROLL	PROPERTY TAX RECEIVABLE June 30, 2002	TAX LEVY	LATE LISTINGS & DISCOVERIES	RELEASES & ABATEMENTS	COLLECTIONS	PROPERTY TAX RECEIVABLE June 30, 2003
1994	\$ 9	-	-	-	(1)	\$ 8
1995	16	-	-	(2)	1 (1)	15
1996	21	-	-	(6)	4 (1)	19
1997	29	-	-	(6)	-	23
1998	43	-	-	(6)	(8)	29
1999	113	-	-	(9)	(47)	57
2000	334	-	-	(15)	(130)	189
2001	869	-	30	(40)	(534)	325
2002	-	24,775	195	(101)	(24,105)	764
TOTAL ALL YEARS	\$ 1,434	\$ 24,775	\$ 225	\$ (185)	\$ (24,820)	\$ 1,429

2002 TOTAL LEVY	\$ 24,775
	195
	(101)
	<u>\$ 24,869</u>

Source: City of Kingsport Finance Department

Note 1: Property assessments for tax years 1995 and 1996 were released requiring the refund of taxes previously collected and these adjustments are reflected in the amounts reported.

**CITY OF KINGSPORT, TENNESSEE  
SPECIAL ASSESSMENT COLLECTIONS  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)**

Table 9

Fiscal Year Ending June 30	Current Assessments Due	Current Assessments Collected	Ratio of Collections to Amount Due	Outstanding Current & Delinquent Assessments	Outstanding Unmatured Assessments	Total Outstanding Assessments
1994	\$ 4	\$ 1	25%	\$ 81	\$ 1	\$ 82
1995	-	-	0%	77	1	78
1996	5	5	100%	74	20	94
1997	5	5	100%	71	-	71
1998	-	-	0%	69	-	69
1999	-	-	0%	69	-	69
2000	-	-	0%	69	-	69
2001	-	-	0%	69	-	69
2002	-	-	0%	68	-	68
2003	-	-	0%	68	-	68

Total assessment receivable is \$104 which includes \$36 interest on delinquent accounts. These totals had not previously been included but during automation of assessment billings interest was calculated into one total receivable. No additional interest has been accrued since June 30, 1997 due to the age of these receivables.

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE**  
**TOP TEN TAXPAYERS**  
**June 30, 2003**  
**(amounts expressed in thousands)**

**Table 10**

Taxpayer	Type of Business	Assessed Valuation	
		For Tax Year 2002	Taxes Levied
Eastman Chemical Company	Manufacturer of Chemicals, Fibers and Plastics	\$ 287,876	\$ 6,592
Willamette	Paper Manufacturer	23,205	531
United Inter-Mountain Telephone	Public Utility	14,676	336
Kingsport Power Company	Public Utility	14,227	326
Quebecor World Inc.	Book Manufacturer	12,529	287
Fort Henry Mall	Retail Merchants	11,454	262
Wal Mart Stores, Inc.	Retail Merchant	8,301	190
Mountain States Health Alliance	Medical	7,917	181
AFG Industries, Inc.	Glass Manufacturer	6,493	149
Holston Valley Health Care	Medical	5,196	119
		<u>\$ 391,874</u>	<u>\$ 8,973</u>

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE**  
**STATEMENT OF LEGAL DEBT MARGIN**  
**June 30, 2003**  
**(amounts expressed in thousands)**

Table 11

Assessed Value - Tax Year, 2002	<u>\$ 1,085,974</u>
Debt Limit - 20% of Assessed Value	217,195
Outstanding Bonded Indebtedness (Excluding general obligation payable from the revenues of the Water and Sewer Funds)	<u>62,796</u>
Legal Debt Margin - June 30, 2003	<u><u>\$ 154,399</u></u>

Limitation on Borrowing Power

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

Bond Rating: "Moody's" A-1

Source: City of Kingsport Finance Department

Table 12

**CITY OF KINGSFORT, TENNESSEE**  
**RATIO OF NET GENERAL BONDED DEBT**  
**TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA**  
**FISCAL YEARS 1994 THROUGH 2003**  
(amounts expressed in thousands)

Ending June 30	Population(1)	Assessed Value	Year of Tax Roll	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1994	40	\$ 776,823	1993	\$ 76,483	9.85	2
1995	40	788,646	1994	82,066	10.41	2
1996	41	777,992	1995	84,029	10.80	2
1997	41	799,156	1996	89,705	11.22	2
1998	41	933,444	1997	79,364	8.50	2
1999	41	957,520	1998	65,891	6.88	2
2000	42	942,139	1999	76,460	8.12	2
2001	45	951,077	2000	70,721	7.44	2
2002	45	1,076,766	2001	65,906	6.12	1
2003	45	1,085,974	2002	62,796	5.78	1

1. For fiscal years 1994, 1995, 1996, 1997, 1998 and 2000 the population figures used are obtained by special census as certified by the State of Tennessee.

2. A Debt Service Fund is maintained for the purpose of accounting for the payment of interest and principal on long-term debt other than those serviced by the enterprise funds. A lump sum appropriation is transferred from the General Fund to the Debt Service Fund annually to meet the current debt service obligation.

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE**  
**RATIO OF ANNUAL DEBT SERVICE REQUIREMENT FOR**  
**GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES**  
**FISCAL YEARS 1994 THROUGH 2003**  
**(amounts expressed in thousands)**

Table 13

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service	Total General Expenditures	Ratio of Debt Service To General Expenditures (Per Cent)
1994	\$ 2,670	\$ 3,767	\$ 6,437	\$ 75,650	8.51%
1995	3,791	3,192	6,983	79,953	8.73%
1996	4,985	4,592	9,577	90,941	10.53%
1997	5,218	4,315	9,533	96,630	9.87%
1998	5,725	4,025	9,750	83,824	11.63%
1999	4,663	3,338	8,001	109,426	7.31%
2000	5,219	3,133	8,352	86,771	9.63%
2001	6,081	2,924	9,005	99,235	9.07%
2002	6,628	2,761	9,389	91,737	10.23%
2003 (1)	7,575	2,427	10,002	107,741	9.28%

(1) Principal payments are reported net of the effects of refinancing.

Source: City of Kingsport Finance Department

**CITY OF KINGSPORT, TENNESSEE**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**JUNE 30, 2003**  
**(amounts expressed in thousands)**

Table 14

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to this Governmental Unit</u>	<u>City of Kingsport's Share of debt</u>
City of Kingsport	\$62,796 *	100.00%	\$62,796
Total Direct Debt	<u>62,796</u>	<u>100.00%</u>	<u>62,796</u>
Sullivan County	27,840	42.04%	11,704
Hawkins County	<u>13,320</u>	<u>6.58%</u>	<u>876</u>
Total Overlapping Debt	<u>41,160</u>	<u>48.62%</u>	<u>12,580</u>
Total Direct and Overlapping Debt	<u><u>\$103,956</u></u>		<u><u>\$75,376</u></u>

\* Includes Conference Center General Obligation Bonded Debt

Source: City of Kingsport Finance Department

Table 15

**CITY OF KINGSFORT, TENNESSEE**  
**COMBINED SCHEDULE OF UTILITY FUND REVENUE BOND COVERAGE**  
**FISCAL YEARS 1994 THROUGH 2003**  
(amounts expressed in thousands)

Fiscal Year Ending June 30	Gross Revenue	(1) Expenses	Net Revenue Available for Debt Service	Debt Service Requirements		Coverage
				Principal	Interest	
1994	\$ 14,765	\$ 6,923	\$ 7,842	\$ 3,835	\$ 2,265	1.29
1995	15,308	7,064	8,244	4,359	2,539	1.20
1996	16,801	7,362	9,439	4,427	2,464	1.37
1997	17,007	7,724	9,283	4,544	2,245	1.37
1998	17,264	8,105	9,159	4,791	2,253	1.30
1999	18,204	8,759	9,445	4,801	2,038	1.38
2000	18,162	8,832	9,330	5,068	2,407	1.25
2001	19,500	9,803	9,697	5,996	2,867	1.09
2002	20,506	9,674	10,832	5,754	1,954	1.41
2003	21,137	8,770	12,367	6,669	1,588	1.50

(1) Total operation expenses exclusive of depreciation

Source: City of Kingsport Finance Department

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

Fiscal Year Ending <u>June 30</u>	(1) (4) <u>Population</u>	(1) (3) Per Capita Personal <u>Income</u>	(1) (4) Median <u>Age</u>	(2) School <u>Enrollment</u>	(1) (5) Unemployment <u>Rate</u>
1994	\$ 41,053	\$ 19,835	*	6,009	4.20%
1995	42,200	20,853	41.4	6,021	4.20%
1996	41,213	21,950	*	6,061	3.90%
1997	41,338	22,271	*	6,106	4.00%
1998	41,414	22,946	38.5	6,286	4.10%
1999	41,454	23,708	*	6,322	4.20%
2000	44,905	25,115	41.9	6,341	3.83%
2001	44,467	25,809	*	6,316	4.30%
2002	44,362	*	*	6,372	5.60%
2003	44,362	*	*	6,412	5.90%

DATA SOURCES:

- (1) Kingsport Chamber of Commerce/Economic Development
- (2) School Administration (Average Daily Membership)
- (3) US Bureau of Economics Analysis
- (4) US Census Bureau
- (5) Tennessee Department of Labor and Workforce

\*NOT AVAILABLE

Source: City of Kingsport Finance Department

**CITY OF KINGSFORT, TENNESSEE**  
**PROPERTY VALUE AND CONSTRUCTION**  
**FISCAL YEARS 1994 THROUGH 2003**  
(amounts expressed in thousands)

Fiscal Year	Property Value (1)				Commercial Construction (2)		Residential Construction (2)	
	Commercial	Residential	Other	Total	Units	Estimated Value	Units	Estimated Value
1994	\$ 628,796	\$ 879,227	\$ 11,548	\$ 1,519,571	23	\$ 16,624	268	\$ 21,577
1995	608,724	912,585	13,766	1,535,075	26	28,783	241	20,471
1996	627,238	965,178	9,674	1,602,090	35	12,354	272	27,757
1997	647,954	1,010,077	9,454	1,667,485	45	32,738	244	24,370
1998	704,741	1,230,980	11,506	1,947,227	27	21,361	211	19,500
1999	726,811	1,270,249	12,352	2,009,412	29	15,841	256	21,033
2000	726,816	1,301,871	12,699	2,041,386	28	14,445	212	14,899
2001	747,105	1,330,491	12,616	2,090,212	25	33,020	285	15,630
2002	873,825	1,502,493	14,680	2,390,998	34	55,389	450	36,226
2003	882,647	1,514,253	14,707	2,411,607	28	7,536	417	26,833

(1) Estimated Actual Value from Table 6

(2) Source: City of Kingsport Building Department

CITY OF KINGSPORT, TENNESSEE  
MISCELLANEOUS STATISTICAL DATA  
June 30, 2003

Date of Incorporation March 2, 1917  
Form of Government Council-Manager

Number of employees authorized (excluding police, fire and education):  
Employees (All Classifications) 445

Area - Square Miles: 45.23 square miles

City of Kingsport Facilities and Services: Miles  
Miles of Streets 418  
Number of Street lights 8845

FIRE PROTECTION:

Number of Stations 6  
Number of Employees: 94  
    Officers Sworn 2  
    Other Total 96

Operating Statistics for July 1, 2002 thru June 30, 2003:

Calls for Service 5,481  
Inspections 2,855  
Fire Loss \$810,418

POLICE PROTECTION:

Number of Employees:  
    Officers Sworn 97  
    Other 57  
    Total 154

Operating Statistics for July 1, 2002 thru June 30, 2003:

Arrests 3,662  
Calls for Service 41,949  
Parking Citations 5,345

CULTURE AND RECREATION:

Community Centers/Civic Facilities 5  
Number of Parks 19  
Park Acreage 250  
Number of Swimming Pools 2  
Number of Tennis Courts 8

Other Recreational Facilities:

Bays Mountain Park - 3400 Acre Nature Center 1  
Hunter Wright Baseball Stadium -54 Acres 1

EDUCATION:

Number of Schools:

CITY OF KINGSPORT, TENNESSEE  
MISCELLANEOUS STATISTICAL DATA  
June 30, 2003

High Schools		1	
Middle Schools		2	
Elementary Schools		7	
Number of Instructors		599	
Average Daily Attendance		6,134	
Average Daily Membership		6,412	
<u>SEWER FUND:</u>			
Number of service connections		21,121	
Miles of sanitary sewers		470	
Miles of storm sewers		209	
Number of treatment plants		1	
Daily average treatment in gallons		9.0 mgd	
Maximum daily capacity of treatment plant in gallons		12.4 mgd	
<u>WATER FUND:</u>			
Number of service connections		35,598	
Number of active customers		32,896	
Miles of water lines		750	
Number of fire hydrants		1,900	
Daily average consumption in gallons		16.2 mgd	
Maximum daily plant treatment reports		28.0 mgd	
<u>UTILITY RATES IN FORCE</u>			
Water Rates:			
		<u>Inside City</u>	
First	2,000 gal	2.93 per 1,000 gal	
Next	13,000 gal	2.36 per 1,000 gal	
Next	35,000 gal	1.82 per 1,000 gal	
Over	50,000 gal	1.24 per 1,000 gal	
		<u>Outside City</u>	
First	1,000 gal	11.98 per 1,000 gal	
Next	9,000 gal	5.20 per 1,000 gal	
Next	10,000 gal	4.71 per 1,000 gal	
Next	70,000 gal	4.36 per 1,000 gal	
Next	100,000 gal	3.58 per 1,000 gal	
Over	190,000 gal	3.35 per 1,000 gal	
Sewer Rates:			
		<u>Inside City</u>	<u>Outside City</u>
		5.51 per 1,000 gal	6.44 per 1,000 gal

Facilities and services not included in the reporting entity:

Cable Television System:  
Miles of service

961

CITY OF KINGSPORT, TENNESSEE  
MISCELLANEOUS STATISTICAL DATA  
June 30, 2003

Number of satellite receiving stations	1
Hospitals:	
Number of hospitals	2
Number of patient beds	870



**CITY OF KINGSPORT, TENNESSEE**  
**SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS**  
**For the Fiscal Year Ended June 30, 2003**

Table 20

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
A. Ray Griffin, Jr.	City Manager	\$ 107,016	\$ 5,000
J. Michael Bilingsley	City Attorney	94,265	-
James H. Demming	City Recorder/Chief Financial Officer	88,585	385,000
Keith E. Smith	City Treasurer	67,685	200,000
Richard Kitzmiller	Director of Schools	104,296	-
Mark E. Addington	Chief of Police	83,439	-
Jeanette D. Blazier	Mayor	3,000	-
Larry Munsey	Vice-Mayor	2,400	-
Mike O'Neill	Alderman	2,400	-
C. Ken Marsh, Jr.	Alderman	2,400	-
David Clark	Alderman	2,400	-
Roy Harmon	Alderman	2,400	-
Gary Mayes	Alderman	2,400	-

Source: City of Kingsport Finance Department

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CITY OF KINGSPORT, TENNESSEE  
INSURANCE IN FORCE  
June 30, 2003

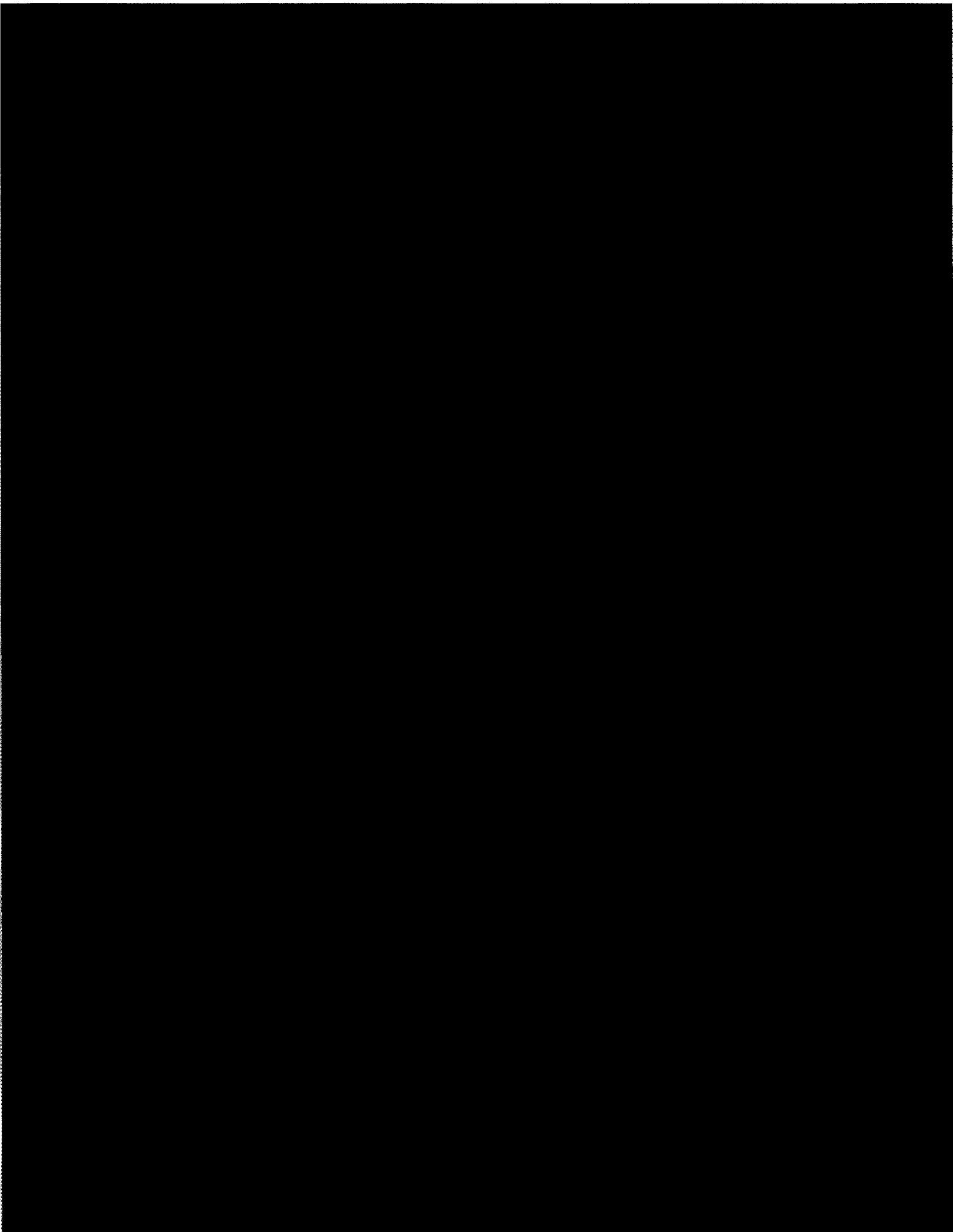
Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premium
<u>Comprehensive General Liability/ TML Risk Management Pool</u>	TMML-21300	12/31/2002 - 12/31/2003	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$3,000,000 3,000,000 Replacement 3,000,000	\$53,347
Midwest Employers Reinsurance Corp.	3140-5A-TN/ (Reinsurance Agreement)	1/01/2003 - 1/01/2004	Worker's Compensation	Statutory	59,426
<u>Government Crime/ St Paul/ U.S. Fidelity &amp; Guarantee Co.</u>	406CG6920	1/01/2003 - 1/01/2004	Employee Blanket Dishonesty (City)	250,000	1,469
St. Paul/ U.S. Fidelity & Guarantee Co.	406CG2237	7/01/2002 - 7/01/2003	Employee Blanket Dishonesty (Schools)	250,000	736
<u>Unemployment Compensation</u>	Self Insured				
<u>Property and Casualty/ Allianz Insurance Company</u>	CLP3001445	12/31/2002 - 12/31/2003	Buildings and Contents	108,938,000	143,523
Travelers Insurance Company	I-660-710X3600-IND-03	2/13/2003 - 2/13/2004	Justice Center Commercial/ General/Property	5,928,000	7,150
<u>Boiler and Machinery/ The Cincinnati Insurance Company</u>	BEP2646328	1/01/2003 - 1/01/2004	Boilers	100,000	4,288
<u>Public Officials Bond/ St Paul/ U.S. Fidelity &amp; Guarantee Co. St Paul/ U.S. Fidelity &amp; Guarantee Co.</u>	400MQ3028 RSB2003698	8/01/2002 - 8/01/2003 4/30/2003 - 4/30/2004	Bond - Treasurer (K. Smith) Bond - Treasurer (K. Smith) (State of Tennessee - Schools)	200,000 1,044,200	1,250 4,130
St Paul/ U.S. Fidelity & Guarantee Co. St Paul/ U.S. Fidelity & Guarantee Co. St Paul/ U.S. Fidelity & Guarantee Co. CNA Insurance Company	400NS5672 400KF0756 400MQ1787 58368775	3/15/2003 - 3/15/2004 10/01/2002 - 10/01/2003 1/01/2003 - 1/01/2004 4/04/2003 - 4/04/2004	Bond - Recorder (J. Demming) Bond - City Manager (R. Griffin) Bond - City Judge (J.R. Boatwright) Blanket Notary Errors and Omissions	385,000 5,000 1,000 25,000	1,540 100 100 660

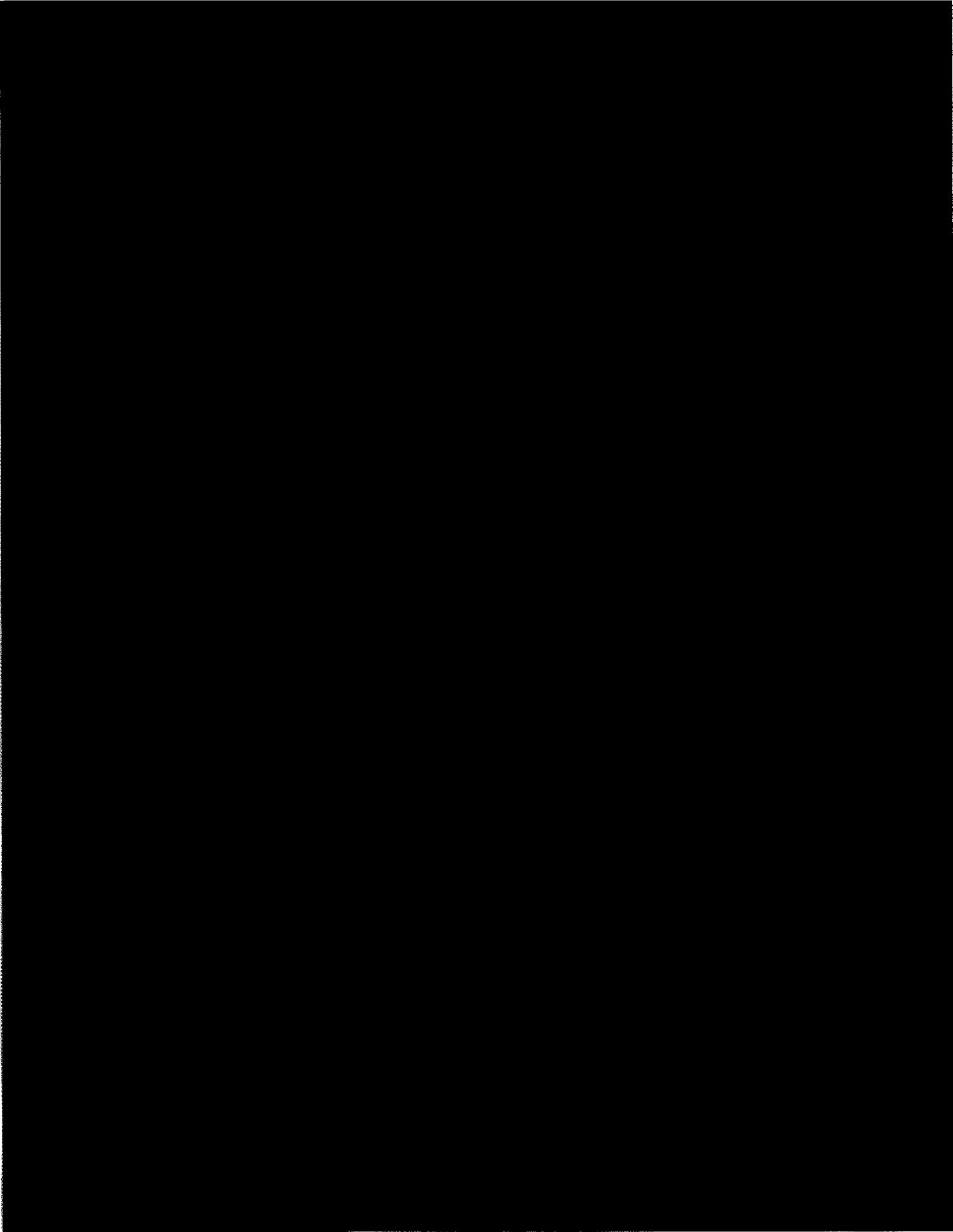
CITY OF KINGSFORT, TENNESSEE  
INSURANCE IN FORCE  
June 30, 2003

Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premium
<u>Other/</u> Contractor's Equipment Hartford Insurance Company	20MSG8023	10/04/2002 - 10/04/2003	Contractor Equipment Damage	1,024,437	6,589
Stadium General Liability/ Property - D.B. High School Indiana Insurance Company	CBP9566738	3/08/2003 - 3/08/2004	General Liability/Scoreboard/ Public Address System	2,000,000	838
Baseball Stadium General Liability/ Property - H. Wright Stadium Indiana Insurance Company	CZR428659	3/08/2002 - 3/08/2004	General Liability/Scoreboard/ Public Address System	2,000,000	500
Total Premium					<u>\$285,646</u>

Source: City of Kingsport Finance Department

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information (the "financial statements") of the City of Kingsport, Tennessee (the "City") and the Industrial Development Board, a discretely presented component unit, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 26, 2003. We did not audit the basic financial statements of the Emergency Communications District, a discretely presented component unit, as of and for the year ended June 30, 2003. Those basic financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the City's financial statements, insofar as it relates to the amounts included for the Emergency Communications District, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

City of Kingsport, Tennessee  
Independent Auditors' Report on Compliance  
and on Internal Control over Financial Reporting  
Page 2

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

November 26, 2003

Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over Compliance  
in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Kingsport, Tennessee (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

City of Kingsport, Tennessee  
Independent Auditors' Report on Compliance  
in Accordance With OMB Circular A-133  
Page 2

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

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

November 26, 2003

CITY OF KINGSPORT, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2003

Section I - Summary of Auditors' Results

(As required by OMB Circular A-133)

1. The auditors' report expresses an unqualified opinion on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information (the "financial statements") of the City of Kingsport, Tennessee (the "City").
2. No reportable conditions or material weaknesses are reported in the independent auditors' report on compliance and on internal control over financial reporting, based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No reportable conditions disclosed during the audit of the major federal award programs were reported in the independent auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the City.
7. The programs tested as major programs were as follows:

<u>Program</u>	<u>CFDA Number</u>
National School Lunch Program	10.555
Community Development Block Grants	14.218
Title I	84.010
IDEA	84.027
School Renovation, IDEA and Technology Grants	84.352A

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was not determined to be a low risk auditee.

Section II - Financial Statement Findings

Current Year Findings – There are no current year findings.

Prior Year Findings – There were no prior year findings.

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

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

