

City of Kingsport, Tennessee
Comprehensive Annual Financial Report

June 30, 2004



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

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2004

TABLE OF CONTENTS

	Page
I. INTRODUCTORY SECTION (UNAUDITED)	
Letter of Transmittal	1
GFOA Certificate of Achievement	5
Organizational Chart and History	6
List of Elected and Appointed Officials	8
II. FINANCIAL SECTION	
Independent Auditors' Report	9
A. MANAGEMENT'S DISCUSSION AND ANALYSIS	11
B. BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	21
Statement of Activities	22
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	23
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	24
Statement of Revenues, Expenditures, and Changes in Fund Balances	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	27
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Purpose School Fund	30
Proprietary Fund Financial Statements	
Statement of Net Assets	32
Statement of Revenues, Expenses, and Changes in Fund Net Assets	34
Statement of Cash Flows	35
Notes to the Financial Statements	37
C. COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS	
Major Governmental Funds	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service Fund	98

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2004

TABLE OF CONTENTS

	Page
Nonmajor Governmental Funds	
Combining Balance Sheet	99
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	100
Combining Balance Sheet - Nonmajor Governmental Funds - Public Safety	101
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Public Safety	102
Combining Balance Sheet - Nonmajor Governmental Funds - Transportation	103
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Transportation	104
Combining Balance Sheet - Nonmajor Governmental Funds - Culture and Recreation	105
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Culture and Recreation	106
Combining Balance Sheet - Nonmajor Governmental Funds - Education	107
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Education	108
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Criminal Forfeiture Fund	109
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Drug Fund	110
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Metropolitan Planning Office Fund	111
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - State Street Aid Fund	112
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Regional Sales Tax Revenue Fund	113
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Eastman Annex Tax Fund	114
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Public Library Commission Fund	115
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Bays Mountain Fund	116
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Senior Citizens Advisory Board Fund	117
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - School Food and Nutrition Services	118
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Purvis Soccer Building Fund	119
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Palmer Center Fund	120
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Allandale Trust Fund	121

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2004

TABLE OF CONTENTS

	Page
Internal Service Funds	
Combining Statement of Net Assets	122
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	123
Combining Statement of Cash Flows	124
Component Units	
Statement of Cash Flows	125
D. SUPPLEMENTAL INFORMATION	
Capital Assets Used in the Operation of Governmental Funds	
Comparative Schedules by Source	126
Schedule by Function and Activity	127
Schedule of Changes by Function and Activity	129
Other	
Schedule of Operating Costs - Enterprise Funds	130
Schedule of Expenditures of Federal Awards	131
Schedule of Expenditures of State Awards	136
III. STATISTICAL SECTION (UNAUDITED)	
Government-Wide Revenues	137
Government-Wide Expenses by Function	138
General Governmental Revenues by Source	139
General Governmental Expenditures by Function	140
Statement of Tax Levy and Collections	141
Statement of Assessed and Appraisal Values, Tax Rate, and Tax Levy	142
Property Tax Rates - Direct and Overlapping Governments	143
Property Tax Receivable	144
Special Assessment Collections	145
Top Ten Taxpayers	146
Top Ten Water and Sewer Customers	147
Statement of Legal Debt Margin	148
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt per Capita	149
Ratio of Annual Debt Service Requirement for General Bonded Debt to Total General Governmental Expenditures	150
Computation of Direct and Overlapping Debt	151
Combined Schedule of Utility Fund Revenue Bond Coverage	152
Demographic Statistics	153
Property Value and Construction	154

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2004

TABLE OF CONTENTS

	Page
Miscellaneous Statistical Data	155
Schedule of Bonds Payable - Future Requirements	157
Salaries and Surety Bonds of Principal Officials	158
Schedule of Insurance in Force	159
IV. COMPLIANCE REPORTS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	161
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	163
Schedule of Findings and Questioned Costs	165

THIS PAGE INTENTIONALLY LEFT BLANK



CITY OF KINGSPORT, TENNESSEE

December 17, 2004

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

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Kingsport for the fiscal year ended June 30, 2004.

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, 2004 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, 2004 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 44,231. 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 inside and 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 and between departments within any fund. Transfers of appropriations between funds, however, require the approval of the BMA. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on pages 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 2004 population of 44,231. 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.

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

During the past year, the City adopted a tax increment financing mechanism to assist in the redevelopment of an existing shopping center known as the Kingsport Mall Redevelopment District. The value of these improvements is estimated at \$22,000,000.

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, 2004 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 accompanying 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, 2003. This was the fourth consecutive year that the City of Kingsport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2003. 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

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2003

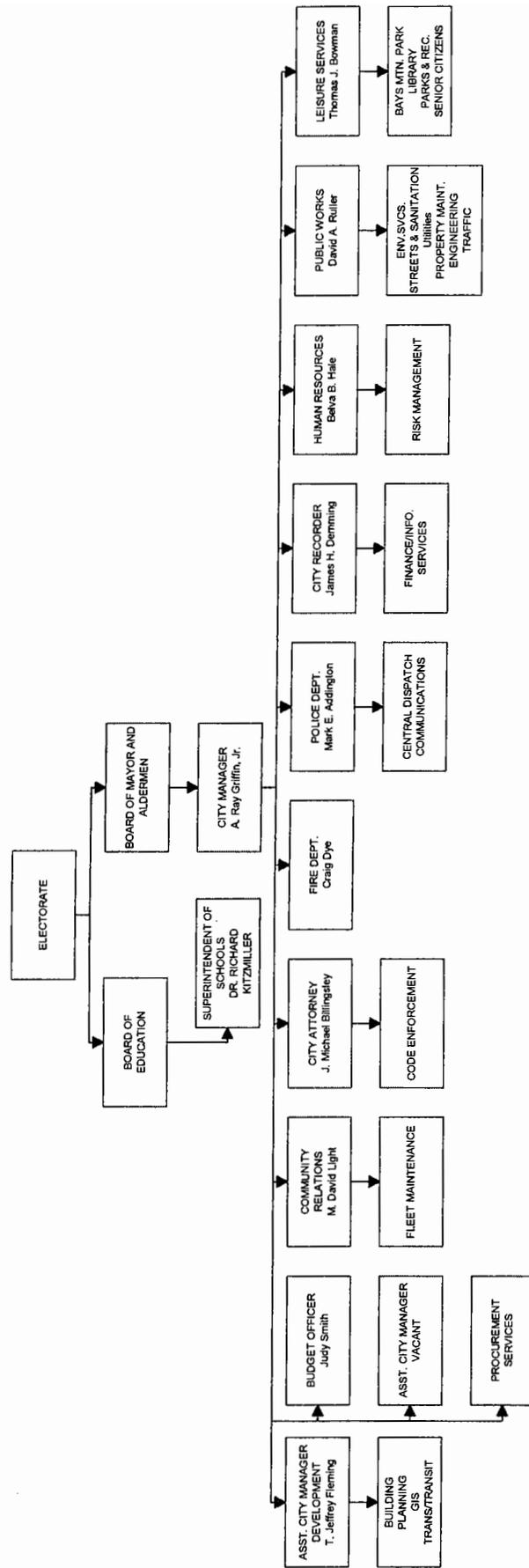
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

PRINCIPAL OFFICIALS

AS OF

June 30, 2004

BOARD OF MAYOR AND ALDERMEN

Jeanette D. Blazier	Mayor
Larry A. Munsey	Vice Mayor
Hoyt Denton	Alderman
Valerie Joh	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
J. Michael Billingsley	City Attorney
Mark E. Addington	Police Chief
J. Robert Boatright	City Judge
Dr. Richard Kitzmiller	Superintendent of Schools

DEPARTMENT HEADS

Thomas J. Bowman	Leisure Services Director
Craig Dye	Fire Chief
David Ruller	Public Works Director
T. Jeffrey Fleming	Assistant City Manager for Development
Belva Hale	Human Resources Director

CITY OF KINGSPORT, TENNESSEE

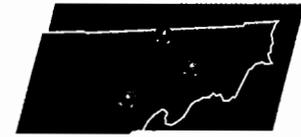
BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2004

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee (the "City"), as of and for the year ended June 30, 2004, 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 financial statements of the Emergency Communications District (the "ECD"), which represent 16 percent, 16 percent, and 100 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the ECD, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 11 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements, the supplemental information, including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Blackburn, Childers and Steagall, P.C.
BLACKBURN, CHILDERS & STEAGALL, PLC

December 3, 2004

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004
(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, 2004. 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.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$396,121 (net assets). Of this amount, \$31,452 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$6,040.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$33,942, a decrease of \$2,379 in comparison with the prior year. Approximately 74% of this total amount, \$25,279, 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 \$12,720, or 24% of total general fund expenditures including transfers out.
- The City's total gross debt decreased by \$5,910 (4.6%) 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, 2004
(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-four (24) individual governmental funds. Twenty (20) of these governmental funds are classified as nonmajor and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general purpose school fund, the capital project fund, the debt service fund and nonmajor governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 23-31 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, 2004
(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 32-36 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 37-94 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 99-124 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceed liabilities by \$396,121 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (90%) 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, 2004

(amounts expressed in thousands)

City of Kingsport's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 96,481	\$ 96,294	\$ 21,240	\$ 21,641	\$ 117,721	\$ 117,935
Capital assets	<u>285,413</u>	<u>287,583</u>	<u>169,435</u>	<u>164,609</u>	<u>454,848</u>	<u>452,192</u>
Total assets	<u>381,894</u>	<u>383,877</u>	<u>190,675</u>	<u>186,250</u>	<u>572,569</u>	<u>570,127</u>
Long-term liabilities outstanding	49,119	52,735	72,425	74,402	121,544	127,137
Other liabilities	<u>51,118</u>	<u>49,321</u>	<u>3,786</u>	<u>3,588</u>	<u>54,904</u>	<u>52,909</u>
Total liabilities	<u>100,237</u>	<u>102,056</u>	<u>76,211</u>	<u>77,990</u>	<u>176,448</u>	<u>180,046</u>
Net assets:						
Invested in capital assets, net of related debt	236,295	235,345	113,859	103,253	350,154	338,598
Restricted	6,694	6,876	562	1,068	7,256	7,944
Unrestricted	<u>38,668</u>	<u>39,600</u>	<u>43</u>	<u>3,939</u>	<u>38,711</u>	<u>43,539</u>
Total net assets	<u>\$281,657</u>	<u>\$281,821</u>	<u>\$114,464</u>	<u>\$108,260</u>	<u>\$396,121</u>	<u>\$390,081</u>

A portion of the City's net assets \$7,256 (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$38,711 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 \$6,040 during the current fiscal year. Net assets in business type activities increased (\$6,204) while net assets in governmental activities decreased by (\$164). The primary reason for this increase is due to the favourable results of the City's water and sewer utility funds.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2004:

City of Kingsport's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,023	\$ 4,089	\$ 23,965	\$ 22,741	\$ 27,988	\$ 26,830
Operating Grants & Contributions	25,195	24,420	-	-	25,195	24,420
Capital Grants & Contributions	940	1,629	-	-	940	1,629
General Revenues:						
Property Taxes	38,532	36,399	-	-	38,532	36,399
Sales Taxes	24,394	24,133	-	-	24,394	24,133
Other Taxes & Intergovernmental	3,826	4,013	-	-	3,826	4,013
Unrestricted Investment Earnings	598	673	239	295	837	968
Grants and Contributions Not Restricted to Specific Programs	581	565	-	-	581	565
Other	1,602	937	11	6	1,613	943
Total Revenues	<u>\$ 99,691</u>	<u>\$ 96,858</u>	<u>\$ 24,215</u>	<u>\$ 23,042</u>	<u>\$123,906</u>	<u>\$119,900</u>
Expenses:						
General Government	\$ 6,571	\$ 5,295	\$ -	\$ -	\$ 6,571	\$ 5,295
Public Safety	13,918	13,395	-	-	13,918	13,395
Public Works	10,151	9,225	-	-	10,151	9,225
Highway Transportation Planning	2,693	2,366	-	-	2,693	2,366
Economic and Physical Development	2,829	3,066	-	-	2,829	3,066
Culture and Recreation	4,294	4,469	-	-	4,294	4,469
Education	52,939	50,950	-	-	52,939	50,950
Interest on Long-term Debt	2,228	2,329	-	-	2,228	2,329
Other	475	314	-	-	475	314
Water	-	-	7,483	7,503	7,483	7,503
Sewer	-	-	7,631	6,824	7,631	6,824
Solid Waste Management	-	-	3,078	2,915	3,078	2,915
Conference Center	-	-	2,321	1,701	2,321	1,701
Golf Course	-	-	1,255	1,246	1,255	1,246
Total Expenses	<u>96,098</u>	<u>91,409</u>	<u>21,768</u>	<u>20,189</u>	<u>117,866</u>	<u>111,598</u>

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

Increase in net assets before transfers	<u>3,593</u>	<u>5,449</u>	<u>2,447</u>	<u>2,853</u>	<u>6,040</u>	<u>8,302</u>
Transfers	<u>(3,757)</u>	<u>(2,987)</u>	<u>3,757</u>	<u>2,987</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(164)</u>	<u>2,462</u>	<u>6,204</u>	<u>5,840</u>	<u>6,040</u>	<u>8,302</u>
Net assets, beginning of period	281,821	280,830	108,260	102,619	390,081	383,449
Prior period adjustment	<u>-</u>	<u>(1,471)</u>	<u>-</u>	<u>(199)</u>	<u>-</u>	<u>(1,670)</u>
Net assets, beginning of period (restated)	<u>281,821</u>	<u>279,359</u>	<u>108,260</u>	<u>102,420</u>	<u>390,081</u>	<u>381,779</u>
Net assets, end of period	<u>\$281,657</u>	<u>\$281,821</u>	<u>\$114,464</u>	<u>\$108,260</u>	<u>\$396,121</u>	<u>\$390,081</u>

Governmental activities

Governmental activities decreased the City's net assets by \$164. This decrease is primarily due to the appropriation of available funds carried over from the previous fiscal year to fund certain major repairs and capital projects and to provide matching funds as required by several grant agreements entered into during the year. Additional information related to this increase can be found in Note 2 on page 47 of this report.

Business-type activities

Business-type activities increased the City's net assets by \$6,204.

- Charges for services for business-type activities increased by \$1,224 over the previous fiscal year.
- The City budgeted and achieved an overall increase in net income to provide funds for capital expansion and debt repayments as indicated in the Statement of Cash Flows located on pages 35 and 36 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 \$33,942, a decrease of \$2,379 in comparison with the prior year. Approximately 74% of this total amount, \$25,279, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for spending because it has already been committed to: 1) advances to golf course (\$3,069), 2) liquidate contracts and purchase orders of the prior period (\$4,533) and for a 3) variety of other restricted purposes (\$1,061).

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004
(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 \$12,720 while total fund balance reached \$16,670. 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 23% of total general fund expenditures and transfers out, while total fund balance represents 30% of that same amount. The fund balance of the City's General Fund decreased by \$1,628 as a result of one time appropriations for various major repairs and capital expenditures.

The general-purpose school fund has a total fund balance of \$3,156, of which most is unreserved. The net decrease in fund balance during the current year in the general-purpose school fund was \$133.

The capital project fund has a total fund balance of \$9,809, of which \$3,290 is encumbered at year-end and \$6,519 is unreserved but designated for approved capital projects. The net decrease in this fund balance of \$923 was primarily due to increased construction activity made during the year.

The debt service fund has a total fund balance of \$71. This represents an increase of \$71 as compared to the previous fiscal year. Debt service expenditures (principal and interest) totalled \$13,230 for fiscal year 2004. This was approximately \$8,839 less than the debt service expenditures paid in fiscal year 2003. The primary reason for this decrease 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 \$4,236. The net increase in fund balance during the current year in non-major governmental funds was \$234. This net increase is primarily attributed to the accumulation of available funds (\$589) remaining from the first operating year of the new Eastman Annexation Tax 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 \$1,965 and \$959, 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, 2004
(amounts expressed in thousands)

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget represent a \$2,049 increase in appropriations and include the following:

\$ 550	Funding for AEP facilities purchase project
497	Funding for Civic Auditorium remediation project
271	Funding for FY2003 outstanding purchase orders/encumbrances
200	Funding for employee longevity pay
183	Funding for RCAT parking lot project
106	Funding for Broad Street enhancement project
84	Appropriation of state funds for public safety salary supplements
72	Funding for personal services for police officers in public housing areas
24	Funding for Dobyons-Bennett Alumni Foundation
<u>62</u>	Other miscellaneous
<u>\$ 2,049</u>	

Of this increase, approximately \$109 was to be funded out of miscellaneous growth related increases in various revenue sources or one-time receipts or grant activity. The remaining \$1,940 was to be budgeted from available fund balance.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$454,849 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

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

- Construction continued and/or began on various utility renovations and expansion projects including 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 was \$19,854.
- Construction continued and/or began on a variety of general governmental facilities including the new baseball, softball, and soccer field projects, 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 \$27,574.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 10,765	\$ 10,755	\$ 4,961	\$ 4,961	\$ 15,726	\$ 15,716
Buildings and systems	54,670	58,852	138,314	131,053	192,984	189,905
Improvements other than buildings	5,315	5,926	5,888	6,157	11,203	12,083
Machinery and equipment	11,606	11,444	418	631	12,024	12,075
Software	49	64	-	-	49	64
Infrastructure	175,434	180,250	-	-	175,434	180,250
Construction in progress	<u>27,574</u>	<u>20,292</u>	<u>19,854</u>	<u>21,807</u>	<u>47,428</u>	<u>42,099</u>
Total capital assets	<u>\$ 285,413</u>	<u>\$ 287,583</u>	<u>\$169,435</u>	<u>\$164,609</u>	<u>\$ 454,848</u>	<u>\$ 452,192</u>

Additional information on the City's capital assets can be found in Note 4.C on pages 55-59 of this report.

Long-term debt

At the end of the current fiscal year, the City had total gross debt outstanding of \$121,684. 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	
	2004	2003	2004	2003	2004	2003
Notes Payable	\$ 346	\$ 4,450	\$ 140	\$ 210	\$ 486	\$ 4,660
General obligation bonds	49,288	48,434	64,130	61,664	113,418	110,098
Loans from other governments	<u> </u>	<u> </u>	<u>7,780</u>	<u>12,836</u>	<u>7,780</u>	<u>12,836</u>
Total long-term debt	<u>\$ 49,634</u>	<u>\$ 52,884</u>	<u>\$ 72,050</u>	<u>\$ 74,710</u>	<u>\$121,684</u>	<u>\$ 127,594</u>

During the current fiscal year, the City issued general obligation refunding bonds to refinance portions of the City's outstanding Series 1999, 2000 and 2001 General Obligation Bonds. The City also issued water and sewer refunding bonds to refinance portions of the City's outstanding Series 1997, 1999, 2000 and 2001. The result is expected to be a decrease in future debt service payments of \$1,120 over the next twelve years.

The City's total debt decreased by \$5,910 (4.6%) 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, 2004
(amounts expressed in thousands)

The City is subject to debt limitations imposed by its Charter. The total bonded indebtedness (excluding general obligation debt supported by utility operations and assessments) shall not exceed 20% of the assessed taxable value of property within the City. The current debt limitation for the City of Kingsport is significantly in excess of the outstanding general obligation debt. Additional information on the City's long-term debt can be found in Note 4.E on pages 63-88 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 5.5%, which is a decrease of 0.4% from a year ago. This compares to the state's average unemployment rate of 4.8% as of June 30, 2004.
- Inflationary trends in the region are comparable to national indices.
- Housing starts for this fiscal year were 107, compared to the previous year of 102.
- Growth in local sales tax collections is expected to be approximately 2% in FY2005.

Short term interest rates on investments for the City's operating funds declined significantly during fiscal year 2004 due primarily to the federal funding rate being reduced to 1.00% during fiscal year 2003 by the Federal Reserve Board.

All of these factors were considered in preparing the City's budget for the 2005 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$12,720. The City has appropriated \$1,008 of this amount for spending in the fiscal year 2005 budget. It is intended that use of available fund balance will minimize the need to raise taxes or charges during the fiscal year 2005.

Water, sewer and solid waste rates were increased for the 2005 budget year. The water and sewer rates were increased by an average of 7.5% and 5.5% percent respectively for all customers. These rate increases were necessary to fund operations and to finance debt service on the new debt scheduled to be issued during the fiscal year.

Requests for Information

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2004

(amounts expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Board	Emergency Communications District
<u>ASSETS:</u>					
Cash in Bank	\$ 709	-	709	520	992
Cash with Fiscal Agent	-	37	37	-	-
Equity in Pooled Cash and Investments	29,823	2,693	32,516	-	-
Long-Term Certificates of Deposit	700	-	700	221	-
Investments	2,415	376	2,791	-	-
Receivables, net	28,145	3,113	31,258	12	29
Due from Other Governments	18,857	308	19,165	-	11
Due from Component Unit	11	26	37	-	-
Internal Balances	3,087	(3,087)	-	-	-
Inventories	411	446	857	-	-
Prepays	129	16	145	-	12
Land Held for Sale or Development	-	-	-	5,818	-
Restricted Assets:					
Cash	6,751	16,636	23,387	-	-
Investments	5,165	63	5,228	187	-
Receivables	-	-	-	535	-
Capital Assets:					
Land	10,765	4,961	15,726	-	-
Buildings and System	85,958	199,475	285,433	-	-
Improvements other than Buildings	9,499	7,997	17,496	76	-
Machinery and Equipment	28,546	3,493	32,039	-	405
Software	155	-	155	-	-
Infrastructure	254,158	-	254,158	-	-
Construction in Progress	27,574	19,854	47,428	-	-
Less: Accumulated Depreciation	(131,242)	(66,345)	(197,587)	(48)	(99)
Other Assets, net	278	613	891	-	-
Total Assets	381,894	190,675	572,569	7,321	1,350
<u>LIABILITIES:</u>					
Accounts Payable and Other Current Liabilities	9,817	1,713	11,530	9	4
Compensated Absences Payable	2,253	439	2,692	-	-
Matured Bonds and Interest Payable	373	58	431	-	-
Accrued Interest Payable	-	774	774	-	-
Due to Primary Government	-	-	-	37	-
Due to Other Governments	267	-	267	-	-
Unearned Revenues	37,923	-	37,923	-	-
Liabilities Payable from Restricted Assets	340	332	672	-	-
Arbitrage Rebate Payable	145	470	615	-	-
Noncurrent Liabilities:					
Due Within One Year	7,847	9,220	17,067	-	-
Due in More Than One Year	41,272	63,205	104,477	-	-
Total Liabilities	100,237	76,211	176,448	46	4
<u>NET ASSETS:</u>					
Invested in Capital Assets, Net of Related Debt	236,295	113,859	350,154	28	306
Restricted for:					
Debt Service	-	87	87	-	-
Capital Improvements	6,540	475	7,015	-	-
Perpetual Care (nonexpendable)	154	-	154	-	-
Unrestricted	38,668	43	38,711	7,247	1,040
Total Net Assets	\$ 281,657	114,464	396,121	7,275	1,346

See accompanying notes to the basic financial statements.

CITY OF KINGSFORD, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(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	Industrial Development Board	Emergency Communications District			
Primary Government:											
Governmental Activities:											
General Government	6,571	322	89	282	(5,878)	-	(5,878)	-	-	-	-
Public Safety	13,918	216	298	-	(13,404)	-	(13,404)	-	-	-	-
Public Works	10,151	-	-	-	(10,151)	-	(10,151)	-	-	-	-
Highway Transportation Planning	2,693	98	1,829	334	(432)	-	(432)	-	-	-	-
Economic and Physical Development	2,829	321	464	-	(2,044)	-	(2,044)	-	-	-	-
Culture and Recreation	4,294	495	179	-	(3,620)	-	(3,620)	-	-	-	-
Education	52,939	2,571	22,336	324	(27,708)	-	(27,708)	-	-	-	-
Interest on Long-Term Debt	2,228	-	-	-	(2,228)	-	(2,228)	-	-	-	-
Other	475	-	-	-	(475)	-	(475)	-	-	-	-
Total Governmental Activities	96,098	4,023	25,195	940	(65,940)	-	(65,940)	-	-	-	-
Business-Type Activities:											
Water	7,483	11,198	-	-	-	3,715	3,715	-	-	-	-
Sewer	7,631	11,120	-	-	-	3,489	3,489	-	-	-	-
Solid Waste Management	3,078	441	-	-	-	(2,637)	(2,637)	-	-	-	-
MeadowView Conference Resort and Convention Center	2,321	248	-	-	-	(2,073)	(2,073)	-	-	-	-
Cattails at MeadowView Golf Course	1,255	958	-	-	-	(297)	(297)	-	-	-	-
Total Business-Type Activities	21,768	23,965	-	-	-	2,197	2,197	-	-	-	-
Total Primary Government	117,866	27,988	25,195	940	(65,940)	2,197	(63,743)	-	-	-	-
Component Units:											
Industrial Development Board	87	-	-	-	-	-	-	(87)	-	-	-
Emergency Communications District	316	435	-	-	-	-	-	-	119	-	119
Total Component Units	403	435	-	-	-	-	-	(87)	119	-	119
General Revenues:											
Property Taxes					38,532		38,532				
Sales Taxes					24,394		24,394				
Alcoholic Beverage Taxes					1,296		1,296				
Occupational Licenses and Business Taxes					1,416		1,416				
Hotel/Motel Taxes					735		735				
Income Taxes					379		379				
Grants and Contributions Not Restricted to Specific Programs					581		581		50		50
Unrestricted Investment Earnings					598	239	837	(3)	24		24
Gain (Loss) on Disposal of Capital Assets					13	4	17		(12)		(12)
Miscellaneous					1,589	7	1,596		-		-
Transfers					(3,757)	3,757	-		-		-
Total General Revenues and Transfers					65,776	4,007	69,783	(3)	62		62
Change in Net Assets					(164)	6,204	6,040	(90)	181		181
Net Assets - Beginning					281,821	108,260	390,081		7,365		1,165
Net Assets - Ending					281,657	114,464	396,121		7,275		1,346

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2004
 (amounts expressed in thousands)

	ASSETS:					Total Governmental Funds
	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
Cash in Bank	\$ 6	-	-	-	703	709
Equity in Pooled Cash and Investments	13,014	6,247	444	3,959	881	24,545
Long-Term Certificates of Deposit	-	-	-	-	350	350
Investments	-	-	-	-	2,415	2,415
Taxes Receivable, net	27,638	-	-	-	-	27,638
Accounts Receivable, net	432	69	-	-	1	502
Due from Other Governments	3,981	12,966	-	-	1,910	18,857
Due from Other Funds	4,084	479	-	-	-	4,563
Due from Component Unit	11	-	-	-	-	11
Inventories	-	20	-	-	121	141
Prepays	8	1	-	-	-	9
Cash - Restricted	-	-	-	6,361	-	6,361
Investments - Restricted	-	-	-	380	-	380
Total Assets	49,174	19,782	444	10,700	6,381	86,481

	LIABILITIES AND FUND BALANCES:					Total Governmental Funds
	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
Liabilities:						
Accounts Payable	310	377	-	551	404	1,642
Compensated Absences Payable	1,861	313	-	-	-	2,174
Other Liabilities	2,191	4,692	-	-	-	6,883
Due to Other Governments	266	1	-	-	-	267
Due to Other Funds	-	-	-	-	1,476	1,476
Deferred Revenue	27,731	11,243	-	-	265	39,239
Matured Interest Payable	-	-	373	-	-	373
Contracts Payable	-	-	-	340	-	340
Arbitrage Rebate Payable	145	-	-	-	-	145
Total Liabilities	32,504	16,626	373	891	2,145	52,539
Fund Balances:						
Reserved for:						
Encumbrances	606	319	-	3,290	318	4,533
Cattails at Meadowview Golf Course Fund	3,069	-	-	-	-	3,069
Industrial Park	21	-	-	-	-	21
Career Ladder	-	188	-	-	-	188
Inventories	-	20	-	-	121	141
Prepays	8	1	-	-	-	9
Perpetual Care	-	-	-	-	154	154
Projects	-	15	-	-	(7)	8
Debt Service	246	294	-	-	-	540
Unreserved, Reported in:						
General Fund	12,720	-	-	-	-	12,720
Debt Service Fund	-	-	71	-	-	71
Special Revenue Funds	-	2,319	-	-	3,637	5,956
Capital Projects Fund	-	-	-	6,519	13	6,532
Total Fund Balances	16,670	3,156	71	9,809	4,236	33,942
Total Liabilities and Fund Balances	\$ 49,174	19,782	444	10,700	6,381	86,481

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, 2004
 (amounts expressed in thousands)

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

Total Fund Balances of Governmental Funds	\$	33,942
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		278,900
Property tax assessments are reported as revenue in the government-wide statements in the period in which an enforceable legal claim arises against property owners. In governmental funds, these assessments are not available to finance current period expenditures and are reported as deferred revenue until paid by property owners.		1,316
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		248
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.		16,370
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(49,119)</u>
Net Assets of Governmental Activities	\$	<u>281,657</u>

See accompanying notes to the basic financial statements.

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

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004
(amounts expressed in thousands)

<u>REVENUES:</u>	<u>General Fund</u>	<u>General Purpose School Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 29,261	17,263	-	-	-	46,524
Licenses and Permits	324	-	-	-	-	324
Intergovernmental	18,035	17,432	-	238	10,752	46,457
Charges for Services	879	1,194	-	-	1,488	3,561
Fines and Forfeitures	246	-	-	-	51	297
Investment Earnings	301	-	58	5	31	395
Contributions and Donations	10	-	-	44	218	272
Miscellaneous	83	244	-	-	-	327
Total Revenues	49,139	36,133	58	287	12,540	98,157

EXPENDITURES:

Current:

General Government	5,569	-	-	-	88	5,657
Public Safety	13,027	-	-	-	58	13,085
Public Works	5,207	-	-	-	-	5,207
Highway Transportation Planning	-	-	-	-	2,693	2,693
Economic and Physical Development	2,132	-	-	-	424	2,556
Culture and Recreation	2,994	-	-	-	28	3,022
Education	-	41,972	-	-	6,609	48,581
Miscellaneous	348	-	-	-	-	348
Debt Service:						
Principal	-	-	11,060	-	-	11,060
Interest	-	-	2,170	-	-	2,170
Bond Issuance Costs	-	-	211	-	-	211
Miscellaneous	-	-	30	-	-	30
Capital Outlay	436	581	-	7,908	1,123	10,048
Total Expenditures	29,713	42,553	13,471	7,908	11,023	104,668

Excess (Deficiency) of Revenues
Over (Under) Expenditures

	19,426	(6,420)	(13,413)	(7,621)	1,517	(6,511)
--	--------	---------	----------	---------	-------	---------

OTHER FINANCING SOURCES (USES):

Transfer In	1,912	13,461	9,323	2,913	1,183	28,792
Transfers Out	(22,966)	(7,174)	-	-	(2,466)	(32,606)
Bond Premiums	-	-	561	-	-	561
Bond Refunding Payments to Escrow	-	-	(6,340)	-	-	(6,340)
Bond Proceeds	-	-	9,940	3,785	-	13,725
Total Other Financing Sources (Uses)	(21,054)	6,287	13,484	6,698	(1,283)	4,132

Net Change in Fund Balances

	(1,628)	(133)	71	(923)	234	(2,379)
--	---------	-------	----	-------	-----	---------

Fund Balances, July 1, 2003

	18,298	3,289	-	10,732	4,002	36,321
--	--------	-------	---	--------	-------	--------

Fund Balances, June 30, 2004

	<u>\$ 16,670</u>	<u>3,156</u>	<u>71</u>	<u>9,809</u>	<u>4,236</u>	<u>33,942</u>
--	------------------	--------------	-----------	--------------	--------------	---------------

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
(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	\$ (2,379)
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.	(1,209)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	757
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.	(1,147)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>3,814</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (164)</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, 2004

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
General Property Taxes	\$ 26,170	26,170	26,115	(55)
Gross Receipts Taxes	3,107	3,107	3,146	39
Licenses and Permits	243	243	324	81
Intergovernmental:				
Federal	-	8	2	(6)
State	3,795	3,885	3,846	(39)
County	13,731	13,731	14,011	280
Local	207	207	176	(31)
Charges for Services	844	849	879	30
Fines and Forfeitures	283	283	246	(37)
Investment Earnings	440	440	301	(139)
Contributions and Donations	50	50	10	(40)
Miscellaneous	53	58	83	25
	<u>48,923</u>	<u>49,031</u>	<u>49,139</u>	<u>108</u>
EXPENDITURES:				
General Government:				
Board of Mayor and Aldermen	93	96	92	4
Judicial	24	25	21	4
City Attorney	380	376	342	34
City Manager	330	298	278	20
Special Programs	1,336	1,373	1,264	109
Public Information Office	96	104	94	10
Personnel	743	866	773	93
Purchasing	200	205	201	4
Finance Administration	1,445	1,490	1,444	46
Information Services	813	822	821	1
Geographic Information	243	243	239	4
	<u>5,703</u>	<u>5,898</u>	<u>5,569</u>	<u>329</u>
Public Safety:				
Police Administration	1,096	1,247	1,241	6
Jail Operations	229	180	177	3
Training	223	169	168	1
Investigations	943	1,075	1,069	6
Patrol Division	3,753	3,966	3,963	3
Animal Control	91	88	88	-
Central Dispatch	666	688	688	-
Communications	185	198	196	2
Fire Control and Prevention	5,288	5,554	5,437	117
	<u>12,474</u>	<u>13,165</u>	<u>13,027</u>	<u>138</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, 2004

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>EXPENDITURES (CONTINUED):</u>				
Public Works:				
Administration	220	236	231	5
Street Cleaning	333	337	330	7
Street Maintenance	1,414	1,442	1,430	12
Building Maintenance	1,945	1,949	1,868	81
Grounds Maintenance	730	710	694	16
Parks Maintenance	640	669	654	15
Total Public Works	5,282	5,343	5,207	136
Economic and Physical Development:				
Administration	153	124	119	5
Planning	293	309	307	2
Transportation	704	678	629	49
Engineering	620	708	663	45
Code Enforcement	386	422	414	8
Total Economic and Physical Development	2,156	2,241	2,132	109
Culture and Recreation:				
Administration	182	183	170	13
Parks and Recreation Centers	154	171	166	5
Swimming Pools	65	78	64	14
Athletics	554	453	410	43
Cultural Arts	155	149	146	3
Allandale	159	175	160	15
Senior Citizens Center	306	309	293	16
Bays Mountain Park	809	822	788	34
Library	846	838	797	41
Total Culture and Recreation	3,230	3,178	2,994	184
Miscellaneous	269	321	348	(27)
Capital Outlay	125	706	436	270
Total Expenditures	29,239	30,852	29,713	1,139
Excess of Revenues Over Expenditures	19,684	18,179	19,426	1,247

(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, 2004

(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	3,722	5,663	1,912	(3,751)
Transfers Out	<u>(23,406)</u>	<u>(23,842)</u>	<u>(22,966)</u>	<u>876</u>
Total Other Financing Sources (Uses)	<u>(19,684)</u>	<u>(18,179)</u>	<u>(21,054)</u>	<u>(2,875)</u>
Net Change in Fund Balances	-	-	(1,628)	(1,628)
Fund Balances, July 1, 2003	<u>18,298</u>	<u>18,298</u>	<u>18,298</u>	<u>-</u>
Fund Balances, June 30, 2004	<u>\$ 18,298</u>	<u>18,298</u>	<u>16,670</u>	<u>(1,628)</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, 2004
(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	\$ 10,916	11,177	11,660	483
Pick Up Taxes	140	140	157	17
Clerk and Masters Tax	140	140	154	14
Business Taxes	70	70	76	6
Local Option Sales Tax	5,511	5,511	5,143	(368)
Other Statutory Local Taxes	62	62	73	11
Intergovernmental:				
Federal	217	249	248	(1)
State	17,565	17,018	16,890	(128)
County	-	275	294	19
Charges for Services	1,199	1,200	1,194	(6)
Investment Earnings	50	-	-	-
Miscellaneous	110	284	244	(40)
Total Revenues	35,980	36,126	36,133	7
<u>EXPENDITURES:</u>				
Instruction:				
Regular	23,485	23,552	23,260	292
Special Education	3,491	3,396	3,340	56
Vocational	868	869	873	(4)
Adult Education	197	198	166	32
Total Instruction	28,041	28,015	27,639	376
Student Support Services:				
Attendance	53	53	53	-
Health Services	322	339	326	13
Other	1,464	1,370	1,367	3
Total Student Support Services	1,839	1,762	1,746	16
Instructional Staff Support Services:				
Regular	2,003	1,959	1,926	33
Special Education	279	236	225	11
Vocational	130	128	122	6
Adult Education	138	140	139	1
Total Instructional Staff Support Services	2,550	2,463	2,412	51
General Administrative Support Services:				
Board of Education	761	679	678	1
Office of the Superintendent	723	736	730	6
Total General Administrative Support Services	1,484	1,415	1,408	7

(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, 2004
(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	2,179	2,182	2,176	6
Business Administrative Support Services	198	196	189	7
Operations and Maintenance Support Services:				
Operations	3,172	3,187	3,166	21
Plant Maintenance	1,629	1,605	1,477	128
Total Operations and Maintenance Support Services	4,801	4,792	4,643	149
Student Transportation Support Services	1,102	1,161	1,143	18
Noninstructional Services:				
After School Programs	49	49	51	(2)
Community Service	593	594	565	29
Total Noninstructional Services	642	643	616	27
Capital Outlay	533	695	581	114
Total Expenditures	43,369	43,324	42,553	771
Deficiency of Revenues Under Expenditures	(7,389)	(7,198)	(6,420)	778
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	13,812	14,945	13,461	(1,484)
Transfers Out	(6,423)	(7,747)	(7,174)	573
Total Other Financing Sources (Uses)	7,389	7,198	6,287	(911)
Net Change in Fund Balances	-	-	(133)	(133)
Fund Balances, July 1, 2003	3,289	3,289	3,289	-
Fund Balances, June 30, 2004	<u>\$ 3,289</u>	<u>3,289</u>	<u>3,156</u>	<u>(133)</u>

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2004

(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
ASSETS:								
Current Assets:								
Cash with Fiscal Agent	\$ 37	-	-	-	-	-	37	-
Equity in Pooled Cash and Investments	1,352	1,058	257	26	-	-	2,693	5,278
Long-Term Certificates of Deposit	-	-	-	-	-	-	-	350
Investments	-	-	-	335	41	-	376	-
Receivables, net	1,576	1,397	32	70	38	-	3,113	5
Due from Other Governments	-	308	-	-	-	-	308	-
Due from Other Funds	-	-	-	10	-	-	10	-
Due from Component Unit	11	15	-	-	-	-	26	-
Inventories	372	-	-	-	74	-	446	270
Prepays	16	-	-	-	-	-	16	120
Total Current Assets	3,364	2,778	289	441	153	-	7,025	6,023
Noncurrent Assets:								
Restricted Assets:								
Cash	2,557	13,994	-	85	-	-	16,636	390
Investments	63	-	-	-	-	-	63	4,785
Total Restricted Assets	2,620	13,994	-	85	-	-	16,699	5,175
Capital Assets:								
Land	640	516	1,308	1,515	982	-	4,961	15
Buildings and System	61,704	114,921	156	21,536	1,158	-	199,475	-
Improvements other than Buildings	-	-	1,861	165	5,971	-	7,997	-
Machinery and Equipment	1,248	1,020	19	852	354	-	3,493	17,957
Construction in Progress	10,098	9,747	-	9	-	-	19,854	-
Less: Accumulated Depreciation	(24,490)	(34,918)	(780)	(4,323)	(1,834)	-	(66,345)	(11,459)
Total Capital Assets	49,200	91,286	2,564	19,754	6,631	-	169,435	6,513
Other Assets:								
Deposits	-	-	-	-	-	-	-	30
Unamortized Bond Costs	166	356	-	55	36	-	613	-
Total Other Assets	166	356	-	55	36	-	613	30
Total Noncurrent Assets	51,986	105,636	2,564	19,894	6,667	-	186,747	11,718
Total Assets	55,350	108,414	2,853	20,335	6,820	-	193,772	17,741

(Continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2004

(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
LIABILITIES:							
Current Liabilities:							
Accounts Payable	344	928	92	74	12	1,450	211
Due to Other Funds	-	-	-	-	3,097	3,097	-
Compensated Absences Payable	221	134	84	-	-	439	79
Retainages Payable	44	288	-	-	-	332	-
Arbitrage Rebate Payable	172	298	-	-	-	470	-
Matured Bonds Payable	35	-	-	-	-	35	-
Matured Interest Payable	23	-	-	-	-	23	-
Accrued Interest Payable	201	467	-	106	-	774	-
General Obligation Bonds - Current	2,412	4,125	-	1,810	413	8,760	-
State Revolving Loan - Current	105	316	-	-	-	421	-
Consolidated Utility Acquisition Payable	70	-	-	-	-	70	-
Other Payables	263	-	-	-	-	263	-
Total Current Liabilities	3,890	6,556	176	1,990	3,522	16,134	1,081
Noncurrent Liabilities:							
General Obligation Bonds Payable							
(Net of Deferred Refunding Cost, Discounts and Premiums)	14,159	32,122	-	5,744	3,720	55,745	-
State Revolving Loan Payable	1,674	5,685	-	-	-	7,359	-
Consolidated Utility Acquisition Payable	70	-	-	-	-	70	-
Total Noncurrent Liabilities	15,903	37,807	-	5,744	3,720	63,174	-
Total Liabilities	19,793	44,363	176	7,734	7,242	79,308	1,371
NET ASSETS:							
Invested in Capital Assets, Net of Related Debt	33,529	63,068	2,564	12,200	2,498	113,859	6,513
Restricted for Debt Service	63	24	-	-	-	87	-
Restricted for Capital Improvements	-	-	-	431	44	475	-
Unrestricted	1,965	959	113	(30)	(2,964)	43	9,857
Total Net Assets	\$ 35,557	64,051	2,677	12,601	(422)	114,464	16,370

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, 2004
(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	\$ 10,676	10,557	436	248	958	22,875	9,767	
Penalties and Fines	263	193	-	-	-	456	-	
Miscellaneous	259	370	5	-	-	634	-	
Total Operating Revenues	11,198	11,120	441	248	958	23,965	9,767	
<u>OPERATING EXPENSES:</u>								
Operating Costs	5,744	3,577	2,949	1,255	915	14,440	8,416	
Depreciation	1,314	2,624	129	676	272	5,015	1,214	
Total Operating Expenses	7,058	6,201	3,078	1,931	1,187	19,455	9,630	
Operating Income (Loss)	4,140	4,919	(2,637)	(1,683)	(229)	4,510	137	
<u>NONOPERATING REVENUES (EXPENSES):</u>								
Investment Earnings	65	163	2	8	1	239	203	
Interest Expense	(398)	(1,377)	-	(372)	(63)	(2,210)	-	
Gain (Loss) on Disposal of Capital Assets	(24)	(1)	-	-	29	4	13	
Amortization Expense	(27)	(51)	-	(18)	(5)	(101)	-	
Other	6	(2)	1	-	-	5	-	
Total Nonoperating Revenues (Expenses)	(378)	(1,268)	3	(382)	(38)	(2,063)	216	
Income (Loss) Before Contributions and Transfers	3,762	3,651	(2,634)	(2,065)	(267)	2,447	353	
Transfers In	20	-	2,635	2,582	420	5,657	59	
Transfers Out	(1,003)	(897)	-	-	-	(1,900)	-	
Change in Net Assets	2,779	2,754	1	517	153	6,204	412	
Net Assets, July 1, 2003	32,778	61,297	2,676	12,084	(575)	108,260	15,958	
Net Assets, June 30, 2004	\$ 35,557	64,051	2,677	12,601	(422)	114,464	16,370	

See accompanying notes to the basic financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	MeadowView							
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES:								
Receipts from Customers and Users	\$ 11,115	11,396	437	168	938	24,054	9,823	
Payments to Suppliers	(3,273)	(1,101)	(1,502)	(1,183)	(462)	(7,521)	(7,460)	
Payments to Employees	(2,862)	(1,944)	(1,417)	-	(444)	(6,667)	(1,121)	
Net Cash Provided (Used) by Operating Activities	4,980	8,351	(2,482)	(1,015)	32	9,866	1,242	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:								
Transfers to Other Funds	(1,003)	(897)	-	-	420	(1,480)	-	
Advances from Other Funds	20	-	2,635	2,582	-	5,237	59	
Net Cash Provided (Used) by Noncapital Financing Activities	(983)	(897)	2,635	2,582	420	3,757	59	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:								
Proceeds from Capital Debt	7,642	21,319	-	-	-	28,961	-	
Acquisition and Construction of Capital Assets	(3,288)	(5,872)	(83)	(28)	-	(9,271)	(1,404)	
Principal Paid on Capital Debt	(9,101)	(20,127)	-	(1,750)	(391)	(31,369)	-	
Interest Paid on Capital Debt	(385)	(1,367)	-	(356)	(63)	(2,171)	-	
Proceeds from Sales of Capital Assets	-	-	-	-	30	30	23	
Bond Issue Costs Paid	-	(111)	-	-	-	(111)	-	
Net Cash Used by Capital and Related Financing Activities	(5,132)	(6,158)	(83)	(2,134)	(424)	(13,931)	(1,381)	
CASH FLOWS FROM INVESTING ACTIVITIES:								
Proceeds from Sales and Maturities of Investments	4	-	-	852	26	882	1,431	
Purchase of Investments	(65)	(163)	-	(302)	(60)	(590)	(5,789)	
Interest Received	65	163	2	8	1	239	203	
Net Cash Provided (Used) by Investing Activities	4	-	2	558	(33)	531	(4,155)	
Net Increase (Decrease) in Cash and Cash Equivalents	(1,131)	1,296	72	(9)	(5)	223	(4,235)	
Cash and Cash Equivalents, July 1, 2003	5,077	13,756	185	120	5	19,143	9,903	
Cash and Cash Equivalents, June 30, 2004	\$ 3,946	15,052	257	111	-	19,366	5,668	

(Continued)

CITY OF KINGSFORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
\$	4,140	4,919	(2,637)	(1,683)	(229)	4,510	137	
	1,314	2,624	129	676	272	5,015	1,214	
	(83)	79	(14)	(70)	(20)	(108)	49	
	-	197	10	-	-	207	-	
	24	-	-	-	(12)	12	(29)	
	4	-	-	-	-	4	14	
	(125)	429	19	72	2	397	(218)	
	-	-	-	(10)	19	9	-	
	29	14	11	-	-	54	(1)	
	(343)	89	-	-	-	(254)	-	
	20	-	-	-	-	20	76	
\$	4,980	8,351	(2,482)	(1,015)	32	9,866	1,242	
\$	37	-	-	-	-	37	-	
	1,352	1,058	257	26	-	2,693	5,278	
	2,557	13,994	-	85	-	16,636	390	
\$	3,946	15,052	257	111	-	19,366	5,668	

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 with Fiscal Agent	
Equity in Pooled Cash and Investments	
Restricted Assets - Cash	
Cash and Cash Equivalents, June 30, 2004	

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Reporting entity

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, 2004
(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, 2004
(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, 2004
(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 Dobyms-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, 2004
(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 *metropolitan planning office fund* accounts for federal grant funds received from the federal highway administration, federal transit administration, and state grant funds granted to the State for support of local MPO programs.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

The City reports the following major proprietary funds:

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

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

The *solid waste management fund* accounts for the activities of the City's collection of residential garbage, refuse collection 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 principal ongoing operations. The principal operating revenues of all of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

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

D. Assets, liabilities and net assets or equity

1. Deposits and investments

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

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

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

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Specifically, the LGIP was established under Tennessee Code Annotated Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as Certificates of Deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. The longest maturity held within the LGIP as of June 30, 2004 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.

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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

3. Inventories and prepaid items

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

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

4. Restricted assets

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

5. Capital assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the water and sewer funds during the current fiscal year was \$835 and \$1,767, respectively. Of these amounts, \$437 and \$390, 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

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

6. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation days and sick leave benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. 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.

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.

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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.

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 \$278,900 difference are as follows:

Governmental funds capital assets	\$ 398,683
Less: accumulated depreciation	<u>(119,783)</u>
Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ <u>278,900</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 \$248 difference are as follows:

Deferred bond issuance costs	\$ 301
Less: accumulated amortization	<u>(53)</u>
Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ <u>248</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

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

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

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 \$49,119 difference are as follows:

Bonds payable	\$ 48,773
Notes payable	<u>346</u>
Net adjustment to reduce <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ <u>49,119</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes 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 \$(1,209) difference are as follows:

Capital outlay	\$ 10,048
Depreciation expense	<u>(11,257)</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>(1,209)</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 \$757 difference are as follows:

Deferred property taxes as of June 30, 2004	\$ 1,316
Prior years’ property taxes collected during current year	<u>(559)</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>757</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

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

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

Another element of that reconciliation states that “the net revenue of certain activities of internal service funds is reported with governmental activities.” The details of this \$(1,147) difference are as follows:

Investment earnings	\$ 203
Gain on disposals of capital assets	13
Transfers in	59
Operating expenses	<u>(1,422)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(1,147)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$3,814 difference are as follows:

Principal repayments	\$ 6,340
Refunding payments	11,060
Issuance of general obligation bonds	(13,725)
Bond issuance costs, net of amortization	<u>139</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>3,814</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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

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

A. Budgetary Information (continued)

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

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

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, metropolitan planning office, 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, 2004, expenditures exceeded appropriations in the following nonmajor governmental fund:

school food and nutrition services	<u>Amount</u> \$ 70
------------------------------------	------------------------

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

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

B. Excess of expenditures over appropriations (continued)

These expenditures over appropriations were funded by greater than anticipated revenues in the case of the school food and nutrition services.

C. Deficit fund equity

The metropolitan planning office fund and Cattails at MeadowView Golf Course fund had deficit fund balances of \$(6) and \$(422), respectively, as of June 30, 2004. 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 \$55,076 and the bank balance was \$55,152. Of the bank balance, \$500 was covered by federal depository insurance with the remaining balance of \$54,652 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

The carrying amount of deposits for the IDBK, a discretely presented component unit, was \$741 and the bank balance was \$741. 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, \$311 was covered by the Securities Investor Protection Corporation, and \$330 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 \$992 and the bank balance was \$1,064. Of the bank balance, \$500 was covered by federal depository insurance or by collateral held by the entity's agent in the ECD's name. Of the remaining balance, \$564 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.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments (continued)

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

	Category			Reported Amount	Fair Value
	1	2	3		
Corporate Stock	\$ <u>15</u>	-	-	<u>15</u>	<u>15</u>
Total	\$ <u>15</u>	<u>-</u>	<u>-</u>	15	15
Investments not subject to categorization:					
State of Tennessee LGIP				<u>10,277</u>	<u>10,277</u>
Total Investments				\$ <u>10,292</u>	<u>10,292</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, 2004

CITY OF KINGSPOUR, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of June 30, 2004 for the City's individual major funds and nonmajor, and internal service funds in the aggregate and for the component units in total, including the applicable allowances for uncollectible accounts, are as follows:

	General	General Purpose School	Water	Sewer	Solid Waste Management	MeadowView			Cattails at Meadowview Golf Course	Internal Service Funds	Nonmajor and Other Funds	Total Primary Government	Component Units
						Conference Resort and Convention Center							
Receivables													
Taxes	\$ 28,096	-	-	-	-	-	-	-	-	-	-	28,096	-
Accounts	447	92	1,671	1,694	76	70	38	5	1	41	4,094	41	
Intergovernmental	3,981	12,966	-	308	-	-	-	-	-	1,910	19,165	11	
Gross receivables	32,524	13,058	1,671	2,002	76	70	38	5	1,911	51,355	51,355	52	
Less: allowances for uncollectibles	(462)	(23)	(84)	(282)	(44)	(-)	(-)	(-)	(-)	(-)	(895)	(-)	
Net total receivables	\$ 32,062	13,035	1,587	1,720	32	70	38	5	1,911	50,460	50,460	52	

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	\$ 50
Uncollectibles related to water sales	6
Uncollectibles related to sewer charges	6
Uncollectibles related to solid waste charges	8
Total uncollectibles of the current fiscal year	<u>\$ 70</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables (continued)

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

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	\$ 26,199	26,199
Delinquent property taxes receivable (general fund)	1,315	-
Other taxes receivable (general fund)	216	216
Property taxes receivable (general purpose school fund)	11,240	11,240
Grant drawdowns receivable (general purpose school fund)	3	3
Grant drawdowns prior to meeting all eligibility requirements (public law 93-380 fund)	-	120
Grant drawdowns prior to meeting all eligibility requirements (special school projects)	-	<u>145</u>
Total deferred / unearned revenue for governmental funds	<u>\$ 38,973</u>	<u>37,923</u>

Property taxes which are delinquent at year end are earned but not available. The tax year 2004 property taxes are unearned and unavailable, but are recorded as receivable on the levy date, as described in Note 1.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2004, was as follows:

Primary government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 10,755	10	-	-	10,765
Construction in Progress	20,292	7,781	(499)	-	27,574
Total capital assets, not being depreciated	<u>31,047</u>	<u>7,791</u>	<u>(499)</u>	<u>-</u>	<u>38,339</u>
Capital assets, being depreciated:					
Buildings	85,458	500	-	-	85,958
Improvements other than buildings	9,480	19	-	-	9,499
Equipment	27,322	1,652	(626)	199	28,547
Software	144	11	-	-	155
Infrastructure	253,981	177	-	-	254,158
Total capital assets, being depreciated	<u>376,385</u>	<u>2,359</u>	<u>(626)</u>	<u>199</u>	<u>378,317</u>
Less accumulated depreciation for:					
Buildings	(26,606)	(4,681)	-	-	(31,287)
Improvements other than buildings	(3,554)	(630)	-	-	(4,184)
Equipment	(15,878)	(1,651)	587	1	(16,941)
Software	(80)	(26)	-	-	(106)
Infrastructure	(73,731)	(4,993)	-	-	(78,724)
Total accumulated depreciation	<u>(119,849)</u>	<u>(11,981)</u>	<u>587</u>	<u>1</u>	<u>(131,242)</u>
Total capital assets, being depreciated, net	<u>256,536</u>	<u>(9,622)</u>	<u>(39)</u>	<u>200</u>	<u>247,075</u>
Governmental activities capital assets, net	<u>\$ 287,583</u>	<u>(1,831)</u>	<u>(538)</u>	<u>200</u>	<u>285,414</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business-type activities:					
Capital assets, not being depreciated					
<i>Water</i>					
Land	\$ 640	-	-	-	640
Construction in Progress	11,415	2,391	(3,708)	-	10,098
<i>Sewer</i>					
Land	516	-	-	-	516
Construction in Progress	10,383	5,627	(6,263)	-	9,747
<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	<u>982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>982</u>
Total capital assets, not being depreciated	<u>26,768</u>	<u>8,018</u>	<u>(9,971)</u>	<u>-</u>	<u>24,815</u>
Capital assets, being depreciated					
<i>Water</i>					
Buildings and system	56,955	4,349	(37)	437	61,704
Equipment and machinery	1,301	-	(53)	-	1,248
<i>Sewer</i>					
Buildings and system	108,007	6,914	-	-	114,921
Equipment and machinery	1,036	10	(26)	-	1,020
<i>Solid waste management</i>					
Buildings and system	144	12	-	-	156
Improvements other than buildings	1,790	71	-	-	1,861
Equipment and machinery	19	-	-	-	19
<i>Meadowview Conference Resort and Convention Center</i>					
Buildings	21,536	-	-	-	21,536
Improvements other than buildings	137	28	-	-	165
Equipment	852	-	-	-	852
<i>Cattails at Meadowview Golf Course</i>					
Buildings	1,158	-	-	-	1,158
Improvements other than buildings	5,971	-	-	-	5,971
Equipment	<u>406</u>	<u>-</u>	<u>(52)</u>	<u>-</u>	<u>354</u>
Total capital assets, being depreciated	<u>199,312</u>	<u>11,384</u>	<u>(168)</u>	<u>437</u>	<u>210,965</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Less accumulated depreciation for:					
<i>Water</i>					
Buildings and system	(22,220)	(1,274)	14	-	(23,480)
Equipment and machinery	(1,021)	(40)	51	-	(1,010)
<i>Sewer</i>					
Buildings and system	(31,408)	(2,581)	-	-	(33,989)
Equipment and machinery	(911)	(43)	25	-	(929)
<i>Solid waste management</i>					
Buildings and system	(47)	(5)	-	-	(52)
Improvements other than buildings	(587)	(123)	-	-	(710)
Equipment and machinery	(17)	(1)	-	-	(18)
<i>Meadowview Conference Resort and Convention Center</i>					
Buildings	(2,927)	(539)	-	-	(3,466)
Improvements other than buildings	(50)	(14)	-	-	(64)
Equipment	(670)	(123)	-	-	(793)
<i>Cattails at Meadowview Golf Course</i>					
Buildings	(145)	(29)	-	-	(174)
Improvements other than buildings	(1,104)	(231)	-	-	(1,335)
Equipment	(364)	(12)	51	-	(325)
Total accumulated depreciation	<u>(61,471)</u>	<u>(5,015)</u>	<u>141</u>	<u>-</u>	<u>(66,345)</u>
Total capital assets, being depreciated, net	<u>137,841</u>	<u>6,369</u>	<u>(27)</u>	<u>437</u>	<u>144,620</u>
Business-type activities capital assets, net	<u>\$ 164,609</u>	<u>14,387</u>	<u>(9,998)</u>	<u>437</u>	<u>169,435</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	\$ 301
Economic and physical development	273
Public safety	833
Public works	4,944
Culture and recreation	1,272
Education	<u>4,358</u>
Total depreciation expense – governmental activities	<u>\$ 11,981</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Business-type activities:	
Water	\$ 1,314
Sewer	2,624
Solid waste management	129
MeadowView Conference Resort and Convention Center	676
Cattails at MeadowView Golf Course	<u>272</u>
 Total depreciation expense – business-type activities	 \$ <u>5,015</u>

Construction commitments

The City has active construction projects as of June 30, 2004. 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 \$10,786 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 \$14,224. 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, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Signs	\$ 51	5	-	56
Improvements other than buildings	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
Total capital assets, being depreciated	<u>71</u>	<u>5</u>	<u>-</u>	<u>76</u>
Less accumulated depreciation for:				
Signs	(23)	(4)	-	(27)
Improvements other than buildings	<u>(20)</u>	<u>(1)</u>	<u>-</u>	<u>(21)</u>
Total accumulated depreciation	<u>(43)</u>	<u>(5)</u>	<u>-</u>	<u>(48)</u>
Total capital assets being depreciated, net	<u>28</u>	<u>-</u>	<u>-</u>	<u>28</u>
IDBK capital assets, net	<u>\$28</u>	<u>=</u>	<u>=</u>	<u>28</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Activity for the ECD for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Equipment	\$ <u>210</u>	<u>195</u>	-	<u>405</u>
Total capital assets, being depreciated	<u>210</u>	<u>195</u>	-	<u>405</u>
Less accumulated depreciation for:				
Equipment	<u>(61)</u>	<u>(38)</u>	-	<u>(99)</u>
Total accumulated depreciation	<u>(61)</u>	<u>(38)</u>	-	<u>(99)</u>
Total capital assets being depreciated, net	<u>149</u>	<u>157</u>	-	<u>306</u>
ECD capital assets, net	\$ <u>149</u>	<u>157</u>	-	<u>306</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
general (major)	Cattails at MeadowView Golf Course (major)	\$3,097
	special revenue general projects (nonmajor)	7
	state street aid (nonmajor)	22
	metropolitan planning office (major)	54
	criminal forfeiture (nonmajor)	12
	regional sales tax (nonmajor)	891
	Allandale trust (nonmajor)	1
general purpose school (major)	public law (nonmajor)	159
	school food and nutrition services (nonmajor)	101
	special school projects (nonmajor)	219
Meadowview conference center (major)	regional sales tax (nonmajor)	<u>10</u>
Total		\$ <u>4,573</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

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

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government – General Fund	Component unit - IDBK	\$ 11
Primary government – Sewer Fund	Component unit - IDBK	15
Primary government – Water Fund	Component unit - IDBK	<u>11</u>
Total		<u>\$ 37</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

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

Interfund transfers:

Transfer out:	Transfer in:													Total				
	General Purpose School	Special Revenue General Projects	Urban Mass Transportation Administration	State Street Aid	Local Law Enforcement	Solid Waste Management	Conference Resort and Convention Center	MeadowView Golf Course	Cattails at MeadowView	Fleet Maintenance	Capital Projects	Water	General		Debt Service	MPO	Special School Project	Eastman Annex Tax
\$ 13,440	5	150	651	-	-	2,635	-	-	20	1,492	20	-	44	3,154	44	-	1,355	22,966
General Purpose School Regional Sales Tax Revenue	-	-	-	-	-	-	-	-	-	1,002	-	-	-	6,111	-	17	-	7,174
Special School Project	21	-	-	-	-	-	2,582	420	-	-	-	-	-	-	-	-	-	3,002
Drug	-	18	-	-	6	-	-	-	-	-	-	-	-	-	-	-	-	21
Allandale	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	24
Water	-	-	-	-	-	-	-	-	-	-	-	-	1,003	-	-	-	-	5
Sewer	-	-	-	-	-	-	-	-	39	-	-	-	858	-	-	-	-	1,003
Industrial Development Projects	-	-	-	-	-	-	-	-	-	30	-	-	-	-	-	-	-	897
Eastman Annex	-	-	-	-	-	-	-	-	-	389	-	-	-	58	-	319	-	30
Totals	\$ 13,461	23	150	651	6	2,635	2,582	420	59	2,913	20	1,910	9,323	44	336	1,355	35,888	

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

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, 2004, 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	\$ 10,495	1991, 1992, 1994
11/01/98	Sewer System Revenue	4,330	1992, 1992, 1994
11/01/98	Water System Revenue	1,675	1991, 1994
11/01/98	Taxable Industrial Park General Obligation	325	1989
04/01/02	Convention Center General Obligation	7,630	1992
08/28/02	General Obligation	7,010	1993, 1997
03/15/04	General Obligation	5,915	1999, 2000, 2001
03/01/04 & 03/15/04	Water & Sewer System Revenue	<u>16,855</u>	1997, 1999, 2000, 2001
	Total	<u>\$ 54,235</u>	

Governmental Activities:

Notes Payable

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

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2004</u>
<u>General Fund:</u>				
Capital Outlay Note	8/1/00	279	5.2827% to 5.3316%	\$ <u>70</u>
				\$ <u>70</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ <u>70</u>	<u>4</u>	<u>74</u>
	\$ <u>70</u>	<u>4</u>	<u>74</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

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, 2004, \$276 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, 2004</u>
1993 Public Improvement Refunding	8/1, 2/1	04/01/93	21,688	4.620%-5.125%	\$ 1,708
1997 Public Improvement	1/1, 7/1	02/01/97	13,450	4.150%-5.200%	3,420
1998 Taxable Industrial Park	3/1, 9/1	11/01/98	1,635	5.160%-5.680%	325
1998 General Obligation Refunding	3/1, 9/1	11/01/98	14,700	4.000%-5.000%	13,620
1999 General Obligation Refunding and Improvement Bonds	3/1, 9/1	04/01/99	5,975	4.000%-4.500%	2,060
1999 General Obligation Bonds	3/1, 9/1	10/01/99	2,035	4.600%-5.500%	490

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

<u>Debt Service Fund</u>	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2004</u>
2000 General Obligation Bonds	3/1, 9/1	11/21/00	1,630	4.450%-5.100%	\$ 410
2001 General Obligation Bonds	4/1, 10/1	11/06/01	2,620	2.300%-4.650%	1,030
2002A General Obligation Refunding Bonds	1/1, 7/1	08/28/02	12,500	4.000%-4.500%	12,500
2003 General Obligation Bonds	4/1, 10/1	12/1/03	7,900	2.000%-4.200%	7,900
2004 General Obligation Refunding Bonds	3/1, 9/1	3/15/04	5,825	2.200%-5.000%	<u>5,825</u>
Total General Obligation Bonds (before deferred debt refunding costs and net premiums of \$515)					<u>\$ 49,288</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>
2005	\$ <u>1,708</u>	<u>44</u>	<u>1,752</u>
	\$ <u>1,708</u>	<u>44</u>	<u>1,752</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,085	171	1,265
2006	1,140	117	1,257
2007	<u>1,195</u>	<u>60</u>	<u>1,255</u>
	<u>\$ 3,420</u>	<u>348</u>	<u>3,768</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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>
2005	\$ <u>325</u>	<u>9</u>	<u>334</u>
	\$ <u>325</u>	<u>9</u>	<u>334</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>
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>13,620</u>	<u>1,107</u>	<u>14,727</u>

General Obligation Refunding and Improvement Bonds dated 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>
2005	\$ 380	84	464
2006	395	70	465
2007	410	54	464
2008	430	37	467
2009	<u>445</u>	<u>19</u>	<u>464</u>
	\$ <u>2,060</u>	<u>264</u>	<u>2,324</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

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>
2005	\$ 115	23	138
2006	120	18	138
2007	125	12	137
2008	<u>130</u>	<u>6</u>	<u>136</u>
	<u>\$ 490</u>	<u>59</u>	<u>549</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>
2005	\$ 95	19	114
2006	100	15	115
2007	105	10	115
2008	<u>110</u>	<u>5</u>	<u>115</u>
	<u>\$ 410</u>	<u>49</u>	<u>459</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 155	40	195
2006	160	35	195
2007	175	29	204
2008	175	22	197
2009	180	14	194
2010	<u>185</u>	<u>7</u>	<u>192</u>
	<u>\$ 1,030</u>	<u>147</u>	<u>1,177</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

General Obligation Bonds issued August 28, 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>
2005	\$ -	527	527
2006	-	528	528
2007	2,500	528	3,028
2008	4,500	428	4,928
2009	<u>5,500</u>	<u>247</u>	<u>5,747</u>
	<u>\$ 12,500</u>	<u>2,258</u>	<u>14,758</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 460	269	729
2006	480	260	740
2007	500	246	746
2008	500	231	731
2009	500	219	719
2010	525	203	728
2011	550	187	737
2012	560	169	729
2013	580	150	730
2014	600	129	729
2015	625	107	732
2016	650	83	733
2017	670	57	727
2018	<u>700</u>	<u>29</u>	<u>729</u>
	<u>\$ 7,900</u>	<u>2,339</u>	<u>10,239</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	245	245
2006	-	254	254
2007	-	254	254
2008	-	254	254
2009	245	254	499
2010	730	250	980
2011	950	220	1,170
2012	985	182	1,167
2013	1,040	142	1,182
2014	1,085	90	1,175
2015	565	36	601
2016	<u>225</u>	<u>8</u>	<u>233</u>
	<u>\$ 5,825</u>	<u>2,189</u>	<u>8,014</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 7,743	1,989	9,732
2006	8,120	1,650	9,770
2007	7,820	1,347	9,167
2008	7,510	1,025	8,535
2009	6,870	753	7,623
Next Five Years	7,790	1,729	9,519
Next Five Years	<u>3,435</u>	<u>320</u>	<u>3,755</u>
	<u>\$ 49,288</u>	<u>8,813</u>	<u>58,101</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-Type Activities:

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

Notes Payable

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

	<u>Date</u> <u>Issued</u>	<u>Amount</u> <u>Issued</u>	<u>Interest</u> <u>Rate</u>	<u>Outstanding</u> <u>June 30, 2004</u>
<u>Water Fund:</u>				
Note Payable – Colonial Heights				
Customers	9/23/85	3,000	-	\$ 140
State Revolving Loan – DWF#98-009	3/25/98	2,000	3.675%	1,779
<u>Sewer Fund:</u>				
State Revolving Loan – SRF#98-119	2/28/99	2,419	3.550%	2,210
State Revolving Loan – SRF#99-123	6/28/99	2,781	3.550%	2,612
State Revolving Loan – SRF#00-140	7/1/00	1,220	4.210%	<u>1,179</u>
Total				<u>\$ 7,920</u>

Note payable to City of Johnson City, Tennessee for Colonial Heights customers issued September 23, 1985, 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>
2005	\$ 70	-	70
2006	<u>70</u>	<u>-</u>	<u>70</u>
	<u>\$ 140</u>	<u>-</u>	<u>140</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

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

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 1,779</u>	<u>475</u>	<u>2,254</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

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.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 120	69	189
2006	124	65	189
2007	129	61	190
2008	134	56	190
2009	138	51	189
2010	143	47	190
2011	148	41	189
2012	154	36	190
2013	159	31	190
2014	165	25	190
2015	170	19	189
2016	176	13	189
2017	183	8	191
2018	<u>267</u>	<u>2</u>	<u>269</u>
	<u>\$ 2,210</u>	<u>524</u>	<u>2,734</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 134	82	216
2006	139	77	216
2007	143	72	215
2008	149	67	216
2009	154	62	216
2010	160	57	217
2011	165	51	216
2012	171	45	216
2013	177	39	216
2014	184	32	216
2015	190	25	215
2016	197	19	216
2017	204	12	216
2018	<u>445</u>	<u>4</u>	<u>449</u>
	<u>\$ 2,612</u>	<u>644</u>	<u>3,256</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 62	49	111
2006	65	46	111
2007	68	44	112
2008	70	41	111
2009	73	38	111
2010	77	35	112
2011	80	31	111
2012	83	28	111
2013	87	24	111
2014	91	20	111
2015	94	17	111
2016	98	12	110
2017	103	8	111
2018	107	4	111
2019	<u>21</u>	<u>1</u>	<u>22</u>
	<u>\$ 1,179</u>	<u>398</u>	<u>1,577</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 491	264	755
2006	507	248	755
2007	453	233	686
2008	471	215	686
2009	487	198	685
Next Five Years	2,726	705	3,431
Next Five Years	<u>2,785</u>	<u>178</u>	<u>2,963</u>
	<u>\$ 7,920</u>	<u>2,041</u>	<u>9,961</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable

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

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2004</u>
<u>MeadowView Conference</u>					
<u>Resort and Convention</u>					
<u>Center Fund:</u>					
2002 General Obligation Refunding Bond	4/1, 10/1	4/25/02	9,585	3.500%-5.000%	\$ <u>7,690</u>
Total MeadowView Conference Resort and Convention Center Fund (before deferred debt refunding costs \$242 and premiums of (\$106))					\$ <u>7,690</u>

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2004</u>
<u>Cattails at MeadowView</u>					
<u>Golf Course Fund:</u>					
1995 Golf Course-TMBF	Monthly	5/22/95	4,750	Variable	\$ 2,816
1998 Golf Course-TMBF	Monthly	1998	1,450	Variable	<u>1,317</u>
Total Cattails at MeadowView Golf Course Fund					\$ <u>4,133</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2004</u>
<u>Water Fund:</u>					
1978 Waterworks	1/1, 7/1	04/06/78	450	5.000%	\$ 240
1993 Water System Improvement Refunding	8/1, 2/1	04/01/93	8,272	4.400%-5.125%	712
1997 Water System Improvement	1/1, 7/1	02/01/97	1,710	4.000%-5.200%	365
1998 Water Refunding	3/1, 9/1	11/01/98	2,145	4.000%-4.125%	1,710
1999 General Obligation Refunding and Improvement for Water	3/1, 9/1	04/1/99	2,820	4.000%-4.650%	970
1999 Water System Improvement	3/1, 9/1	10/1/99	6,120	4.600%-5.500%	1,475
2001 Water System Improvement	4/1, 10/1	11/6/01	2,140	2.300%-4.650%	835
2002 Water and Sewer Revenue and Tax Bonds	6/1, 12/1	12/12/02	2,725	3.000%-4.350%	2,570
2003 Water and Sewer Revenue and Tax Bonds	4/1, 10/1	12/1/03	1,315	2.000%-4.200%	1,315
2004 Water and Sewer Revenue and Tax Refunding Bonds	3/1, 9/1	3/1/04	4,127	2.000%-5.000%	4,127
2004 General Obligation Refunding Bonds	3/1, 9/1	3/15/04	2,200	2.200%-5.000%	<u>2,200</u>
Total Water Fund (before deferred debt refunding costs of \$686 and net premiums and discounts of (\$738))					<u>\$ 16,519</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2004</u>
<u>Sewer Fund:</u>					
1993 Sewer System Improvement Refunding	8/1, 2/1	4/1/93	10,250	4.400%-5.125%	\$ 665
1997 Sewer System Improvement	1/1, 7/1	2/1/97	3,815	4.000%-5.200%	815
1998 Sewer Refunding	3/1, 9/1	11/1/98	4,880	4.000%-5.000%	4,440
1999 Sewer Refunding	3/1, 9/1	4/1/99	3,155	4.000%-4.650%	1,085
1999 General Obligation System Improvement for Water	3/1, 9/1	10/1/99	10,245	4.600%-5.500%	2,480
2000 Sewer System Improvement	3/1, 9/1	11/21/00	635	4.450%-5.100%	165
2001 Sewer System Improvement	4/1, 10/1	11/6/01	2,790	2.300%-4.650%	1,095
2002 Water and Sewer Revenue and Tax Bonds	6/1, 12/1	12/12/02	5,275	3.000%-4.350%	4,975
2003 Water and Sewer Revenue and Tax Bonds	4/1, 10/1	12/1/03	4,585	2.000%-4.200%	4,585
2004 Water and Sewer Revenue and Tax Refunding Bonds	3/1, 9/1	3/1/04	12,473	2.000%-5.000%	12,473
2004 General Obligation Refunding Bonds	3/1, 9/1	3/15/04	3,010	2.200%-5.000%	<u>3,010</u>
Total Sewer Fund (before deferred debt refunding costs of \$ 1,200 and net premiums and discounts of (\$1,659))					\$ <u>35,788</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

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>
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>7,690</u>	<u>697</u>	<u>8,387</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>	
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	470	569
2012	105	-	105
2013	110	-	110
2014	117	-	117
2015	123	-	123
2016	130	-	130
2017	<u>137</u>	<u>-</u>	<u>137</u>
	\$ <u>1,317</u>	<u>2,816</u>	<u>4,133</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>240</u>	<u>81</u>	<u>321</u>

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

Water System Improvement 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>
2005	\$ <u>712</u>	<u>19</u>	<u>731</u>
	<u>\$ 712</u>	<u>19</u>	<u>731</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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>
2005	\$ 115	18	133
2006	120	13	133
2007	<u>130</u>	<u>6</u>	<u>136</u>
	<u>\$ 365</u>	<u>37</u>	<u>402</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 675	56	731
2006	705	28	733
2007	<u>330</u>	<u>7</u>	<u>337</u>
	<u>\$ 1,710</u>	<u>91</u>	<u>1,801</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 180	40	220
2006	185	33	218
2007	195	25	220
2008	200	17	217
2009	<u>210</u>	<u>9</u>	<u>219</u>
	<u>\$ 970</u>	<u>124</u>	<u>1,094</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 345	70	415
2006	360	54	414
2007	375	38	413
2008	<u>395</u>	<u>19</u>	<u>414</u>
	<u>\$ 1,475</u>	<u>181</u>	<u>1,656</u>

2002 Water 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>
2005	\$ 130	33	163
2006	130	28	158
2007	140	23	163
2008	140	17	157
2009	145	12	157
2010	<u>150</u>	<u>6</u>	<u>156</u>
	<u>\$ 835</u>	<u>119</u>	<u>954</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
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>\$ 2,570</u>	<u>763</u>	<u>3,333</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$ 80	43	123
2006	80	42	122
2007	80	40	120
2008	85	38	123
2009	85	36	121
2010	85	34	119
2011	90	32	122
2012	95	28	123
2013	95	25	120
2014	100	21	121
2015	105	18	123
2016	110	14	124
2017	110	9	119
2018	<u>115</u>	<u>5</u>	<u>120</u>
	<u>\$ 1,315</u>	<u>385</u>	<u>1,700</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	202	202
2006	-	202	202
2007	-	202	202
2008	132	202	334
2009	555	200	755
2010	585	172	757
2011	615	143	758
2012	650	112	762
2013	505	80	585
2014	530	54	584
2015	<u>555</u>	<u>28</u>	<u>583</u>
	\$ <u>4,127</u>	<u>1,597</u>	<u>5,724</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	93	93
2006	-	97	97
2007	-	97	97
2008	-	97	97
2009	-	97	97
2010	215	97	312
2011	385	89	474
2012	395	73	468
2013	405	58	463
2014	430	37	467
2015	180	16	196
2016	<u>190</u>	<u>7</u>	<u>197</u>
	\$ <u>2,200</u>	<u>858</u>	<u>3,058</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Sewer 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>
2005	\$ <u>665</u>	<u>17</u>	<u>682</u>
	\$ <u>665</u>	<u>17</u>	<u>682</u>

Sewer 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>
2005	\$ 260	41	301
2006	270	28	298
2007	<u>285</u>	<u>14</u>	<u>299</u>
	\$ <u>815</u>	<u>83</u>	<u>898</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>4,440</u>	<u>338</u>	<u>4,778</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

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:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 200	45	245
2006	210	36	246
2007	215	28	243
2008	225	19	244
2009	<u>235</u>	<u>10</u>	<u>245</u>
	<u>\$ 1,085</u>	<u>138</u>	<u>1,223</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 575	118	693
2006	605	92	697
2007	635	62	697
2008	<u>665</u>	<u>33</u>	<u>698</u>
	<u>\$ 2,480</u>	<u>305</u>	<u>2,785</u>

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>
2005	\$ 40	8	48
2006	40	5	45
2007	40	4	44
2008	<u>45</u>	<u>2</u>	<u>47</u>
	<u>\$ 165</u>	<u>19</u>	<u>184</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 165	43	208
2006	170	37	207
2007	185	30	215
2008	185	23	208
2009	190	16	206
2010	<u>200</u>	<u>8</u>	<u>208</u>
	\$ <u>1,095</u>	<u>157</u>	<u>1,252</u>

Water and Sewer Revenue and Tax Bonds, Series 2002, issued December 12, 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>
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>4,975</u>	<u>1,483</u>	<u>6,458</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 270	151	421
2006	275	145	420
2007	280	140	420
2008	285	134	419
2009	295	128	423
2010	315	118	433
2011	310	108	418
2012	320	99	419
2013	335	88	423
2014	350	76	426
2015	360	63	423
2016	390	49	439
2017	390	33	423
2018	<u>410</u>	<u>17</u>	<u>427</u>
	\$ <u>4,585</u>	<u>1,349</u>	<u>5,934</u>

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

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 370	565	935
2006	370	557	927
2007	380	550	930
2008	688	542	1,230
2009	1,395	528	1,923
2010	1,465	459	1,924
2011	1,550	385	1,935
2012	1,625	308	1,933
2013	1,315	227	1,542
2014	1,370	161	1,531
2015	1,445	92	1,537
2016	<u>500</u>	<u>20</u>	<u>520</u>
	\$ <u>12,473</u>	<u>4,394</u>	<u>16,867</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	127	127
2006	-	133	133
2007	-	132	132
2008	-	133	133
2009	40	132	172
2010	285	132	417
2011	500	120	620
2012	520	100	620
2013	540	80	620
2014	575	52	627
2015	295	24	319
2016	<u>255</u>	<u>9</u>	<u>264</u>
	<u>\$ 3,010</u>	<u>1,174</u>	<u>4,184</u>

Total annual debt service requirements for enterprise fund bonds, excluding the estimated principal requirements on the TML bonds totaling \$4,132 are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 8,347	2,441	10,788
2006	7,225	2,138	9,363
2007	7,125	1,856	8,981
2008	6,085	1,586	7,671
2009	3,700	1,400	5,100
Next Five Years	20,000	4,405	24,405
Next Five Years	<u>7,515</u>	<u>583</u>	<u>8,098</u>
	<u>\$ 59,997</u>	<u>14,409</u>	<u>74,406</u>

The total on the statement of net assets has been reduced by deferred debt refunding costs of \$1,992 and the net premiums and discounts of (\$2,639).

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Advance and Current Refundings

The City issued \$16,600 of Series 2004 Water and Sewer Tax 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 \$12,765 on the City's outstanding Series 1997 and 1999 Water and Sewer System Revenue Bonds. As a result, the refunded bonds are considered to be defeased. The reacquisition price was less than the net carrying amount of the old debt by \$638. 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 thirteen years by \$737 and resulted in an economic gain of \$631.

The City also issued \$11,035 of Series 2004 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 \$12,009 on the City's outstanding Series 1999, Series 2000, and Series 2001 General Obligation Bonds, Series 1997 and Series 1999 Water and Sewer Bonds. As a result, the refunded bonds are considered to be defeased. The reacquisition price was less than the net carrying amount of the old debt by \$215. 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 twelve years by \$383 and resulted in an economic gain of \$320. The breakdown of the reduction of payments and economic gains by General Obligation, Water and Sewer portions are as follows:

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reduction in Total Debt Service Payments	\$ 237	53	83	373
Economic Gain	203	45	72	320

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental activities:					
General Obligation Debt	\$ 48,434	13,725	12,871	49,288	7,743
Capital Outlay Note	4,000	-	4,000	-	-
Capital Outlay Note	140	-	70	70	70
Notes Payable-State	<u>310</u>	<u>-</u>	<u>34</u>	<u>276</u>	<u>34</u>
Totals	\$ <u>52,884</u>	<u>13,725</u>	<u>16,975</u>	<u>49,634</u>	<u>7,847</u>
Less: deferred amounts for refunding		(1127)	(70)	(1057)	-
Plus: premiums and discounts		<u>561</u>	<u>19</u>	<u>542</u>	<u>-</u>
	<u>52,884</u>	<u>13,159</u>	<u>16,924</u>	<u>49,119</u>	<u>7,847</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type activities:

General Obligation Debt	\$ 53,664	5,210	24,789	34,085	7,565
Water and Sewer Tax					
Revenue Bonds	8,000	22,500	455	30,045	1,195
Less: deferred amounts for refunding	(568)	(1,757)	(197)	(2,128)	-
Plus: Premiums and discounts	<u>260</u>	<u>2,381</u>	<u>138</u>	<u>2,503</u>	<u>-</u>
Total Bonds Payable	61,356	28,334	25,185	64,505	8,760
State Revolving Notes	12,836	1,250	6,306	7,780	421
Consolidated Utility Payable	<u>210</u>	<u>-</u>	<u>70</u>	<u>140</u>	<u>70</u>
Totals	<u>\$ 74,402</u>	<u>29,584</u>	<u>31,561</u>	<u>72,425</u>	<u>9,251</u>

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, 2004 to July 1, 2005 policy period, the City received a rebate from TML of \$46.

Effective January 1, 2003, health insurance for government employees has been provided through a self-funded insurance program administered by John Deere Health. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. Annual actuarial studies will be performed beginning spring 2005, after 2 complete years of data are available. Health insurance coverage for school system employees is provided through the State of Tennessee Local Education Program.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

A. Risk management (continued)

Premiums for participation in the self funded pool are established annually by the State of Tennessee. 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, 2004</u>	<u>Year Ended</u> <u>June 30, 2003</u>
Claims Accrued, Beginning	\$ 105	78
Claims Incurred	712	544
Claims Paid	<u>(636)</u>	<u>(517)</u>
Claims Accrued, Ending	\$ <u>181</u>	<u>105</u>

The City's estimate of claims accrued at year-end is based on actual claims paid during July, August, and September.

B. Subsequent Events

The City entered into an agreement, in 1999, with the State of Tennessee Department of Transportation (TDOT) regarding the construction of the Kingsport State Industrial Access road serving the Kingsport Interstate Technology Park. The agreement states that TDOT is responsible for the design and construction costs of the access road as long as the City is able to produce a minimum of \$5,500 business capital investment (including, but not limited to land, improvements/buildings, and equipment), and generate one hundred new jobs with a minimum of \$3,300 in annual payroll within the Kingsport Interstate Park sites. If the City is unable to meet the requirements of the agreement by the latter of three years after the opening of the access road, or December 31, 2008, the City will be responsible for repayment of a letter of credit, that has been established with a financial institution, that TDOT will be allowed to "draw" on equal to costs incurred for design and construction of the access road up to \$1,600. As of June 30, 2004, and the issuance of this report, the access road is not considered to be open based on the definition stated in the terms of the letter of credit.

In November 2004, the City, acting on the authority granted to them by the Tennessee State School Bond Authority, sold \$3,525 of Qualified Zone Academy Bonds, Series 2004, for the purpose of the renovation, repair, and equipping of Dobyns-Bennett High School, which is a Qualified Zone Academy. An amount of \$3,500 has been deposited to the City's account of the Loan Fund which is equal to the amount of the Loan, less an amount of \$25 representing the City's pro rata costs of issuance of the Series 2004 Bonds.

In December 2004, the City sold \$2,850 of General Obligation School Bonds, Series 2004, for the purpose of (a) financing certain public works projects, consisting of the acquisition, construction, renovation, improvement, and equipment of schools within the City, the acquisition of all other property,

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

B. Subsequent Events (continued)

real and personal, and to pay legal, fiscal, administrative, and engineering costs and (b) paying costs incident to the issuance and sale of the General Obligation School Bonds.

The City also sold \$7,900 of Water and Sewer System Revenue and Tax Bonds, Series 2004, for the purpose of financing certain 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, and to pay legal, fiscal, administrative, and engineering costs (b) prepaying the outstanding principal of and interest on that certain loan evidenced by a Revolving Fund Loan Agreement, by and among the City, the Tennessee Local Development Authority, in the principal amount of not to exceed \$1,220 and (c) to pay costs incident to the issuance and sale of the Water and Sewer Bonds.

C. 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, 2004 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, 2004 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, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

C. 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 and operating the aforementioned project. The said project and related liability are on the NPO's books. The NPO is responsible for making the bond payments. However, in the event that the NPO defaults, the IDBK would have to pay off the bonds if they wanted to retain the project. As of June 30, 2004, \$6,180 was outstanding on these bonds.

D. Post-employment health care benefits

The BMA has provided for post-employment health care benefits. All employees (including schools) who retire before the age of 65 receive the same health care benefits, at the same cost as current active employees. Currently, the City pays 70% of the lowest premium and the retiree is responsible for the remaining 30%. For employees that retire after attaining the age of 65, the City and Schools purchase a Medicare supplement at no cost to the retiree. All terminated employees, other than retirees, are eligible to continue coverage at their cost under COBRA regulations, which is administered through 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, 2004, there were approximately 437 retirees. For the year ended June 30, 2004, approximately \$500 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.

E. Pension plan

Plan description

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

E. Pension plan (continued)

Plan description (continued)

plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding policy

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

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2004 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.

Annual pension cost

For the year ending June 30, 2004, the City's annual pension cost of \$3,336 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. An actuarial valuation was performed as of July 1, 2003, which established contribution rates effective July 1, 2004.

Trend Information

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
June 30, 2004	\$3,336	100.00%	\$ -
June 30, 2003	3,247	100.00%	-
June 30, 2002	2,424	100.00%	-

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

E. Pension plan (continued)

Required supplementary information

Schedule of Funding Progress for Kingsport

	(a)	(b)	(b) – (a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 01, 2003	\$ 97,199	106,661	9,462	91.13%	27,888	33.93%
July 01, 2001	91,035	101,307	10,272	89.86%	26,519	38.73%
July 01, 1999	80,976	86,815	5,839	93.27%	25,256	23.12%

Plan description

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

E. Pension plan (continued)

Funding policy

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2004 was 3.39% 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, 2004, 2003, and 2002 were \$833, \$813, \$862, respectively, equal to the required contributions for each year.

F. Joint Ventures

Tri-Cities Airport

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

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

F. Joint Ventures (continued)

Audited information as of June 30, 2004 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 5,329
Operating Expenses	(4,903)
Depreciation	(2,373)
Amortization	(100)
Other Income	94
Capital Contributions	<u>3,399</u>
Change in Net Assets	1,446
Net Assets, July 1	<u>36,666</u>
Net Assets, June 30	\$ <u>38,112</u>
Total Assets	\$ 50,374
Total Liabilities	<u>(12,262)</u>
Total Net Assets	\$ <u>38,112</u>

Economic Development Partnership

In June 2004, the City; Sullivan County; City of Bluff City; and the City of Bristol, Tennessee entered into an intergovernmental cooperative agreement to create the Bluff City, Bristol, Kingsport, and Sullivan County Economic Development Partnership. The purpose of the joint venture is to develop and implement an overall economic development strategic plan whose overall goals are to create value added jobs, expand and diversify the economic base, and generate increased local tax revenues for the local governments. The Board of Directors shall be comprised of twenty-four voting members, including the four mayors and a member appointed by each mayor. The other members will be either representatives of the two principal power system providers or collectively appointed by the mayors. In accordance with terms of the agreement, funding shall be 31% from the City, 51% from Sullivan County, 17% from the City of Bristol, and 1% from City of Bluff City. The County's portion will remain fixed for the lifetime of the agreement and the shares of the cities shall be adjusted according to the Federal Census every ten years. No activity occurred for this entity prior to June 30, 2004.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

F. Joint Ventures (continued)

Phipps Bend Joint Venture

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

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

Note Receivable from Phipps Bend Venture	\$ 535
20% interest in capital of Phipps Bend Joint Venture	<u>187</u>
Total Investment	\$ <u>722</u>

G. Economic dependency

A material portion of the City's property tax revenue is derived from one taxpayer, the loss of which would have a material effect on the City. During the tax years ended December 31, 2003 and 2002, the taxes assessed on the above mentioned taxpayer accounted for approximately 48% and 30%, respectively, of total property taxes assessed.

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2004

(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>				
Investment Earnings	\$ -	-	58	58
Total Revenues	-	-	58	58
<u>EXPENDITURES:</u>				
Principal	4,707	11,451	11,060	391
Interest	5,267	2,541	2,170	371
Bond Issuance Costs	4	102	211	(109)
Miscellaneous	26	35	30	5
Total Expenditures	10,004	14,129	13,471	658
Deficiency of Revenues Under Expenditures	(10,004)	(14,129)	(13,413)	716
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	10,004	14,129	9,323	4,806
Bond Premiums / Discounts	-	-	561	(561)
Bond Refunding Payments to Escrow	-	-	(6,340)	6,340
Bond Proceeds	-	-	9,940	(9,940)
Total Other Financing Sources (Uses)	10,004	14,129	13,484	645
Net Change in Fund Balance	-	-	71	71
Fund Balance, July 1, 2003	-	-	-	-
Fund Balance, June 30, 2004	\$ -	-	71	71

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

(amounts expressed in thousands)

	Special Revenue Funds							Total Special Revenue Funds	Capital Project Industrial Development Fund	Permanent Fund Allandale Trust Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Special Revenue Funds				
ASSETS:											
Cash in Bank	\$ -	-	9	18	-	676	703	-	-	703	
Equity in Pooled Cash and Investments	9	-	132	-	589	138	868	13	-	881	
Long-Term Certificates of Deposit	-	-	-	-	-	200	200	-	150	350	
Investments	-	-	84	-	2,271	55	2,410	-	5	2,415	
Accounts Receivable, net	-	-	-	1	-	-	1	-	-	1	
Due from Other Governments	69	22	-	436	519	864	1,910	-	-	1,910	
Inventories	-	-	-	-	-	121	121	-	-	121	
Total Assets	78	22	225	455	3,379	2,054	6,213	13	155	6,381	
LIABILITIES AND FUND BALANCES:											
Liabilities:											
Accounts Payable	67	1	30	205	1	100	404	-	-	404	
Due to Other Funds	-	7	12	76	901	479	1,475	-	1	1,476	
Deferred Revenue	-	-	-	-	-	265	265	-	-	265	
Total Liabilities	67	8	42	281	902	844	2,144	-	1	2,145	
Fund Balances:											
Reserved for Encumbrances	89	-	28	135	-	66	318	-	-	318	
Reserved for Inventories	-	-	-	-	-	121	121	-	-	121	
Reserved for Perpetual Care	-	-	-	-	-	-	-	-	154	154	
Reserved for Projects	-	-	59	-	-	(66)	(7)	-	-	(7)	
Unreserved, Undesignated	(78)	14	96	39	2,477	1,089	3,637	13	-	3,650	
Total Fund Balances	11	14	183	174	2,477	1,210	4,069	13	154	4,236	
Total Liabilities and Fund Balances	\$ 78	22	225	455	3,379	2,054	6,213	13	155	6,381	

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, 2004
(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				
REVENUES:											
Federal Government	\$ 434	72	69	334	-	4,636	5,545	-	-	5,545	
State Government	-	7	-	1,665	2,973	562	5,207	-	-	5,207	
Charges for Services	-	-	-	98	13	1,377	1,488	-	-	1,488	
Fines and Forfeitures	-	-	51	-	-	-	51	-	-	51	
Investment Earnings	-	-	1	-	17	8	26	-	5	31	
Contributions and Donations	-	-	-	-	62	126	188	30	-	218	
Total Revenues	434	79	121	2,097	3,065	6,709	12,505	30	5	12,540	
EXPENDITURES:											
General and Administrative	-	83	5	-	-	-	88	-	-	88	
School Food Service	-	-	-	-	-	2,521	2,521	-	-	2,521	
School Federal Projects	-	-	-	-	-	3,017	3,017	-	-	3,017	
Economic and Physical Development	424	-	-	-	-	-	424	-	-	424	
Public Safety	-	-	58	-	-	-	58	-	-	58	
Highway Transportation Planning	-	-	-	2,693	-	-	2,693	-	-	2,693	
Culture and Recreation	-	-	-	-	28	-	28	-	-	28	
Education	-	-	-	-	-	1,071	1,071	-	-	1,071	
Capital Outlay	8	-	278	226	-	611	1,123	-	-	1,123	
Total Expenditures	432	83	341	2,919	28	7,220	11,023	-	-	11,023	
Excess (Deficiency) of Revenues Over (Under) Expenditures	2	(4)	(220)	(822)	3,037	(511)	1,482	30	5	1,517	
OTHER FINANCING SOURCES (USES) -											
Operating Transfers	-	23	(18)	845	(2,413)	315	(1,248)	(30)	(5)	(1,283)	
Net Change in Fund Balances	2	19	(238)	23	624	(196)	234	-	-	234	
Fund Balances, July 1, 2003	9	(5)	421	151	1,853	1,406	3,835	13	154	4,002	
Fund Balances, June 30, 2004	\$ 11	14	183	174	2,477	1,210	4,069	13	154	4,236	

See Independent Auditors' Report.

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

June 30, 2004

(amounts expressed in thousands)

<u>ASSETS:</u>	<u>Criminal Forfeiture Fund</u>	<u>Drug Fund</u>	<u>Local Law Enforcement Fund</u>	<u>Total Public Safety Funds</u>
Cash in Bank	-	9	-	9
Equity in Pooled Cash and Investments	-	129	3	132
Investments	26	-	58	84
Total Assets	26	138	61	225
<u>LIABILITIES AND FUND BALANCES:</u>				
<u>Liabilities:</u>				
Accounts Payable	-	30	-	30
Due to Other Funds	12	-	-	12
Total Liabilities	12	30	-	42
<u>Fund Balances:</u>				
Reserved for Encumbrances	-	12	16	28
Reserved for Projects	14	-	45	59
Unreserved, Undesignated	-	96	-	96
Total Fund Balances	14	108	61	183
Total Liabilities and Fund Balances	\$ 26	138	61	225

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, 2004
(amounts expressed in thousands)

	Criminal Forfeiture Fund	Drug Fund	Local Law Enforcement Fund	Total Public Safety Funds
<u>REVENUES:</u>				
Federal Government	\$ 11	-	58	69
Fines and Forfeitures	-	51	-	51
Investment Earnings	-	-	1	1
Total Revenues	<u>11</u>	<u>51</u>	<u>59</u>	<u>121</u>
<u>EXPENDITURES:</u>				
General and Administrative	-	5	-	5
Public Safety	-	58	-	58
Capital Outlay	-	70	208	278
Total Expenditures	<u>-</u>	<u>133</u>	<u>208</u>	<u>341</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	11	(82)	(149)	(220)
<u>OTHER FINANCING SOURCES (USES):-</u>				
Operating Transfers	-	(24)	6	(18)
Net Change in Fund Balances	11	(106)	(143)	(238)
Fund Balance, July 1, 2003	<u>3</u>	<u>214</u>	<u>204</u>	<u>421</u>
Fund Balance, June 30, 2004	<u>\$ 14</u>	<u>108</u>	<u>61</u>	<u>183</u>

See Independent Auditors' Report.

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

June 30, 2004

(amounts expressed in thousands)

	Urban Mass Transportation Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
<u>ASSETS:</u>				
Cash in Bank	\$ 18	-	-	18
Accounts Receivable, net	1	-	-	1
Due from Other Governments	172	49	215	436
Total Assets	<u>191</u>	<u>49</u>	<u>215</u>	<u>455</u>

LIABILITIES AND FUND BALANCES:

<u>Liabilities:</u>				
Accounts Payable	57	1	147	205
Due to Other Funds	-	54	22	76
Total Liabilities	<u>57</u>	<u>55</u>	<u>169</u>	<u>281</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	-	48	87	135
Unreserved, Undesignated	134	(54)	(41)	39
Total Fund Balances	<u>134</u>	<u>(6)</u>	<u>46</u>	<u>174</u>
Total Liabilities and Fund Balances	<u>\$ 191</u>	<u>49</u>	<u>215</u>	<u>455</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, 2004
(amounts expressed in thousands)

	Urban Mass Transportation Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
<u>REVENUES:</u>				
Federal Government	295	39	-	334
State Government	283	119	1,263	1,665
Charges for Services	98	-	-	98
Total Revenues	<u>676</u>	<u>158</u>	<u>1,263</u>	<u>2,097</u>
<u>EXPENDITURES:</u>				
Highway Transportation Planning	593	205	1,895	2,693
Capital Outlay	204	3	19	226
Total Expenditures	<u>797</u>	<u>208</u>	<u>1,914</u>	<u>2,919</u>
Deficiency of Revenues Under Expenditures	(121)	(50)	(651)	(822)
<u>OTHER FINANCING SOURCES -</u>				
Operating Transfers	150	44	651	845
Net Change in Fund Balances	29	(6)	-	23
Fund Balance, July 1, 2003	105	-	46	151
Fund Balance, June 30, 2004	<u>\$ 134</u>	<u>(6)</u>	<u>46</u>	<u>174</u>

See Independent Auditors' Report.

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

June 30, 2004

(amounts expressed in thousands)

	Regional Sales Tax Revenue Fund	Eastman Annex Tax Fund	Steadman Cemetery Trust Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
<u>ASSETS:</u>							
Equity in Pooled Cash and Investments	\$ -	589	-	-	-	-	589
Investments	2,097	-	16	18	127	13	2,271
Due from Other Governments	519	-	-	-	-	-	519
Total Assets	<u>2,616</u>	<u>589</u>	<u>16</u>	<u>18</u>	<u>127</u>	<u>13</u>	<u>3,379</u>

LIABILITIES AND FUND BALANCES:

Liabilities:

Accounts Payable	-	-	-	-	-	1	1
Due to Other Funds	901	-	-	-	-	-	901
Total Liabilities	<u>901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>902</u>

Fund Balances -

Unreserved, Undesignated	1,715	589	16	18	127	12	2,477
Total Fund Balances	<u>1,715</u>	<u>589</u>	<u>16</u>	<u>18</u>	<u>127</u>	<u>12</u>	<u>2,477</u>
Total Liabilities and Fund Balances	<u>\$ 2,616</u>	<u>589</u>	<u>16</u>	<u>18</u>	<u>127</u>	<u>13</u>	<u>3,379</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, 2004
(amounts expressed in thousands)

	Regional Sales Tax Revenue Fund	Eastman Annex Tax 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	\$ 2,973	-	-	-	-	-	2,973
Charges for Services	-	-	-	-	-	13	13
Investment Earnings	13	-	-	3	1	-	17
Contributions and Donations	-	-	-	-	60	2	62
Total Revenues	2,986	-	-	3	61	15	3,065
<u>EXPENDITURES -</u>							
Culture and Recreation	-	-	-	-	17	11	28
Total Expenditures	-	-	-	-	17	11	28
Excess of Revenues Over Expenditures	2,986	-	-	3	44	4	3,037
<u>OTHER FINANCING SOURCES (USES) -</u>							
Operating Transfers	(3,002)	589	-	-	-	-	(2,413)
Net Change in Fund Balances	(16)	589	-	3	44	4	624
Fund Balance, July 1, 2003	1,731	-	16	15	83	8	1,853
Fund Balance, June 30, 2004	\$ 1,715	589	16	18	127	12	2,477

See Independent Auditors' Report.

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

June 30, 2004

(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>ASSETS:</u>						
Cash in Bank	\$ 676	-	-	-	-	676
Equity in Pooled Cash and Investments	-	-	-	138	-	138
Long-Term Certificates of Deposit	200	-	-	-	-	200
Investments	-	-	-	-	55	55
Due from Other Governments	121	405	338	-	-	864
Inventories	121	-	-	-	-	121
Total Assets	<u>1,118</u>	<u>405</u>	<u>338</u>	<u>138</u>	<u>55</u>	<u>2,054</u>

LIABILITIES AND FUND BALANCES:

	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
<u>Liabilities:</u>											
Accounts Payable	41	59	-	100							
Due to Other Funds	219	159	-	479							
Deferred Revenue	145	120	-	265							
Total Liabilities	<u>101</u>	<u>405</u>	<u>338</u>	<u>844</u>							
<u>Fund Balances:</u>											
Reserved for Encumbrances	-	33	33	66							
Reserved for Inventories	121	-	-	121							
Reserved for Projects	-	(33)	(33)	(66)							
Unreserved, Undesignated	896	-	-	1,089							
Total Fund Balances	<u>1,017</u>	<u>-</u>	<u>-</u>	<u>1,210</u>							
Total Liabilities and Fund Balances	<u>\$ 1,118</u>	<u>405</u>	<u>338</u>	<u>2,054</u>							

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, 2004

(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	\$ 1,042	319	3,275	-	-	4,636
State Government	30	532	-	-	-	562
Charges for Services	1,374	3	-	-	-	1,377
Investment Earnings	8	-	-	-	-	8
Contributions and Donations	126	-	-	-	-	126
Total Revenues	2,580	854	3,275	-	-	6,709
<u>EXPENDITURES:</u>						
School Food Service	2,521	-	-	-	-	2,521
School Federal Projects Education	-	-	3,017	-	-	3,017
Capital Outlay	130	107	374	-	-	1,071
Total Expenditures	2,651	1,178	3,391	-	-	7,220
Deficiency of Revenues Under Expenditures	(71)	(324)	(116)	-	-	(511)
<u>OTHER FINANCING SOURCES -</u>						
Operating Transfers	-	315	-	-	-	315
Net Change in Fund Balances	(71)	(9)	(116)	-	-	(196)
Fund Balance, July 1, 2003	1,088	9	116	138	55	1,406
Fund Balance, June 30, 2004	\$ 1,017	-	-	138	55	1,210

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, 2004
(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>			
Federal Government	\$ -	11	11
Contributions and Donations	8	-	(8)
Total Revenues	<u>8</u>	<u>11</u>	<u>3</u>
<u>EXPENDITURES -</u>			
Public Safety	8	-	8
Total Expenditures	<u>8</u>	<u>-</u>	<u>8</u>
Net Change in Fund Balance	-	11	11
Fund Balance, July 1, 2003	<u>3</u>	<u>3</u>	<u>-</u>
Fund Balance, June 30, 2004	<u>\$ 3</u>	<u>14</u>	<u>11</u>

CITY OF KINGSPORT, TENNESSEE

DRUG FUND

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

For the Year Ended June 30, 2004

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Fines and Forfeitures	\$ 103	103	51	(52)
Contributions and Donations	-	97	-	(97)
Total Revenues	103	200	51	(149)
<u>EXPENDITURES:</u>				
General and Administrative	4	23	5	18
Public Safety	50	52	58	(6)
Capital Outlay	49	101	70	31
Total Expenditures	103	176	133	43
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	24	(82)	(106)
<u>OTHER FINANCING USES -</u>				
Transfers Out	-	(24)	(24)	-
Total Other Financing Uses	-	(24)	(24)	-
Net Change in Fund Balance	-	-	(106)	(106)
Fund Balance, July 1, 2003	214	214	214	-
Fund Balance, June 30, 2004	\$ 214	214	108	(106)

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
METROPOLITAN PLANNING OFFICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<u>REVENUES:</u>				
Federal Government	\$ 21	57	39	(18)
State Government	146	154	119	(35)
Total Revenues	167	211	158	(53)
<u>EXPENDITURES:</u>				
Highway Transportation Planning	-	252	205	47
Capital Outlay	-	3	3	-
Total Expenditures	-	255	208	47
Excess (Deficiency) of Revenues Over (Under) Expenditures	167	(44)	(50)	(6)
<u>OTHER FINANCING SOURCES -</u>				
Transfers In	37	44	44	-
Total Other Financing Sources	37	44	44	-
Net Change in Fund Balance	204	-	(6)	(6)
Fund Balance, July 1, 2003	-	-	-	-
Fund Balance, June 30, 2004	\$ 204	-	(6)	(6)

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, 2004
(amounts expressed in thousands)

	Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final	(Negative)
<u>REVENUES -</u>			
State Government	\$ 1,183	1,183	80
Total Revenues	1,183	1,263	80
<u>EXPENDITURES:</u>			
Highway Transportation Planning	2,583	2,058	163
Capital Outlay	1	19	-
Total Expenditures	2,584	2,077	163
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,401)	(894)	243
<u>OTHER FINANCING SOURCES -</u>			
Transfers In	1,401	894	243
Total Other Financing Sources	1,401	894	243
Net Change in Fund Balance	-	-	-
Fund Balance, July 1, 2003	46	46	-
Fund Balance, June 30, 2004	\$ 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, 2004
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Amounts</u>	<u>Final Budget -</u>
	<u>Amounts</u>	<u>Amounts</u>	<u>Positive</u>
	<u>Amounts</u>	<u>Amounts</u>	<u>(Negative)</u>
REVENUES:			
State Government	\$ 2,800	2,973	111
Investment Earnings	45	13	(32)
Total Revenues	<u>2,845</u>	<u>2,986</u>	<u>79</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	426	-	(426)
Transfers Out	-	(3,002)	331
Total Other Financing Sources (Uses)	<u>426</u>	<u>(3,002)</u>	<u>(95)</u>
Net Change in Fund Balance	3,271	(16)	(16)
Fund Balance, July 1, 2003	<u>1,731</u>	<u>1,731</u>	<u>-</u>
Fund Balance, June 30, 2004	<u>\$ 5,002</u>	<u>1,715</u>	<u>(16)</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
EASTMAN ANNEX TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	<u>Original and</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final Budgeted</u>	<u>Amounts</u>	<u>Final Budget -</u>
	<u>Amounts</u>	<u>Amounts</u>	<u>Positive</u>
			<u>(Negative)</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers In	\$ 1,277	1,355	78
Transfers Out	(1,277)	(766)	511
Total Other Financing Sources (Uses)	-	589	589
Net Change in Fund Balance	-	589	589
Fund Balance, July 1, 2003	-	-	-
Fund Balance, June 30, 2004	\$ -	589	589

See Independent Auditors' Report.

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, 2004
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES -</u>			
Investment Earnings	\$ 1	3	2
Total Revenues	1	3	2
<u>EXPENDITURES -</u>			
Culture and Recreation	1	-	1
Total Expenditures	1	-	1
Net Change in Fund Balance	-	3	3
Fund Balance, July 1, 2003	15	15	-
Fund Balance, June 30, 2004	\$ 15	18	3

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, 2004

(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	-
Contributions and Donations	16	60	44
 Total Revenues	<u>17</u>	<u>61</u>	<u>44</u>
 <u>EXPENDITURES -</u>			
Culture and Recreation	17	17	-
 Total Expenditures	<u>17</u>	<u>17</u>	<u>-</u>
 Net Change in Fund Balance	-	44	44
 Fund Balance, July 1, 2003	<u>83</u>	<u>83</u>	<u>-</u>
 Fund Balance, June 30, 2004	<u>\$ 83</u>	<u>127</u>	<u>44</u>

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, 2004
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Charges for Services	\$ 17	13	(4)
Contributions and Donations	2	2	-
Total Revenues	19	15	(4)
<u>EXPENDITURES -</u>			
Culture and Recreation	19	11	8
Total Expenditures	19	11	8
Net Change in Fund Balance	-	4	4
Fund Balance, July 1, 2003	8	8	-
Fund Balance, June 30, 2004	\$ 8	12	4

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, 2004
(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>			
Federal Government	\$ 1,011	1,042	31
State Government	30	30	-
Charges for Services	1,370	1,374	4
Investment Earnings	20	8	(12)
Contributions and Donations	-	126	126
Total Revenues	<u>2,431</u>	<u>2,580</u>	<u>149</u>
<u>EXPENDITURES:</u>			
School Food Service	2,431	2,521	(90)
Capital Outlay	150	130	20
Total Expenditures	<u>2,581</u>	<u>2,651</u>	<u>(70)</u>
Net Change in Fund Balance	<u>(150)</u>	<u>(71)</u>	<u>79</u>
Fund Balance, July 1, 2003	<u>1,088</u>	<u>1,088</u>	<u>-</u>
Fund Balance, June 30, 2004	<u>\$ 938</u>	<u>1,017</u>	<u>79</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2004
(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	\$ -	-	-
Contributions and Donations	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1, 2003	<u>138</u>	<u>138</u>	<u>-</u>
Fund Balance, June 30, 2004	<u>\$ 138</u>	<u>138</u>	<u>-</u>

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, 2004

(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES -</u>			
Investment Earnings	\$ 1	-	(1)
Total Revenues	1	-	(1)
<u>EXPENDITURES -</u>			
Capital Outlay	1	-	1
Total Expenditures	1	-	1
Net Change in Fund Balance	-	-	-
Fund Balance, July 1, 2003	55	55	-
Fund Balance, June 30, 2004	<u>\$ 55</u>	<u>55</u>	<u>-</u>

CITY OF KINGSPORT, TENNESSEE
ALLANDALE TRUST FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2004
 (amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES -</u>			
Investment Earnings	\$ 5	5	-
Total Revenues	<u>5</u>	<u>5</u>	<u>-</u>
<u>OTHER FINANCING USES -</u>			
Transfers Out	5	5	-
Total Other Financing Uses	<u>5</u>	<u>5</u>	<u>-</u>
Net Change in Fund Balance	-	-	-
Fund Balance, July 1, 2003	154	154	-
Fund Balance, June 30, 2004	<u>\$ 154</u>	<u>154</u>	<u>-</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2004
(amounts expressed in thousands)

	<u>Fleet Operations & Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
<u>ASSETS:</u>				
Current Assets:				
Equity in Pooled Cash and Investments	\$ 1,319	2,130	1,829	5,278
Long-Term Certificates of Deposit	-	350	-	350
Accounts Receivable	1	-	4	5
Inventories	270	-	-	270
Prepays	-	120	-	120
Total Current Assets	<u>1,590</u>	<u>2,600</u>	<u>1,833</u>	<u>6,023</u>
Capital Assets:				
Land	15	-	-	15
Machinery and Equipment	17,957	-	-	17,957
Less: Accumulated Depreciation	<u>(11,459)</u>	<u>-</u>	<u>-</u>	<u>(11,459)</u>
Total Capital Assets	<u>6,513</u>	<u>-</u>	<u>-</u>	<u>6,513</u>
Other Assets -				
Deposits	-	30	-	30
Total Other Assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Restricted Assets:				
Cash in Bank	390	-	-	390
Investments	<u>4,785</u>	<u>-</u>	<u>-</u>	<u>4,785</u>
Total Restricted Assets	<u>5,175</u>	<u>-</u>	<u>-</u>	<u>5,175</u>
Total Assets	<u>13,278</u>	<u>2,630</u>	<u>1,833</u>	<u>17,741</u>
<u>LIABILITIES:</u>				
Current Liabilities:				
Accounts Payable	128	40	43	211
Benefits Payable	-	181	900	1,081
Compensated Absences Payable	<u>67</u>	<u>11</u>	<u>1</u>	<u>79</u>
Total Current Liabilities	<u>195</u>	<u>232</u>	<u>944</u>	<u>1,371</u>
Total Liabilities	<u>195</u>	<u>232</u>	<u>944</u>	<u>1,371</u>
<u>NET ASSETS:</u>				
Invested in Capital Assets	6,513	-	-	6,513
Unrestricted	<u>6,570</u>	<u>2,398</u>	<u>889</u>	<u>9,857</u>
Total Net Assets	<u>\$ 13,083</u>	<u>2,398</u>	<u>889</u>	<u>16,370</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, 2004
(amounts expressed in thousands)

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Total Internal Service Funds
<u>OPERATING REVENUE -</u>				
Charges for Sales and Services	\$ 3,705	1,434	4,628	9,767
Total Operating Revenue	3,705	1,434	4,628	9,767
<u>OPERATING EXPENSES:</u>				
Personal Services and Benefits	939	141	40	1,120
Materials and Supplies	1,764	2	2	1,768
Contractual Services	66	53	283	402
Insurance	1	284	287	572
Insurance Claims	-	1,301	3,228	4,529
Depreciation	1,214	-	-	1,214
Miscellaneous	25	-	-	25
Total Operating Expenses	4,009	1,781	3,840	9,630
Operating Income (Loss)	(304)	(347)	788	137
<u>NONOPERATING REVENUES:</u>				
Gain on Disposals of Capital Assets	13	-	-	13
Investment Earnings	151	48	4	203
Income (Loss) before Transfers	(140)	(299)	792	353
<u>OTHER FINANCING SOURCES -</u>				
Operating Transfers	59	-	-	59
Change in Net Assets	(81)	(299)	792	412
Net Assets, July 1, 2003	13,164	2,697	97	15,958
Net Assets, June 30, 2004	\$ 13,083	2,398	889	16,370

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	<u>Fleet Operations & Maintenance Fund</u>	<u>Insurance Reserve Fund</u>	<u>Health Insurance Fund</u>	<u>Total Internal Service Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from Customers and Users	\$ 3,705	1,486	4,632	9,823
Payments to Suppliers	(2,000)	(1,589)	(3,871)	(7,460)
Payments to Employees	(940)	(141)	(40)	(1,121)
Net Cash Provided (Used) by Operating Activities	<u>765</u>	<u>(244)</u>	<u>721</u>	<u>1,242</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES -</u>				
Advances from Other Funds	<u>59</u>	<u>-</u>	<u>-</u>	<u>59</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Purchases of Capital Assets	(1,404)	-	-	(1,404)
Proceeds from Sales of Capital Assets	<u>23</u>	<u>-</u>	<u>-</u>	<u>23</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,381)</u>	<u>-</u>	<u>-</u>	<u>(1,381)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Proceeds from Sales and Maturities of Investments	1,431	-	-	1,431
Purchase of Investments	(5,789)	-	-	(5,789)
Interest Received	<u>151</u>	<u>48</u>	<u>4</u>	<u>203</u>
Net Cash Provided (Used) by Investing Activities	<u>(4,207)</u>	<u>48</u>	<u>4</u>	<u>(4,155)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,764)	(196)	725	(4,235)
Cash and Cash Equivalents, July 1, 2003	<u>6,473</u>	<u>2,326</u>	<u>1,104</u>	<u>9,903</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 1,709</u>	<u>2,130</u>	<u>1,829</u>	<u>5,668</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>				
Operating Income (Loss)	\$ (304)	(347)	788	137
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	1,214	-	-	1,214
(Increase) Decrease in Assets:				
Accounts Receivable	-	52	(3)	49
Inventories	(29)	-	-	(29)
Prepays	-	14	-	14
Increase (Decrease) in Liabilities:				
Accounts Payable	(115)	(39)	(64)	(218)
Benefits Payable	-	76	-	76
Compensated Absences Payable	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 765</u>	<u>(244)</u>	<u>721</u>	<u>1,242</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET ASSETS:</u>				
Equity in Pooled Cash and Investments	\$ 1,319	2,130	1,829	5,278
Restricted Assets - Cash in Bank	<u>390</u>	<u>-</u>	<u>-</u>	<u>390</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 1,709</u>	<u>2,130</u>	<u>1,829</u>	<u>5,668</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Industrial Development Board	Emergency Communications District
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from Customers and Users	\$ 24	434
Payments to Suppliers	(100)	(266)
Net Cash Provided (Used) by Operating Activities	(76)	168
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>		
Purchases of Capital Assets	(5)	(214)
Grants	-	50
Net Cash Used by Capital and Related Financing Activities	(5)	(164)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sales and Maturities of Investments	368	-
Purchases of Investments	(280)	-
Interest Received	6	24
Net Cash Provided by Investing Activities	94	24
Net Increase in Cash and Cash Equivalents	13	28
Cash and Cash Equivalents, July 1, 2003	507	964
Cash and Cash Equivalents, June 30, 2004	<u>\$ 520</u>	<u>992</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO</u>		
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (87)	119
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4	46
(Increase) Decrease in Assets:		
Accounts Receivable	25	1
Due from Other Governments	-	10
Land Held for Sale or Development	(16)	-
Prepaid Items	-	(6)
Increase in Accounts Payable	(2)	(2)
Net Cash Provided (Used) by Operating Activities	<u>\$ (76)</u>	<u>168</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
June 30, 2004 and 2003
(amounts expressed in thousands)

	<u>2004</u>	<u>2003</u>
<u>Governmental Funds Capital Assets:</u>		
Land	\$ 10,750	10,740
Buildings	85,958	85,458
Improvements other than Buildings	9,499	9,480
Equipment	10,589	10,268
Software	155	144
Infrastructure	254,158	253,981
Construction in Progress	<u>27,574</u>	<u>20,292</u>
Total Governmental Funds Capital Assets	<u><u>398,683</u></u>	<u><u>390,363</u></u>
 <u>Investments in Governmental Funds Capital Assets by Source:</u>		
General Obligation Bonds	319,256	319,037
Contributions from Municipalities	31	31
Federal Grants	3,045	2,861
State Grants	189	189
County Grants	64	64
Federal Revenue Sharing	261	261
General Fund Revenue	13,550	13,557
Gifts	5,648	5,620
Special Revenue Funds	25,572	24,991
Operating Revenue	3,381	3,348
Capital Lease Purchase	111	111
Notes Payable	1	1
Construction in Progress	<u>27,574</u>	<u>20,292</u>
Total Governmental Funds Capital Assets	<u><u>\$ 398,683</u></u>	<u><u>390,363</u></u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See Independent Auditors' Report.

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

June 30, 2004

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements other than Buildings				Construction in Progress	Total
			Equipment	Software	Infrastructure	Equipment		
<u>General Government:</u>								
General Government	\$ 3,175	599	8	21	-	-	1,616	5,419
City Manager	-	-	21	-	-	-	-	21
Finance	-	-	-	36	-	-	-	36
Information Services	-	-	-	1,371	-	-	-	1,371
Geographic Information	-	-	-	113	-	-	-	113
Total General Government	3,175	599	29	1,541	-	-	1,616	6,960
<u>Economic and Physical Development:</u>								
Developmental Services	-	651	46	35	-	-	-	732
Transportation	-	638	30	1,133	-	-	-	1,801
Engineering	-	-	-	39	-	-	-	39
Total Economic and Physical Development	-	1,289	76	1,207	-	-	-	2,572
<u>Public Safety:</u>								
Police	91	4,411	51	458	-	-	109	5,120
Fire	218	2,139	54	332	-	-	351	3,094
Communication	-	67	-	67	-	-	-	134
Central Dispatch	-	-	78	2,168	-	-	-	2,246
Total Public Safety	309	6,617	183	3,025	-	-	460	10,594

(Continued)

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

June 30, 2004

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements other than		Equipment	Software	Infrastructure	Construction in Progress	Total
			Buildings	Buildings					
Public Works:									
General and Administrative	-	315	5	-	33	-	342	-	695
Sanitation	-	-	-	14	-	-	-	-	14
Streets	-	-	590	-	188	-	-	4,394	5,172
Maintenance	-	-	-	-	58	-	-	-	58
Bridges System	-	-	-	-	-	-	5,329	1,064	6,393
Highways System	-	-	-	-	-	-	244,065	-	244,065
Total Public Works	-	315	595	-	293	-	249,736	5,458	256,397
Culture and Recreation:									
Senior Citizens	-	3,872	-	-	7	-	-	-	3,879
Recreation	4,611	7,529	2,057	-	373	-	-	5,354	19,924
Bays Mountain	250	862	316	-	156	-	-	17	1,601
Allandale	502	345	133	-	193	-	-	98	1,271
Library	133	3,621	-	-	45	-	4,422	59	8,280
Total Culture and Recreation	5,496	16,229	2,506	-	774	-	4,422	5,528	34,955
Education	1,770	60,909	6,110	-	3,749	155	-	14,512	87,205
Total Governmental Funds Capital Assets	\$ 10,750	85,958	9,499	-	10,589	155	254,158	27,574	398,683

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

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Year Ended June 30, 2004
(amounts expressed in thousands)

Function and Activity	Governmental Funds Capital Assets July 1, 2003	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2004
<u>General Government:</u>					
General Government	\$ 3,818	1,601	-	-	5,419
City Manager	21	-	-	-	21
Finance	36	-	-	-	36
Information Services	1,371	-	-	-	1,371
Geographic Information	113	-	-	-	113
Total General Government	<u>5,359</u>	<u>1,601</u>	<u>-</u>	<u>-</u>	<u>6,960</u>
<u>Economic and Physical Development:</u>					
Developmental Services	732	-	-	-	732
Transportation	1,716	170	(85)	-	1,801
Engineering	39	-	-	-	39
Total Economic and Physical Development	<u>2,487</u>	<u>170</u>	<u>(85)</u>	<u>-</u>	<u>2,572</u>
<u>Public Safety:</u>					
Police	4,852	268	-	-	5,120
Fire	3,086	23	(15)	-	3,094
Communication	134	-	-	-	134
Central Dispatch	2,246	-	-	-	2,246
Total Public Safety	<u>10,318</u>	<u>291</u>	<u>(15)</u>	<u>-</u>	<u>10,594</u>
<u>Public Works:</u>					
General and Administrative	353	-	-	342	695
Sanitation	14	-	-	-	14
Streets	5,172	-	-	-	5,172
Maintenance	58	-	-	-	58
Bridges System	5,329	1,064	-	-	6,393
Highways System	244,230	177	-	(342)	244,065
Total Public Works	<u>255,156</u>	<u>1,241</u>	<u>-</u>	<u>-</u>	<u>256,397</u>
<u>Culture and Recreation:</u>					
Senior Citizens	3,879	-	-	-	3,879
Recreation	16,420	3,504	-	-	19,924
Bays Mountain	1,601	-	-	-	1,601
Allandale	1,263	8	-	-	1,271
Library	8,287	-	(7)	-	8,280
Total Culture and Recreation	<u>31,450</u>	<u>3,512</u>	<u>(7)</u>	<u>-</u>	<u>34,955</u>
<u>Education</u>	<u>85,593</u>	<u>1,631</u>	<u>(19)</u>	<u>-</u>	<u>87,205</u>
Total Governmental Funds Capital Assets	<u>\$ 390,363</u>	<u>8,446</u>	<u>(126)</u>	<u>-</u>	<u>398,683</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See Independent Auditors' Report

CITY OF KINGSPORT, TENNESSEE
ENTERPRISE FUNDS
SCHEDULE OF OPERATING COSTS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

	Water Fund	Sewer Fund	Solid Waste Management Fund	MeadowView Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds
General and Administrative:						
Personnel Services	\$ 538	239	-	-	-	777
Supplies	62	2	-	-	-	64
Contractual Services	88	235	-	-	20	343
Accounting and Finance	112	41	14	11	41	219
Insurance	14	9	-	3	7	33
Subsidies and Contributions	33	13	-	212	-	258
Base Management Fee	-	-	-	90	28	118
Taxes and Permits	-	-	-	74	-	74
Other	197	-	-	1	23	221
Total General and Administrative	1,044	539	14	391	119	2,107
Operations:						
Personnel Services	620	671	-	-	-	1,291
Supplies	334	252	-	-	1	587
Contractual Services	510	426	156	864	123	2,079
Distribution System Maintenance	2,399	-	-	-	-	2,399
Collection System Maintenance	-	1,689	-	-	-	1,689
Reading, Service and Maintenance of Meters	837	-	-	-	-	837
Environmental Services	-	-	-	-	-	-
Landfill Operations and Services	-	-	613	-	-	613
Waste Collection Services	-	-	436	-	-	436
Organic Refuse Services	-	-	1,375	-	-	1,375
Recycling Services	-	-	355	-	-	355
Golf Pro Shop	-	-	-	-	319	319
Golf Grounds	-	-	-	-	264	264
Food and Beverage	-	-	-	-	70	70
Utilities	-	-	-	-	19	19
Total Operations	4,700	3,038	2,935	864	796	12,333
Total Operating Costs	\$ 5,744	3,577	2,949	1,255	915	14,440

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2003	Cash Receipts	Expend- itures	Balance June 30, 2004
SCHOOL FOOD AND NUTRITION SERVICES FUND:						
Pass-Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ (132)	850	839	(121) *
10.553	School Breakfast Program	U.S. Department of Agriculture	-	203	203	-
Pass-Through Tennessee Department of Agriculture:						
10.550	Commodity Supplemental Feeding	U.S. Department of Agriculture	39	193	144	88 ***
Total School Food and Nutrition Services Fund			(93)	1,246	1,186	(33)
PUBLIC LAW 93-380 FUND:						
Pass-Through Tennessee Department of Education:						
84.010	Title I, Project 04-01	U.S. Department of Education	-	1,355	1,438	(83) **
84.010	Title I, Project 03-21	U.S. Department of Education	-	-	16	(16) *
84.010	Title I, Project 03-01	U.S. Department of Education	-	-	58	(58) *
84.048	Title II, 04-01	U.S. Department of Education	-	220	265	(45) *
84.048	Title II, 03-01	U.S. Department of Education	(79)	92	13	-
84.048	Carl Perkins, 2004	U.S. Department of Education	-	80	146	(66) *
84.048	Carl Perkins, 2003	U.S. Department of Education	(99)	172	73	-
84.010	Title V, 2003	U.S. Department of Education	(13)	32	19	-
84.010	Title V, 2003-21	U.S. Department of Education	-	25	25	-
84.010	Title V, 2004	U.S. Department of Education	-	33	33	-
84.010	Title III, 2004	U.S. Department of Education	-	-	-	(1) *
84.010	Title II, 2004	U.S. Department of Education	-	40	40	-
84.027	Pre-School, 04-01	U.S. Department of Education	0	45	45	-
84.027	IDEA Part B, 04-01	U.S. Department of Education	-	900	876	24 **
84.027	IDEA Part B, 03-01	U.S. Department of Education	(166)	465	299	-
84.999	Drug Fund, 2004	U.S. Department of Education	-	42	42	-
Total Public Law 93-380			(357)	3,501	3,389	(245)

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

(Continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2003	Cash Receipts	Expenditures	Balance June 30, 2004
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
84.287A	Community of Learners 2003/Z-03-013004	U.S. Department of Education	(33)	204	238	(67) *
Pass-Through Tennessee Department of Education:						
84.196	Education for Homeless Children & Youth/Z-04-100580	U.S. Department of Education	-	20	34	(14) *
84.196	Education for Homeless Children & Youth/Z-03-012525	U.S. Department of Education	(10)	10	-	-
84.276	Reading Excellence	U.S. Department of Education	(96)	93	191	(194) *
84.184	Community Services/Z-03-015095-00	U.S. Department of Education	-	-	16	(16) *
84.278	Education Edge/Z-97-082540	U.S. Department of Education	-	319	243	76 **
84.184	Safe Schools	U.S. Department of Education	(4)	20	38	(22) *
64.116	Vocational Rehabilitation	U.S. Department of Education	(9)	46	54	(17) *
84.360	Dropout Prevention Program/GC-02-09426	U.S. Department of Education	-	-	-	-
84.349	Early Childhood Program/Z-04-18348	U.S. Department of Education	-	97	130	(33) *
84.349	Early Childhood Program/Z-03-015024	U.S. Department of Education	(26)	28	3	(1) *
84.349	Family Resource/Z-03-012857	U.S. Department of Education	(2)	2	-	-
84.349	Family Resource/Z-04-017602	U.S. Department of Education	(2)	25	29	(4) *
93.561	Job Opportunities and Basic Skills Training- Families First/Z-03-010169	U.S. Department of Health and Human Services	(4)	4	-	-
93.561	Job Opportunities and Basic Skills Training- Families First/Z-04-016525	U.S. Department of Health and Human Services	-	20	22	(2) *
84.215L	Smaller Learning Communities	U.S. Department of Education	-	-	44	(44) *
84.318X	Ed Tech- Title II/Z-04-020851	U.S. Department of Education	-	-	2	(2) *
Total Special School Projects Fund			(184)	888	1,044	(340)
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Direct Programs:						
16.710	School Resource Officer	U.S. Department of Justice	(8)	6	2	(4) *
Pass-through Tennessee Department of Transportation:						
East Kingsport Comprehensive Transportation						
			(1)	-	-	(1) *
Pass-through Kingsport Housing and Redevelopment Authority:						
14.854 Riverview Substation						
			(3)	-	-	(3) *

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

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2003	Cash Receipts	Expend- itures	Balance June 30, 2004
16.710	Universal Hiring Program/ 2003 UMWX-0216	U.S. Department of Justice		36	36	-
	Total Special Revenue General Projects Fund		(12)	42	38	(8)
<u>COMMUNITY DEVELOPMENT FUND:</u>						
Direct Programs:						
14.218	Community Development Block Grants	U.S. Department of Housing and Urban Development	(157)	484	384	(57) *
Entitlement Grants -						
Pass-Through Tennessee Housing Development Authority:						
14.231	HOME Program/DG-9901322	U.S. Department of Housing and Urban Development	(48)	48	-	-
	Total Community Development Fund		(205)	532	384	(57)
<u>URBAN MASS TRANSIT ADMINISTRATION FUND:</u>						
Direct Programs:						
20.507	FTA Capital/Operating/Planning TN-90-X188	U.S. Department of Transportation	-	3	3	-
20.507	FTA Capital/Operating/Planning TN-90-X195	U.S. Department of Transportation	(38)	84	46	-
20.507	FTA Capital/Operating/Planning TN-90-X177	U.S. Department of Transportation	(8)	26	23	(5) *
Pass-Through Tennessee Department of Transportation:						
20.507	Job Access/GC-01-08948	U.S. Department of Transportation	(49)	71	22	-
	Total Urban Mass Transit Administration Fund		(95)	184	94	(5)
<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	-	56	27	29 **
Pass-Through Tennessee Department of Education:						
84.352A	Lee School Renovations/Z-02-010978-00	U.S. Department of Education	(180)	299	119	-

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

(Continued)

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

<u>CFDA Number</u>	<u>Program Name/Grant Number</u>	<u>Grantor Agency</u>	<u>Balance June 30, 2003</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2004</u>
<u>CAPITAL PROJECTS FUND (CONTINUED):</u>						
	Pass-Through Tennessee Department of Transportation:					
20.507	Regional Center for Applied Technology	U.S. Department of Transportation	-	-	5	(5) *
	Total Capital Projects Fund		(180)	355	151	24
<u>GENERAL FUND:</u>						
	Direct Programs:					
16.710	Patrol Division Safety Supplies	U.S. Department of Justice	-	1	1	-
	Pass-Through First Tennessee Department of Health and Human Services:					
93.044	Senior Center - KINGS-2004-HOOT-11 Title III Part B	U.S. Department of Health and Human Services	-	30	30	-
	Pass-Through Tennessee Department of Transportation:					
20.205	FHWA Project No. SPR-PL-1-(37)/Z-00-95857	Federal Highway Administration	(32)	-	-	(32) *
	Total General Fund		(32)	31	31	(32)
<u>SCHOOL FUND:</u>						
	Pass-Through Tennessee Department of Education					
84.002	Adult Basic Education/Z-03-010339	U.S. Department of Education	(35)	-	-	(35) *
	Total School Fund		(35)	-	-	(35)
<u>LOCAL LAW ENFORCEMENT FUND:</u>						
	Direct Programs:					
16.592	Local Law Enforcement Block Grant Program	U.S. Department of Justice	140	59	202	(3) *
	Total Capital Projects Fund		140	59	202	(3)

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

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2004
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2003	Cash Receipts	Expenditures	Balance June 30, 2004
<u>Metropolitan Planning Office Fund</u>						
Pass-Through Tennessee Department of Transportation:						
20.205	FHWA Project No. SPR-PL-1-(176)	Federal Highway Administration	-	114	106	8 **
20.207	FTA Capital/ Operating/ Planning TN-08-X012	U.S. Department of Transportation	-	20	19	1 **
20.207	FTA Capital/ Operating/ Planning GG-04-10966	U.S. Department of Transportation	-	17	21	(4) *
20.207	FTA Capital/ Operating/ Planning VA	U.S. Department of Transportation	-	2	-	2 **
			-	153	146	7
			\$ (1,053)	6,991	6,665	(727)
Total Federal Awards						

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

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.

See Independent Auditors' Report.

CITY OF KINGSPOUR, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2004
 (amounts expressed in thousands)

State Grant Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2003	Cash Receipts	Expenditures	Balance June 30, 2004
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
GG-04-10442	One Room Drop in School 04	Tennessee Department of Education	\$ -	53	67	(14) *
GG-03-09838	One-Room Drop-In School 03	Tennessee Department of Education	(16)	16	-	-
GG-03-09576	Truancy Intervention Program 2003	Tennessee Department of Children's Services	-	-	6	(6) *
GG-04-10384	Truancy Intervention Program 2004	Tennessee Department of Children's Services	-	79	77	2 **
	Total Special School Projects Fund		(16)	148	150	(18)
<u>URBAN MASS TRANSIT ADMINISTRATION FUND:</u>						
GG-01-08879	Project #TN-90-195 Capital	Tennessee Department of Transportation	-	2	2	-
GG-01-08930	Project #TN-90-177 Capital	Tennessee Department of Transportation	-	2	3	(1) *
GG-01-08944	Project #TN-90-X177 Capital/Operating	Tennessee Department of Transportation	(1)	(1)	-	(2) *
GG-01-08948	Job Access	Tennessee Department of Transportation	-	22	22	-
GG-02-09397	Project #TN-90-X188 Capital/Operating	Tennessee Department of Transportation	15	84	99	-
GG-03-09744	Project #82-901-9642-04 Capital	Tennessee Department of Transportation	-	1	1	-
Z-03-013837	Project #TN-90-195 Capital/Operating	Tennessee Department of Transportation	(18)	20	56	(54) *
GG-04-10503	Project #TN-90-207 Operating	Tennessee Department of Transportation	-	48	72	(24) *
GG-04-10504	Project #TN-82-901-9650	Tennessee Department of Transportation	-	3	6	(3) *
GG-04-10504	Project #TN-90-207 Capital	Tennessee Department of Transportation	-	6	9	(3) *
TBA	Project #82-901-9630 Capital/Operating	Tennessee Department of Transportation	(54)	(54)	-	(108) *
	Total Urban Mass Transit Administration Fund		(58)	133	270	(195)
<u>COMMUNITY DEVELOPMENT:</u>						
Z-01-98335	Emergency Shelter Grant	Tennessee Department of Human Services	(2)	40	50	(12) *
	Total Community Development		(2)	40	50	(12)
<u>GENERAL FUND:</u>						
N/A	KINGS-2000-OTH-11	First Tennessee Department District Area Agency on Aging	(27)	-	-	(27)
	Total General Fund		(27)	-	-	(27)
<u>SPECIAL REVENUE GENERAL PROJECT FUND</u>						
Z-02-007400	Recreation Trail Program	Tennessee Department of Environment & Conservation	-	30	30	- *
	Total State Awards		(103)	351	500	(252)

* 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	
2004	\$27,988	\$25,195	\$940	\$66,752	\$581	\$837	\$1,613	\$123,906
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, 1995 through 2001, not available.

Table 2

CITY OF KINGSFORT, TENNESSEE
GOVERNMENT-WIDE EXPENSES BY FUNCTION
FOR THE YEARS NOTED
(amounts expressed in thousands)

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
2004	\$ 6,571	13,918	2,829	12,844	4,294	52,939	2,228	475	7,483	7,631	3,078	2,321	1,255	117,866
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, 1995 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
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
2004	46,524	324	3,561	297	46,457	599	395	98,157

Source: City of Kingsport Finance Department.

Table 4

CITY OF KINGSFORT, 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	
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
2004	6,005	13,085	2,556	7,900	3,022	48,581	10,048	11,060	2,411	104,668

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
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
2004	2003	26,332	25,316	96.1%	25,968	98.6%	1,870

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 to Total Estimated Appraisal Value		Tax Rate	Tax Levy
		Assessed Value	Estimated Appraisal Value	Ratio of Assessed Value to Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Ratio of Assessed Value to Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Ratio of Assessed Value to Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Ratio of Assessed Value to Estimated Appraisal Value			
1995	1994	\$ 475,533	\$ 1,535,075	31.01%	\$ 276,083	\$ 920,278	30.00%	\$ 34,828	\$ 63,324	55.00%	\$ 786,444	\$ 2,518,677	31.22%	2.21	\$ 17,380	
1996	1995	495,064	1,602,090	30.90%	250,194	833,981	30.00%	32,734	59,516	53.00%	777,992	2,495,587	31.17%	2.31	17,974	
1997	1996	514,521	1,667,486	30.89%	250,874	836,248	30.00%	33,761	61,384	55.00%	799,156	2,565,118	31.15%	2.51	19,991	
1998	1997	592,960	1,947,227	30.45%	304,776	1,015,921	30.00%	35,707	64,922	55.00%	933,443	3,028,070	30.83%	2.30	21,469	
1999	1998	611,817	2,009,412	30.45%	308,430	1,028,099	30.00%	37,274	67,770	55.00%	957,521	3,105,281	30.84%	2.39	22,914 (2)	
2000	1999	619,811	2,041,385	30.36%	289,112	1,054,196	27.33%	33,217	60,394	52.70%	942,140	3,155,975	29.85%	2.39	22,523 (3)	
2001	2000	635,061	2,090,213	30.38%	280,452	1,023,039	27.37%	35,563	64,660	55.00%	951,076	3,177,912	29.93%	2.39	22,828 (4)	
2002	2001	729,306	2,390,997	30.50%	307,946	1,026,487	30.00%	39,512	71,840	54.30%	1,076,764	3,489,324	30.86%	2.22	23,911 (5)	
2003	2002	735,782	2,411,608	30.51%	306,104	1,020,347	30.00%	44,088	80,160	55.00%	1,085,974	3,512,115	30.92%	2.29	24,869	
2004	2003	767,724	2,500,849	30.70%	337,980	1,126,600	30.00%	43,993	78,379	56.00%	1,149,697	3,705,828	31.02%	2.29	26,332 (6)	

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:	Public Utilities	30% of true value
		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.

Note 6: The tax rate is \$2.29 per \$100 of assessed value, equalized to \$2.30 for that portion of Kingsport inside Hawkins County. The last reappraisal of property in Hawkins County and Sullivan County was in tax year 2001; therefore, a sales ratio adjustment was made by the State of Tennessee. The tax levy inside Sullivan County is \$25,365 and inside Hawkins County is \$967.

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

Fiscal Year Ended June 30	Kingsport Total Tax Rate per \$100 of Assessed Value	Sullivan County Total Tax Rate per \$100 of Assessed Value	Hawkins County Total Tax Rate per \$100 of Assessed Value
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
2004	2.29	2.35	2.41

Source: City of Kingsport Finance Department

Table 8

CITY OF KINGSPORT, TENNESSEE
PROPERTY TAX RECEIVABLE
June 30, 2004
(amounts expressed in thousands)

YEAR OF TAX ROLL	PROPERTY TAX RECEIVABLE June 30, 2003	TAX LEVY	LATE LISTINGS & DISCOVERIES	RELEASES & ABATEMENTS	COLLECTIONS	PROPERTY TAX RECEIVABLE June 30, 2004
1994	\$ 9	-	-	-	(1)	8
1995	14	-	-	-	-	14
1996	19	-	-	-	(2)	17
1997	23	-	-	-	(4)	19
1998	29	-	-	-	(6)	23
1999	57	-	-	-	(13)	44
2000	188	-	-	-	(74)	114
2001	325	-	18	(4)	(99)	240
2002	765	-	68	(5)	(453)	375
2003	-	26,521	409	(598)	(25,316)	1,016
TOTAL ALL YEARS	\$ 1,429	26,521	495	(607)	(25,968)	1,870
	2003 TOTAL LEVY	\$ 26,521				
		409				
		(598)				
		\$ 26,332				

Source: City of Kingsport Finance Department

**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
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
2004	-	-	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, 2004

(amounts expressed in thousands)

Taxpayer	Type of Business	Taxes Levied	Assessed Valuation For Tax Year 2003	% of Total Assessed Valuation
Eastman Chemical Company	Manufacturer of Chemicals, Fibers, and Plastics	\$ 7,574	\$ 330,747	28.77%
Weyerhaeuser Company	Paper Manufacturer	472	20,590	1.79%
Quebecor World Inc.	Book Manufacturer	360	15,715	1.37%
Kingsport Power Company	Public Utility	336	14,660	1.28%
United Inter-Mountain Telephone	Public Utility	329	14,376	1.25%
Wellmont Health System/ Holston Valley Health Care	Medical/Hospital	271	11,850	1.03%
Fort Henry Mall	Retail Merchants	262	11,449	1.00%
Wal Mart Properties/Real Estate	Retail Merchant	220	9,618	0.84%
Mountain State Health	Hospital	187	8,183	0.71%
AFG Industries, Inc.	Glass Manufacturer	182	7,938	0.69%
		<u>\$ 10,193</u>	<u>\$ 445,126</u>	<u>38.73%</u>

Source: City of Kingsport Finance Department

CITY OF KINGSPORT
TOP TEN WATER CUSTOMERS
June 30, 2004
(amounts expressed in thousands)

Customer Name	Type of Business	Usage	Revenue	Revenue as % of FY04 Water Sales
Eastman Chemical	Manufacturer of Chemicals, Fibers, and Plastics	707,569 \$	894	8.78%
Weyerhaeuser Company	Manufacturer of Paper	75,394	105	1.03%
Royal Ordnance of North America, Inc.	Manufacturer of Munitions	80,894	101	0.99%
Quebecor World, Inc.	Manufacturer of Books	77,666	98	0.96%
Wellmont Health System/ Holston Valley Health Care	Medical/Hospital	68,666	87	0.86%
AFG Industries, Inc.	Manufacturer of Glass Products	38,844	57	0.56%
Pet Dairy, Inc.	Manufacturer of Dairy Products	41,778	53	0.52%
Kingsport Housing Authority	Governmental Housing	35,575	51	0.50%
Chiquola Fabrics LLC	Manufacturer of Fabrics	16,813	23	0.22%
Autumn Chase Apartments LLC	Residential Rental Property	17,667	22	0.22%
Total		1,160,866 \$	1,491	14.64%

CITY OF KINGSPORT
TOP TEN SEWER CUSTOMERS
June 30, 2004
(amounts expressed in thousands)

Customer Name	Type of Business	Usage	Revenue	Revenue as % of FY04 Sewer User Fees
Eastman Chemical	Manufacturer of Chemicals, Fibers, and Plastics	708,718 \$	1,085	10.70%
Wellmont Health System/ Holston Valley Health Care	Medical/Hospital	68,666	356	3.51%
Kingsport Housing Authority	Governmental Housing	35,575	198	1.95%
Quebecor World, Inc.	Manufacturer of Books	30,365	170	1.67%
Pet Dairy, Inc.	Manufacturer of Dairy Products	27,181	149	1.47%
Autumn Chase Apartments LLC	Residential Rental Property	17,667	97	0.95%
Cabana Apartments, Inc.	Residential Rental Property	12,909	71	0.70%
Model City Apartments	Residential Rental Property	12,819	70	0.69%
Weyerhaeuser Company	Manufacturer of Paper	11,814	65	0.64%
Wexford House	Assisted Living Housing	10,510	57	0.57%
Total		936,224 \$	2,318	22.85%

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF LEGAL DEBT MARGIN
 (amounts expressed in thousands)
 June 30, 2004

Assessed Value - Tax Year, 2003	\$1,149,697
Debt Limit - 20% of Assessed Value	229,939
Outstanding Bonded Indebtedness (Excluding general obligation payable from the revenues of the Water and Sewer Funds)	56,978
Legal Debt Margin - June 30, 2004	\$172,961

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 13

CITY OF KINGSFORT, TENNESSEE
RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED
VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
FISCAL YEARS 1995 THROUGH 2004
 (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
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
2004	44	1,149,697	2003	56,978	4.96	1

1. For fiscal years 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 1995 THROUGH 2004
(amounts expressed in thousands)

Table 14

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service	Total General Expenditures	Ratio of Debt Service To General Expenditures (Percent)
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%
2004 (1)	5,145	2,411	7,556	104,668	7.22%

(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, 2004
(amounts expressed in thousands)

TABLE 15

<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	\$56,978 *	100.00%	\$56,978
Total Direct Debt	<u>56,978</u>	<u>100.00%</u>	<u>56,978</u>
Sullivan County	21,180	44.30%	9,383
Hawkins County	<u>13,295</u>	<u>6.70%</u>	<u>891</u>
Total Overlapping Debt	<u>34,475</u>	<u>51.00%</u>	<u>10,274</u>
Total Direct and Overlapping Debt	<u><u>\$91,453</u></u>		<u><u>\$67,252</u></u>

* Includes Conference Center General Obligation Bonded Debt

Source: City of Kingsport Finance Department

Table 16

CITY OF KINGSPORT, TENNESSEE
COMBINED SCHEDULE OF UTILITY FUND REVENUE BOND COVERAGE
FISCAL YEARS 1995 THROUGH 2004
(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		
1995	\$ 15,308	\$ 7,064	\$ 8,244	\$ 4,359	\$ 2,539	\$ 6,898	1
1996	16,801	7,362	9,439	4,427	2,464	6,891	1
1997	17,007	7,724	9,283	4,544	2,245	6,789	1
1998	17,264	8,105	9,159	4,791	2,253	7,044	1
1999	18,204	8,759	9,445	4,801	2,038	6,839	1
2000	18,162	8,832	9,330	5,068	2,407	7,475	1
2001	19,500	9,803	9,697	5,996	2,867	8,863	1
2002	20,506	9,674	10,832	5,754	1,954	7,708	1
2003	21,137	8,770	12,367	6,669	1,588	8,257	1
2004 (2)	22,318	9,321	12,997	6,851	1,775	8,626	2

(1) Total operation expenses exclusive of depreciation

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

Source: City of Kingsport Finance Department

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

Fiscal Year Ending June 30	(1) (4) Population	(1) (3) Per Capita Personal Income	(1) (4) Median Age	(2) School Enrollment	(1) (5) Unemployment Rate
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	26,306	*	6,372	5.60%
2003	44,362	*	*	6,412	5.90%
2004	44,231	*	*	6,382	5.50%

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
LAST TEN FISCAL YEARS**

Fiscal Year	Property Value (1)			Total	Commercial Construction (2)		Residential Construction (2)	
	Commercial	Residential	Other		Permits	Estimated Value	Permits	Estimated Value
1995	\$ 608,724	\$ 912,585	\$ 13,766	\$ 1,535,075	26	\$ 25,783	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	432	26,833
2004	952,759	1,532,867	15,222	2,500,848	26	37,282	444	31,461

(1) Estimated Actual Value from Table 6

(2) Source: City of Kingsport Building Department

CITY OF KINGSPORT, TENNESSEE
MISCELLANEOUS STATISTICAL DATA
June 30, 2004

Date of Incorporation	March 2, 1917
Form of Government	Council-Manager
<u>Number of employees authorized (excluding police, fire and education):</u>	
Employees (All classifications)	451
<u>Area - Square Miles:</u>	45.23 square miles
<u>City of Kingsport Facilities and Services:</u>	
	<u>Miles</u>
Miles of Streets	420
Number of Street lights	9,000
<u>FIRE PROTECTION:</u>	
Number of Stations	6
Number of Employees:	94
Officers Sworn	<u>2</u>
Other Total	96
Operating Statistics for July 1, 2003 thru June 30, 2004:	
Calls for Service	5,820
Inspections	2,812
Fire Loss	\$998,465
<u>POLICE PROTECTION:</u>	
Number of Employees:	
Officers Sworn	100
Other	<u>57</u>
Total	157
Operating Statistics for July 1, 2003 thru June 30, 2004:	
Arrests	3,605
Calls for Service	41,206
Parking Citations	4,990
<u>CULTURE AND RECREATION:</u>	
Community Centers/Civic Facilities	5
Number of Parks	17
Park Acreage	191
Number of Swimming Pools	2
Number of Tennis Courts	8
Other Recreational Facilities:	
Bays Mountain Park - 3461 Acre Nature Center	1
Hunter Wright Baseball Stadium -54 Acres	1
<u>EDUCATION:</u>	
Number of Schools:	
High Schools	1
Middle Schools	2
Elementary Schools	7

CITY OF KINGSPORT, TENNESSEE
MISCELLANEOUS STATISTICAL DATA
June 30, 2004

Number of Instructors	606
Average Daily Attendance	6,008
Average Daily Membership	6,382

SEWER FUND:

Number of service connections	21,440
Miles of sanitary sewers	480
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	17.0 mgd

WATER FUND:

Number of service connections	35,984
Number of active customers	33,080
Miles of water lines	750
Number of fire hydrants	1,917
Daily average consumption in gallons	14.8 mgd
Maximum daily plant treatment reports	28.0 mgd

UTILITY RATES IN FORCE

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
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, 2004

Table 21

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
A. Ray Griffin, Jr.	City Manager	\$ 109,200	\$ 5,000
J. Michael Bilingsley	City Attorney	96,200	-
James H. Demming	City Recorder/Chief Financial Officer	90,400	385,000
Keith E. Smith	City Treasurer	69,000	200,000
Richard Kitzmiller	Director of Schools	99,000	-
Mark E. Addington	Chief of Police	85,100	-
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	-
Hoyt Denton	Alderman	2,400	-
Valerie Joh	Alderman	2,400	-
Gary Mayes	Alderman	2,400	-

Source: City of Kingsport Finance Department

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF KINGSPORT, TN
SCHEDULE OF INSURANCE IN FORCE
June 30, 2004
(amounts expressed in thousands)

Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premiums
<u>Comprehensive General Liability</u> TML Risk Management Pool	TML-21300	7/1/03 - 6/30/04	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000 3,000 replacement 3,000	\$ 108
Midwest Employers Reinsurance Corp.	EWC 005902 (reinsurance agreement)	1/1/04 - 1/1/05	Worker's Compensation	Statutory	67
<u>Government Crime</u> St. Paul / U.S. Fidelity & Guarantee Co.	406CG6920	1/1/04-1/1/05	Employee Blanket Dishonesty (City)	250	1
St. Paul / U.S. Fidelity & Guarantee Co.	406CG2237	7/1/03-7/1/04	Employee Blanket Dishonesty (Schools)	250	1
<u>Unemployment Compensation</u>	Self insured				
<u>Property and Casualty</u> Allianz Insurance Co.	CLP3004091	12/31/03 - 12/31/04	Buildings and Contents	108,938	133
Travelers Insurance Co.	I-660-710X3600-660	2/13/04 - 2/13/05	Justice Center Commercial/ Gen Property	5,928	8
Hartford Insurance Co.	20MSCYQ7488	5/26/04 - 2/26/05	Grand Piano - Allandale		1
<u>Boiler and Machinery</u> The Cincinnati Insurance Co.	BEP2646328	1/1/04 - 1/1/05	Boilers	100	4
<u>Public Officials Bond</u> St. Paul / U.S. Fidelity & Guarantee Co. RLI	400MQ3028 RSB2003698	8/1/03 - 8/1/04 4/30/04 - 4/30/05	Bond - Treasurer (K. Smith) Bond - Treasurer (K. Smith) (State of Tennessee Schools)	200 1,044	1 5
St. Paul / U.S. Fidelity & Guarantee Co.	400NSS672	3/15/04 - 3/15/05	Bond - Recorder (J. Demming)	385	2
St. Paul / U.S. Fidelity & Guarantee Co.	400KF0756	10/1/03 - 10/1/04	Bond - City Manager (R. Griffin)	5	-
St. Paul / U.S. Fidelity & Guarantee Co.	400MQ1787	1/1/04 - 1/1/05	Bond - City Judge (J.R. Boatwright)	1	-
CNA Insurance Company	58368775	4/4/04 - 4/4/05	Blanket Notary Errors and Omissions	25	1

CITY OF KINGSFORT, TN
SCHEDULE OF INSURANCE IN FORCE
June 30, 2004
(amounts expressed in thousands)

Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premiums
<u>Other</u>					
Contractor's Equipment Hartford Insurance Company	20MSG8203	10/4/03 - 10/4/04 10/4/04 - 10/4/05	Contractor's Equipment Damage	1,024	7 9
Stadium General Liability/ Hunter Wright Property - D.B. High School Indiana Insurance Company	CBP9566738	2/5/04 - 2/5/05	General Liability/ Scoreboard/ Public Address system	2,000	2
Baseball Stadium General Liability/ Property - H. Wright Stadium Indiana Insurance Company	CZR428659	3/8/02 - 3/8/04	General Liability/ Scoreboard/ Public Address system	2,000	1
Total Premium					\$ 351

Source: City of Kingsport

THIS PAGE INTENTIONALLY LEFT BLANK



American Institute of Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information (the "financial statements") of the City of Kingsport, Tennessee (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 3, 2004. We did not audit the basic financial statements of the Emergency Communications District, a discretely presented component unit, which represents 16 percent, 16 percent and 100 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units, as of and for the year ended June 30, 2004. 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 solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1 and 04-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated December 3, 2004.

Compliance and Other Matters

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

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

December 3, 2004



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, 2004. 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, 2004.

Internal Control Over Compliance

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

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

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

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

December 3, 2004

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

Section I - Summary of Auditors' Results
(As required by OMB Circular A-133)

1. The auditors' report expresses an unqualified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information (the "financial statements") of the City of Kingsport, Tennessee (the "City"). We did not audit the financial statements of the Emergency Communications District of the City of Kingsport, Tennessee (ECD), which represents 16 percent, 16 percent, and 100 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for ECD, is based on the report of other auditors.
2. Two reportable conditions disclosed during the audit of the financial statements are reported in this Schedule, none of which are considered to be material weaknesses.
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 on all major federal programs.
6. There were no audit findings relative to the major federal award programs for the City.
7. The programs tested as major programs were as follows:

<u>Program</u>	<u>CFDA Number</u>
National School Lunch Program	10.555
Community Development Block Grants	14.218
FTA	20.507
Title I	84.010
IDEA	84.027

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a low risk auditee.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

Section II - Financial Statement Findings

Current Year Findings:

04-1 Reconciliation of Fund Balance / Retained Earnings:

Condition:

The City does not reconcile beginning fund balance / retained earnings to the prior year audit for all funds of the City.

Criteria:

Certain funds of the City continue to be maintained over multiple fiscal years. In order to perform audit procedures on only the single year under audit these funds must be adjusted to remove prior year activity and reconcile fund balance to the prior year audit.

Effect:

A considerable amount of time is spent during the audit to remove prior years' activity from these funds. Also, failure to properly adjust these funds results in the revenues and expenses / expenditures reported throughout the year to disagree with the audited numbers.

Recommendation:

City management should develop a plan of action with specific regard to the best practice to maintain both the cumulative historical data related to these funds and also present only a single year of data for audit purposes. Additionally, reconciliation and review of fund balance / retained earnings accounts should be a part of the normal review procedures and particularly prior to the start of each audit.

Management Comments:

The City utilizes non-closing multi-year funds to account for projects or programs. The City's accounting focus is on budgetary control which is established on a per project or program basis. Additionally, the City is concerned with determining the total cost of these projects or programs for (1) the purpose of capitalization of fixed assets or (2) the evaluation of the overall effectiveness of these programs. Making entries into the City's general ledger to eliminate the balance of all the prior years' activity in order to have the accounts in these multi-year funds reflect only the current year's activity would necessitate reversing those entries in the subsequent year in order to have the City's records reflect the correct project to date totals. This process would unnecessarily complicate the City's record keeping and make it extremely difficult to track transactions through the system. Nevertheless, we recognize the importance of being able to report the operations of the project funds, i.e., multi-year funds, on an annual basis. We will work with the auditors to develop a working paper entry for financial statement purposes that will meet the auditor's needs. We will meet with the auditors to discuss in detail their information requirements in order to determine how the City can adjust the cumulative year-end balances and present this data in a format that balances with prior years audited balances.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

Section II - Financial Statement Findings (continued)

Current Year Findings (continued):

04-2 Trade-in Fixed Asset Acquisitions / Disposals:

Condition:

The City did not properly record certain transactions regarding fixed assets when another vehicle was traded-in as part of the purchase.

Criteria:

The City failed to properly record the correct amount of gain on disposal for vehicles traded-in during fiscal year 2004. All related fixed asset purchases within these same transactions correlated to fixed assets being recorded at lower values.

Effect:

Although the amounts involved were immaterial this represents a lack of detail in the review process conducted as these transactions have been recorded properly in prior years. Should a large number of these types of transactions occur in a fiscal year without proper recording, a material difference could arise.

Recommendation:

City management should review the recording of these types of transactions with responsible staff and ensure proper education has occurred in regard to accounting for fixed assets. Additionally, detailed review of fixed asset transactions should be reviewed regularly to ensure all activity is properly recorded.

Management Comments:

We concur with this recommendation and the Senior Accountant has reviewed the recording of the acquisition, disposition and the recognition of any applicable gain or loss with the accountant assigned responsibility for recording these types of transactions. Additionally, we will examine the current review/approval procedures and initiate or develop enhanced procedures that ensure that fixed asset transactions are reviewed regularly.

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.