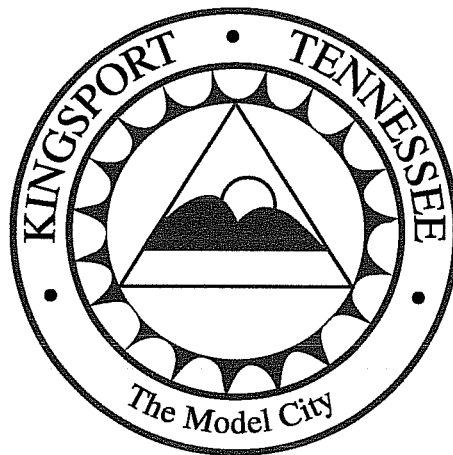


City of Kingsport, Tennessee
Comprehensive Annual Financial Report

June 30, 2005



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

CITY OF KINGSPORT, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2005

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CITY OF KINGSPORT, TENNESSEE

December 8, 2005

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, 2005.

This report consists of management's representations concerning the finances of the City of Kingsport. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Kingsport has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Kingsport's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Kingsport's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Blackburn, Childers & Steagall, PLC, a firm of licensed certified public accountants, have issued an unqualified ("clean") opinion on the City of Kingsport's financial statements for the fiscal year ended June 30, 2005. The independent auditors' report is located at the front of the financial section of this report.

The independent audit of the financial statements of the City of Kingsport was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance report section of this CAFR.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Kingsport's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Kingsport was incorporated in 1917 and operates under a council-manager form of government. It is located in the northeast part of the state. The City currently occupies a land area of approximately 45 square miles and serves a population of 44,070. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Aldermen.

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

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

The 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 45 square miles and has an estimated 2005 population of 44,070. It is located in northeast Tennessee and is part of a Metropolitan Statistical Area (MSA) Kingsport – Bristol, TN – Bristol, VA.

Kingsport's economic strength is based on its role as a regional center for commercial and health care services in eastern Tennessee, as well as its significant industrial base. The City's service area

includes southwest Virginia, southeast Kentucky as well as the Tri-Cities area. It is home to Eastman Chemical Company, the State's largest industrial employer. Eastman and AFG Industries have their world corporate offices in Kingsport. The City has experienced steady overall tax base and population growth resulting from a combination of annexation and commercial development.

The economic base of the City consists of a balance between large manufacturing industries, support industries, service-oriented business and retail. Economic development activities are supported by the City through annual contributions to the Chamber of Commerce's economic development programs by contracts with partners including: Sullivan County Economic Development Partnership, Kingsport Convention and Visitors Bureau, Chamber of Commerce's Kingsport Office of Small Business and Entrepreneurship, Holston Small Business Development Center, Downtown Kingsport Association, funding for the Kingsport Economic Development Board (KEDB) 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 East Stone Commons District. The value of these improvements is estimated at \$22,000,000.

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

During the FY2005 budget process, the BMA adopted a multi-year capital improvement plan (CIP) for general government and school related activities. Funding for this plan is derived from two primary sources; (1) new property tax revenue associated with a recent annexation of property owned by Eastman Chemical (approximately \$1,300,000 annually), and (2) captured savings realized from current and projected declining debt service expenditures. Two significant recreational projects were completed during FY2005, a new baseball/softball complex and a new multi-field soccer facility. The City invested approximately \$5,000,000 in these projects through the CIP.

The City of Kingsport has adopted a comprehensive set of financial policies to guide its operations. Two of the primary policies that have enabled the City to develop these CIPs, include the adoption

of a General Fund Reserve target of \$11,300,000 with a further restriction that the City will not fund any recurring operating expenditures with the use of one-time revenues. Having this reserve balance has given the City the flexibility to address cash flow and emergency needs and to take advantage of significant grant opportunities that have matching requirements. The other important policy relates to the City's quick payoff of its debt. The City's policy on debt requires that maturities will not exceed 15 years. Based on the current debt amortization schedules, it is projected that the City's debt service expenditures will be reduced by approximately \$8,000,000 by the end of FY2010. The annual savings from the debt service reductions have been included in the funding strategies for the CIP. This rapid repayment of debt has been viewed favourably by the bond rating agencies and has helped the City maintain and A-1 rating despite having a heavy concentration of a few large taxpayers.

Awards and Acknowledgements

Awards. The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kingsport for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the fifth consecutive year that the City of Kingsport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.


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

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 1, 2005. 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.

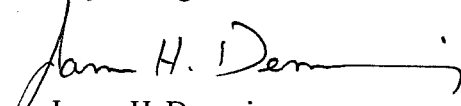
The City has been awarded the Level 3 – Quality Achievement Award from the Tennessee Center for Performance Excellence for the 2005 program year. Kingsport is the only city in the state currently participating in this program and the first city in the state to attain Level 3.

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

Respectfully submitted,



A. Ray Griffin, Jr.
City Manager



James H. Demming
City Recorder/CFO

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kingsport,
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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.



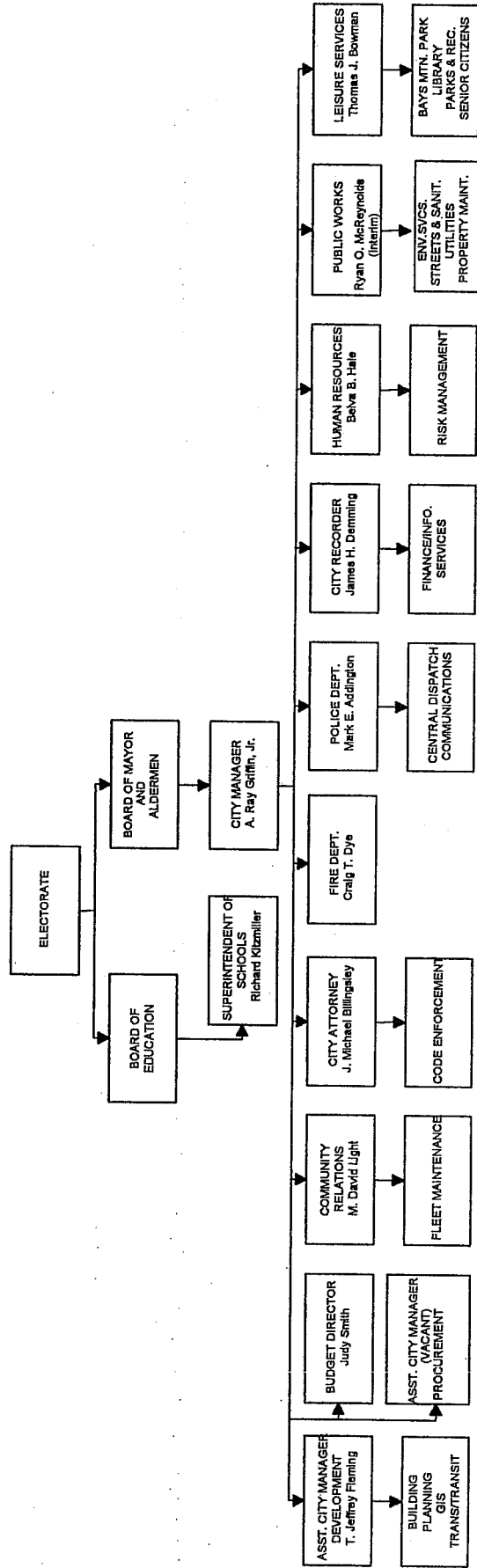
Nancy L. Zelle

President

Jeffrey R. Emer

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, 2005

BOARD OF MAYOR AND ALDERMEN

Jeanette D. Blazier	Mayor
Larry 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
Ryan McReynolds	Interim Public Works Director
T. Jeffrey Fleming	Assistant City Manager for Development
Belva Hale	Human Resources Director
Judy A. Smith	Budget Officer

CITY OF KINGSPORT, TENNESSEE

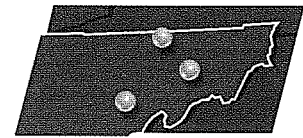
BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2005

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsport, Tennessee (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Emergency Communications District (the "ECD"), which represent 17 percent, 17 percent, and 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 opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and the general purpose school fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005, 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, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC

December 2, 2005

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CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005
(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, 2005. 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 \$411,254 (net assets). Of this amount, \$53,674 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$15,133.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$29,588, a decrease of \$4,354 in comparison with the prior year. Approximately 61% of this total amount, \$18,184, 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 \$12,078 or 23% of total general fund expenditures including transfers out.
- The City's total gross debt decreased by \$7,485 (6.2%) 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, 2005
(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-five (25) individual governmental funds. Twenty-one (21) 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, 2005
(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 96-120 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 \$411,254 at the close of the most recent fiscal year.

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

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

City of Kingsport's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 96,463	\$ 96,481	\$ 23,035	\$ 21,240	\$ 119,498	\$ 117,721
Capital assets	<u>289,476</u>	<u>285,413</u>	<u>173,497</u>	<u>169,435</u>	<u>462,973</u>	<u>454,848</u>
Total assets	<u>385,939</u>	<u>381,894</u>	<u>196,532</u>	<u>190,675</u>	<u>582,471</u>	<u>572,569</u>
Long-term liabilities outstanding	44,142	49,119	69,996	72,425	114,138	121,544
Other liabilities	<u>54,091</u>	<u>51,118</u>	<u>2,988</u>	<u>3,786</u>	<u>57,079</u>	<u>54,904</u>
Total liabilities	<u>98,233</u>	<u>100,237</u>	<u>72,984</u>	<u>76,211</u>	<u>171,217</u>	<u>176,448</u>
Net assets:						
Invested in capital assets, net of related debt	236,125	236,295	119,477	113,859	355,602	350,154
Restricted	1,081	6,694	897	562	1,978	7,256
Unrestricted	<u>50,500</u>	<u>38,668</u>	<u>3,174</u>	<u>43</u>	<u>53,674</u>	<u>38,711</u>
Total net assets	<u>\$287,706</u>	<u>\$281,657</u>	<u>\$123,548</u>	<u>\$114,464</u>	<u>\$411,254</u>	<u>\$396,121</u>

A portion of the City's net assets, \$1,978 or (0.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$53,674 may be used to meet the government's ongoing obligations to citizens and creditors.

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

During the current fiscal year, the government's net assets increased by \$15,133. About 40% of this increase (\$6,049) was from the governmental activities while the remaining 60% of the increase (\$9,084) was from the business-type activities. The net assets from governmental activities increased due to a 5% overall increase in revenue and a 1.5% decrease in expenses as a result of rate increases in the internal service funds. The primary reason for the increase in net assets in the business-type activities is due to the favorable results of the City's water and sewer utility funds. Water rates increased an average of 7.5% and sewer rates increased 5.5% during the current fiscal year as part of a continuing rate stabilization plan that will reduce long-term debt and provide cash for capital improvements and expansion.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

The following is a summary of financed activities for the City during the fiscal year ended June 30, 2005:

City of Kingsport's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,277	\$ 4,023	\$ 26,410	\$ 23,965	\$ 30,687	\$ 27,988
Operating Grants & Contributions	27,005	25,195	-	-	27,005	25,195
Capital Grants & Contributions	2,738	940	-	-	2,738	940
General Revenues:						
Property Taxes	39,122	38,532	-	-	39,122	38,532
Sales Taxes	25,174	24,394	-	-	25,174	24,394
Other Taxes & Intergovernmental	3,743	3,826	-	-	3,743	3,826
Unrestricted Investment Earnings	1,015	598	351	239	1,366	837
Grants and Contributions Not Restricted to Specific Programs	524	581	-	-	524	581
Other	974	1,602	(3)	11	971	1,613
Total Revenues	<u>\$104,572</u>	<u>\$ 99,691</u>	<u>\$ 26,758</u>	<u>\$ 24,215</u>	<u>\$131,330</u>	<u>\$123,906</u>
Expenses:						
General Government	\$ 4,687	\$ 6,571	\$ -	\$ -	\$ 4,687	\$ 6,571
Public Safety	14,767	13,918	-	-	14,767	13,918
Public Works	8,737	10,151	-	-	8,737	10,151
Highway Transportation Planning	2,679	2,693	-	-	2,679	2,693
Economic and Physical Development	3,065	2,829	-	-	3,065	2,829
Culture and Recreation	4,456	4,294	-	-	4,456	4,294
Education	54,274	52,939	-	-	54,274	52,939
Interest on Long-term Debt	2,002	2,228	-	-	2,002	2,228
Other	-	475	-	-	-	475
Water	-	-	7,618	7,483	7,618	7,483
Sewer	-	-	7,545	7,631	7,545	7,631
Solid Waste Management	-	-	3,304	3,078	3,304	3,078
Conference Center	-	-	1,740	2,321	1,740	2,321
Golf Course	-	-	1,323	1,255	1,323	1,255
Total Expenses	<u>94,667</u>	<u>96,098</u>	<u>21,530</u>	<u>21,768</u>	<u>116,197</u>	<u>117,866</u>

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

Increase in net assets before transfers	<u>9,905</u>	<u>3,593</u>	<u>5,228</u>	<u>2,447</u>	<u>15,133</u>	<u>6,040</u>
Transfers	<u>(3,856)</u>	<u>(3,757)</u>	<u>3,856</u>	<u>3,757</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>6,049</u>	<u>(164)</u>	<u>9,084</u>	<u>6,204</u>	<u>15,133</u>	<u>6,040</u>
Net assets, beginning 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>
Net assets, end of period	<u>\$287,706</u>	<u>\$281,657</u>	<u>\$123,548</u>	<u>\$114,464</u>	<u>411,254</u>	<u>\$396,121</u>

Governmental activities

Governmental activities increased the City's net assets by \$6,049. The City experienced increased various revenues such as capital contributions of \$340, earnings on investments of \$417, sales tax revenues of \$780, and property taxes of \$590. An increase in internal service fund charges resulted in reductions in expenses of approximately \$1,254. 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 \$9,084.

- Charges for services for business-type activities increased by \$2,445 (10.2%) 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 \$29,588, a decrease of \$4,354 in comparison with the prior year. Approximately 61% of this total amount, \$18,184, 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 (\$6,498) and for a 3) variety of other restricted purposes (\$1,837).

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005
(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 \$12,078 while total fund balance reached \$15,685. 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 29% of that same amount. During 2005, the fund balance of the City's General Fund decreased by \$985. This reduction resulted from one time appropriations for various major repairs, capital expenditures and additional employee compensation based on longevity. This longevity payment is not included in fiscal year 2006 due to the implementation of a revised employee pay plan.

The general-purpose school fund has a total fund balance of \$3,383, of which most is unreserved. The net increase in fund balance during the current year in the general-purpose school fund was \$227.

The capital project fund has a total fund balance of \$6,304 of which \$5,629 is encumbered at year-end and \$675 is unreserved but designated for approved capital projects. The net decrease in this fund balance of \$3,505 was primarily due to increased construction activity during the year.

The debt service fund has a total fund balance of \$33. This represents a decrease of \$38 as compared to the previous fiscal year. Debt service expenditures (principal and interest) totaled \$9,829 for fiscal year 2005. This was approximately \$3,401 less than the debt service expenditures paid in fiscal year 2004 due to additional costs from refunding several issues in fiscal year 2004.

Nonmajor (other) governmental funds have a fund balance of \$4,183. The net decrease in fund balance during the current year in nonmajor governmental funds was \$53. This net decrease is primarily attributed to the expenditure of \$321 of accumulated available funds from the Eastman Annexation Tax Fund from the previous fiscal year.

Proprietary funds

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

Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$3,462 and \$2,654 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, 2005
(amounts expressed in thousands)

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget represent a \$937 increase in appropriations and include the following:

\$ 604	Funding for FY2004 outstanding purchase orders/encumbrances
125	Funding for employee longevity pay
105	Funding for Rolling Private Drive improvements
40	Funding for bridge maintenance
35	Funding for Bank Barn/Pioneer Museum project
10	Funding for Weed & Seed community projects
<u>18</u>	Other miscellaneous
\$ <u>937</u>	

Of this increase, approximately \$18 was to be funded out of miscellaneous growth related increases in various revenue sources or one-time receipts or grant activity. The remaining \$919 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, 2005, amounts to \$462,973 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

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

- Construction continued and/or began on various utility renovations and expansion projects including several water projects to enhance water pressure, 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 \$21,172.
- 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 \$34,926.

CITY OF KINGSPORT, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 11,110	\$ 10,765	\$ 4,961	\$ 4,961	\$ 16,071	\$ 15,726
Buildings and systems	53,963	54,670	141,431	138,314	195,394	192,984
Improvements other than buildings	5,008	5,315	5,609	5,888	10,617	11,203
Machinery and equipment	11,185	11,606	324	418	11,509	12,024
Software	5	49	-	-	5	49
Infrastructure	173,279	175,434	-	-	173,279	175,434
Construction in progress	<u>34,926</u>	<u>27,574</u>	<u>21,172</u>	<u>19,854</u>	<u>56,098</u>	<u>47,428</u>
Total capital assets	<u>\$289,476</u>	<u>\$285,413</u>	<u>\$173,497</u>	<u>\$169,435</u>	<u>\$462,973</u>	<u>\$454,848</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 \$114,199. 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	
	2005	2004	2005	2004	2005	2004
Notes Payable	\$ 241	\$ 346	\$ 70	\$ 140	\$ 311	\$ 486
General obligation bonds	44,395	49,288	63,270	64,130	107,665	113,418
Loans from other governments	<u> </u>	<u> </u>	<u>6,223</u>	<u>7,780</u>	<u>6,223</u>	<u>7,780</u>
Total long-term debt	<u>\$ 44,636</u>	<u>\$ 49,634</u>	<u>\$ 69,563</u>	<u>\$ 72,050</u>	<u>\$114,199</u>	<u>\$121,684</u>

During the current fiscal year, the City issued \$2,850 in general obligation School Bonds and \$7,900 in Water and Sewer Revenue Tax Bonds.

During the current fiscal year, the City's total debt decreased by \$7,485 (6.2%). 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, 2005
(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 62-86 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the municipal service area is currently 4.8%, which is a decrease of 0.7% from a year ago. This compares to the state's average unemployment rate of 5.7% as of June 30, 2005.
- Inflationary trends in the region are comparable to national indices.
- Housing starts for this fiscal year were 106, compared to the previous year of 107.
- Growth in local sales tax collections is expected to be approximately 3% in FY2006.

Short term interest rates on investments for the City's operating funds increased to approximately 3% in fiscal year 2005 as the federal funding rate was increased by the Federal Reserve Board.

All of these factors were considered in preparing the City's budget for the 2006 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$12,078. The City has appropriated \$281 of this amount for spending in the fiscal year 2006 budget. It is intended that use of available fund balance will minimize the need to raise taxes or charges during the fiscal year 2006.

Water, sewer and solid waste rates were increased for the 2006 budget year. The water and sewer rates were increased by an average of 4.0% 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.

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CITY OF KINGSPORT, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2005

(amounts expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Industrial Development Board	Emergency Communications District
ASSETS:					
Cash in Bank	\$ 645	-	645	375	1,093
Cash with Fiscal Agent	-	37	37	-	-
Equity in Pooled Cash and Investments	27,597	4,576	32,173	-	-
Long-Term Certificates of Deposit	702	-	702	315	-
Investments	2,044	433	2,477	-	-
Receivables, net	29,775	3,205	32,980	13	30
Due from Other Governments	20,598	744	21,342	-	23
Due from Component Unit	11	26	37	-	-
Internal Balances	3,095	(3,095)	-	-	-
Inventories	486	500	986	-	-
Prepays	129	3	132	-	19
Land Held for Sale or Development	-	-	-	5,841	-
Restricted Assets:					
Cash	5,346	15,878	21,224	-	-
Investments	5,753	113	5,866	179	-
Receivables	-	-	-	535	-
Capital Assets:					
Land	11,110	4,961	16,071	-	-
Buildings and System	89,271	207,246	296,517	-	-
Improvements other than Buildings	9,753	8,092	17,845	76	-
Machinery and Equipment	29,782	3,522	33,304	-	484
Software	155	-	155	-	-
Infrastructure	256,630	-	256,630	-	-
Construction in Progress	34,926	21,172	56,098	-	-
Less: Accumulated Depreciation	(142,151)	(71,496)	(213,647)	(52)	(159)
Other Assets, net	282	615	897	-	-
Total Assets	385,939	196,532	582,471	7,282	1,490
LIABILITIES:					
Accounts Payable and Other Current Liabilities	10,114	900	11,014	6	46
Compensated Absences Payable	2,514	448	2,962	-	-
Matured Bonds and Interest Payable	322	48	370	-	-
Accrued Interest Payable	-	699	699	-	-
Due to Primary Government	-	-	-	37	-
Due to Other Governments	213	-	213	-	-
Unearned Revenues	40,304	-	40,304	-	-
Liabilities Payable from Restricted Assets	479	423	902	-	-
Arbitrage Rebate Payable	145	470	615	-	-
Noncurrent Liabilities:					
Due Within One Year	8,324	8,664	16,988	-	-
Due in More Than One Year	35,818	61,332	97,150	-	-
Total Liabilities	98,233	72,984	171,217	43	46
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	236,125	119,477	355,602	24	325
Restricted for:					
Debt Service	-	377	377	-	-
Capital Improvements	923	520	1,443	-	-
Perpetual Care (nonexpendable)	158	-	158	-	-
Unrestricted	50,500	3,174	53,674	7,215	1,119
Total Net Assets	\$ 287,706	123,548	411,254	7,239	1,444

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005
(amounts expressed in thousands)

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues			Primary Government			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	4,687	368	176	1,280	(2,863)	-	(2,863)
Public Safety	14,767	287	351	-	(14,129)	-	(14,129)
Public Works	8,737	-	-	-	(8,737)	-	(8,737)
Highway Transportation Planning	2,679	95	2,034	519	(31)	-	(31)
Economic and Physical Development	3,065	308	551	-	(2,206)	-	(2,206)
Culture and Recreation	4,456	571	191	-	(3,694)	-	(3,694)
Education	54,274	2,648	23,702	939	(26,985)	-	(26,985)
Interest on Long-Term Debt	2,002	-	-	-	(2,002)	-	(2,002)
Total Governmental Activities	94,667	4,277	27,005	2,738	(60,647)	-	(60,647)
Business-Type Activities:							
Water	7,618	11,904	-	-	-	4,286	4,286
Sewer	7,545	12,709	-	-	-	5,164	5,164
Solid Waste Management	3,304	580	-	-	-	(2,724)	(2,724)
MeadowView Conference Resort and Convention Center	1,740	267	-	-	-	(1,473)	(1,473)
Cattails at MeadowView Golf Course	1,323	950	-	-	-	(373)	(373)
Total Business-Type Activities	21,530	26,410	-	-	-	4,880	4,880
Total Primary Government	116,197	30,687	27,005	2,738	(60,647)	4,880	(55,767)
Component Units:							
Industrial Development Board	40	-	-	-	-	-	(40)
Emergency Communications District	370	435	-	-	-	-	65
Total Component Units	410	435	-	-	-	-	(40)
General Revenues:							
Property Taxes					39,122		39,122
Sales Taxes					25,174		25,174
Alcoholic Beverage Taxes					1,313		1,313
Occupational Licenses and Business Taxes					1,219		1,219
Hotel/Motel Taxes					743		743
Income Taxes					468		468
Grants and Contributions Not Restricted to Specific Programs					524		524
Unrestricted Investment Earnings					1,015	351	1,366
Gain (Loss) on Disposal of Capital Assets					30	(8)	22
Miscellaneous					944	5	949
Transfers					(3,856)	3,856	-
Total General Revenues and Transfers					66,696	4,204	70,900
Change in Net Assets					6,049	9,084	15,133
Net Assets - Beginning					281,657	114,464	396,121
Net Assets - Ending					287,706	123,548	411,254

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2005
 (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	\$ 4	-	-	-	641	645
Equity in Pooled Cash and Investments	11,777	6,241	355	2,385	730	21,488
Long-Term Certificates of Deposit	-	-	-	-	352	352
Investments	-	-	-	-	2,044	2,044
Taxes Receivable, net	29,291	-	-	-	-	29,291
Accounts Receivable, net	433	45	-	-	-	478
Due from Other Governments	4,023	14,052	-	108	2,415	20,598
Due from Other Funds	3,861	732	-	-	-	4,593
Due from Component Unit	11	-	-	-	-	11
Inventories	-	18	-	-	164	182
Prepays	10	1	-	-	-	11
Cash - Restricted	-	-	-	4,948	-	4,948
Investments - Restricted	-	-	-	388	-	388
Total Assets	49,410	21,089	355	7,829	6,346	85,029

	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	183	238	-	1,046	552	2,019
Compensated Absences Payable	2,095	340	-	-	-	2,435
Other Liabilities	1,758	5,120	-	-	-	6,878
Due to Other Governments	166	47	-	-	-	213
Due to Other Funds	-	-	-	-	1,498	1,498
Deferred Revenue	29,378	11,961	-	-	113	41,452
Matured Interest Payable	-	-	322	-	-	322
Contracts Payable	-	-	-	479	-	479
Arbitrage Rebate Payable	145	-	-	-	-	145
Total Liabilities	33,725	17,706	322	1,525	2,163	55,441

	Fund Balances:					Total Governmental Funds
	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	
Reserved for:						
Encumbrances	261	368	-	5,629	240	6,498
Catafalcs at Meadowview Golf Course Fund	3,069	-	-	-	-	3,069
Industrial Park	21	-	-	-	-	21
Career Ladder	-	151	-	-	-	151
Inventories	-	18	-	-	164	182
Prepays	10	1	-	-	-	11
Perpetual Care	-	-	-	-	158	158
Projects	-	15	-	-	220	235
Debt Service	246	833	-	-	-	1,079
Unreserved, Reported in:						
General Fund	12,078	-	-	-	-	12,078
Debt Service Fund	-	-	33	-	-	33
Special Revenue Funds	-	1,997	-	-	3,388	5,385
Capital Projects Fund	-	-	-	675	13	688
Total Fund Balances	15,685	3,383	33	6,304	4,183	29,388
Total Liabilities and Fund Balances	\$ 49,410	21,089	355	7,829	6,346	85,029

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, 2005
 (amounts expressed in thousands)

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

Total Fund Balances of Governmental Funds	\$	29,588
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		283,380
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.		1,148
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		252
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.		17,480
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(44,142)
Net Assets of Governmental Activities	\$	<u>287,706</u>

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

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2005

(amounts expressed in thousands)

<u>REVENUES:</u>	General Fund	General Purpose School Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Taxes	\$ 30,010	18,405	-	-	-	48,415
Licenses and Permits	350	-	-	-	-	350
Intergovernmental	18,183	18,723	-	895	12,106	49,907
Charges for Services	877	1,153	-	-	1,639	3,669
Fines and Forfeitures	321	-	-	-	122	443
Investment Earnings	513	-	164	-	54	731
Contributions and Donations	20	-	-	385	174	579
Miscellaneous	131	201	-	-	-	332
Total Revenues	50,405	38,482	164	1,280	14,095	104,426

EXPENDITURES:

Current:

General Government	5,724	-	-	-	174	5,898
Public Safety	13,807	-	-	-	83	13,890
Public Works	4,814	-	-	-	-	4,814
Highway Transportation Planning	-	-	-	-	2,679	2,679
Economic and Physical Development	2,444	-	-	-	504	2,948
Culture and Recreation	3,629	-	-	-	97	3,726
Education	-	44,321	-	-	7,116	51,437
Miscellaneous	516	-	-	-	-	516
Debt Service:	-	-	-	-	-	-
Principal	-	-	7,847	-	-	7,847
Interest	-	-	1,982	-	-	1,982
Bond Issuance Costs	-	-	43	-	-	43
Miscellaneous	-	-	15	-	-	15
Capital Outlay	376	723	-	9,915	919	11,933
Total Expenditures	31,310	45,044	9,887	9,915	11,572	107,728

Excess (Deficiency) of Revenues
Over (Under) Expenditures

19,095	(6,562)	(9,723)	(8,635)	2,523	(3,302)
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OTHER FINANCING SOURCES (USES):

Transfer In	2,086	13,956	9,685	2,280	2,487	30,494
Transfers Out	(22,166)	(7,167)	-	-	(5,063)	(34,396)
Bond Proceeds	-	-	-	2,850	-	2,850
Total Other Financing Sources (Uses)	(20,080)	6,789	9,685	5,130	(2,576)	(1,052)

Net Change in Fund Balances

(985)	227	(38)	(3,505)	(53)	(4,354)
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Fund Balances, July 1, 2004

16,670	3,156	71	9,809	4,236	33,942
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Fund Balances, June 30, 2005

\$ 15,685	3,383	33	6,304	4,183	29,588
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See accompanying notes to the basic financial statements.

CITY OF KINGSPOUR, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005
(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	\$	(4,354)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the current period exceeded depreciation of general fixed assets.</p>		
		4,480
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(168)
<p>Internal service funds are used by management to charge the costs of fleet maintenance and employee insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		1,110
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		4,981
Change in Net Assets of Governmental Activities	\$	6,049

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, 2005

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Taxes:				
General Property Taxes	\$ 26,711	26,711	26,972	261
Gross Receipts Taxes	3,134	3,134	3,038	(96)
Licenses and Permits	266	266	350	84
Intergovernmental:				
Federal	-	2	6	4
State	4,150	4,150	3,983	(167)
County	14,237	14,237	14,020	(217)
Local	171	171	174	3
Charges for Services	863	863	877	14
Fines and Forfeitures	284	284	321	37
Investment Earnings	500	500	513	13
Contributions and Donations	50	52	20	(32)
Miscellaneous	38	40	131	91
Total Revenues	50,404	50,410	50,405	(5)
<u>EXPENDITURES:</u>				
General Government:				
Board of Mayor and Aldermen	117	117	111	6
Judicial	25	25	21	4
City Attorney	370	374	360	14
City Manager	339	343	332	11
Special Programs	1,344	1,432	1,242	190
Public Information Office	100	106	99	7
Personnel	828	871	848	23
Purchasing	211	188	176	12
Finance Administration	1,508	1,488	1,444	44
Information Services	846	865	854	11
Geographic Information	243	249	237	12
Total General Government	5,931	6,058	5,724	334
Public Safety:				
Police Administration	1,292	1,163	1,159	4
Jail Operations	241	224	222	2
Training	262	256	256	-
Investigations	941	1,197	1,196	1
Patrol Division	4,090	4,360	4,358	2
Animal Control	91	93	92	1
Central Dispatch	710	678	674	4
Communications	210	183	181	2
Fire Control and Prevention	5,674	5,738	5,669	69
Total Public Safety	13,511	13,892	13,807	85

(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, 2005

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>EXPENDITURES (CONTINUED):</u>				
Public Works:				
Administration	237	337	335	2
Street Cleaning	375	343	340	3
Street Maintenance	1,399	1,480	1,475	5
Building Maintenance	1,255	1,246	1,236	10
Grounds Maintenance	781	745	736	9
Parks Maintenance	698	713	692	21
Total Public Works	<u>4,745</u>	<u>4,864</u>	<u>4,814</u>	<u>50</u>
Economic and Physical Development:				
Administration	132	175	173	2
Planning	317	327	325	2
Transportation	793	822	787	35
Engineering	663	745	742	3
Code Enforcement	420	419	417	2
Total Economic and Physical Development	<u>2,325</u>	<u>2,488</u>	<u>2,444</u>	<u>44</u>
Culture and Recreation:				
Administration	296	237	218	19
Parks and Recreation Centers	269	236	234	2
Swimming Pools	109	104	98	6
Athletics	509	557	550	7
Cultural Arts	258	222	211	11
Allandale	184	199	186	13
K - Play	183	134	130	4
Senior Citizens Center	355	338	302	36
Bays Mountain Park	863	882	871	11
Library	851	849	829	20
Total Culture and Recreation	<u>3,877</u>	<u>3,758</u>	<u>3,629</u>	<u>129</u>
Miscellaneous	<u>1,023</u>	<u>818</u>	<u>516</u>	<u>302</u>
Capital Outlay	<u>155</u>	<u>393</u>	<u>376</u>	<u>17</u>
Total Expenditures	<u>31,567</u>	<u>32,271</u>	<u>31,310</u>	<u>961</u>
Excess of Revenues Over Expenditures	<u>18,837</u>	<u>18,139</u>	<u>19,095</u>	<u>956</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, 2005

(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	3,409	4,340	2,086	(2,254)
Transfers Out	<u>(22,246)</u>	<u>(22,479)</u>	<u>(22,166)</u>	<u>313</u>
Total Other Financing Sources (Uses)	<u>(18,837)</u>	<u>(18,139)</u>	<u>(20,080)</u>	<u>(1,941)</u>
Net Change in Fund Balances	-	-	(985)	(985)
Fund Balances, July 1, 2004	<u>16,670</u>	<u>16,670</u>	<u>16,670</u>	<u>-</u>
Fund Balances, June 30, 2005	<u><u>\$ 16,670</u></u>	<u><u>16,670</u></u>	<u><u>15,685</u></u>	<u><u>(985)</u></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, 2005
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
General Property Taxes	\$ 11,515	12,395	12,318	(77)
Pick Up Taxes	140	140	76	(64)
Clerk and Masters Tax	140	140	183	43
Business Taxes	120	120	-	(120)
Local Option Sales Tax	5,661	5,726	5,783	57
Other Statutory Local Taxes	12	12	45	33
Intergovernmental:				
Federal	177	190	142	(48)
State	17,830	17,841	17,642	(199)
County	32	980	939	(41)
Charges for Services	1,163	1,163	1,153	(10)
Investment Earnings	-	-	-	-
Miscellaneous	160	247	201	(46)
Total Revenues	36,950	38,954	38,482	(472)
EXPENDITURES:				
Instruction:				
Regular	24,053	25,083	24,516	567
Special Education	3,420	3,404	3,458	(54)
Vocational	1,104	1,108	1,122	(14)
Adult Education	161	168	162	6
Total Instruction	28,738	29,763	29,258	505
Student Support Services:				
Attendance	69	69	62	7
Health Services	392	400	364	36
Other	1,481	1,486	1,438	48
Total Student Support Services	1,942	1,955	1,864	91
Instructional Staff Support Services:				
Regular	2,098	2,154	2,102	52
Special Education	279	280	288	(8)
Vocational	149	149	149	-
Adult Education	141	140	140	-
Total Instructional Staff Support Services	2,667	2,723	2,679	44
General Administrative Support Services:				
Board of Education	680	680	684	(4)
Office of the Superintendent	768	787	771	16
Total General Administrative Support Services	1,448	1,467	1,455	12

(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, 2005
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>EXPENDITURES (CONTINUED):</u>				
School Administrative Support Services	2,264	2,262	2,274	(12)
Business Administrative Support Services	198	201	201	-
Operations and Maintenance Support Services:				
Operations	3,292	3,270	3,108	162
Plant Maintenance	1,604	1,676	1,613	63
Total Operations and Maintenance Support Services	4,896	4,946	4,721	225
Student Transportation Support Services	1,143	1,144	1,213	(69)
Noninstructional Services:				
After School Programs	60	60	54	6
Community Service	602	602	602	-
Total Noninstructional Services	662	662	656	6
Capital Outlay	627	803	723	80
Total Expenditures	44,585	45,926	45,044	882
Deficiency of Revenues Under Expenditures	(7,635)	(6,972)	(6,562)	410
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	14,113	14,495	13,956	(539)
Transfers Out	(6,478)	(7,523)	(7,167)	356
Total Other Financing Sources (Uses)	7,635	6,972	6,789	(183)
Net Change in Fund Balances	-	-	227	227
Fund Balances, July 1, 2004	3,156	3,156	3,156	-
Fund Balances, June 30, 2005	\$ 3,156	3,156	3,383	227

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
Current Assets:								
Cash with Fiscal Agent	\$ 37	-	-	-	-	-	37	-
Equity in Pooled Cash and Investments	2,494	1,745	324	13	-	-	4,576	6,109
Long-Term Certificates of Deposit	-	-	-	-	-	-	-	350
Investments	-	-	-	399	34	433	-	-
Receivables, net	1,686	1,483	9	-	27	3,205	6	-
Due from Other Governments	-	744	-	-	-	744	-	-
Due from Component Unit	11	15	-	-	-	26	-	-
Inventories	419	-	-	-	81	500	-	304
Prepays	3	-	-	-	-	3	-	118
Total Current Assets	4,650	3,987	333	412	142	9,524		6,887
Noncurrent Assets:								
Restricted Assets:								
Cash	2,562	13,231	-	85	-	-	15,878	398
Investments	113	-	-	-	-	113	-	5,365
Total Restricted Assets	2,675	13,231	-	85	-	15,991		5,763
Capital Assets:								
Land	640	516	1,308	1,515	982	4,961	15	-
Buildings and System	66,300	118,097	155	21,536	1,158	207,246	-	-
Improvements other than Buildings	-	-	1,956	165	5,971	8,092	-	-
Machinery and Equipment	1,248	1,007	26	867	374	3,522	18,440	-
Construction in Progress	7,772	13,391	-	9	-	21,172	-	-
Less: Accumulated Depreciation	(25,909)	(37,634)	(908)	(4,939)	(2,106)	(71,496)	-	(12,359)
Total Capital Assets	50,051	95,377	2,537	19,153	6,379	173,497		6,096
Other Assets:								
Deposits	-	-	-	-	-	-	-	30
Unamortized Bond Costs	155	391	-	38	31	615	-	-
Total Other Assets	155	391	-	38	31	615	-	30
Total Noncurrent Assets	52,881	108,999	2,537	19,276	6,410	190,103		11,889
Total Assets	57,531	112,986	2,870	19,688	6,552	199,627		18,776

(Continued)

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

(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		
LIABILITIES:								
Current Liabilities:								
Accounts Payable	167	236	93	78	18	592	157	
Due to Other Funds	-	-	-	-	3,095	3,095	-	
Compensated Absences Payable	230	124	94	-	-	448	79	
Retainages Payable	55	368	-	-	-	423	-	
Arbitrage Rebate Payable	172	298	-	-	-	470	-	
Matured Bonds Payable	35	-	-	-	-	35	-	
Matured Interest Payable	13	-	-	-	-	13	-	
Accrued Interest Payable	180	434	-	85	-	699	-	
General Obligation Bonds - Current	1,855	3,960	-	1,880	436	8,131	-	
State Revolving Loan - Current	109	244	-	-	-	353	-	
Consolidated Utility Acquisition Payable	70	-	-	-	-	70	-	
Other Payables	308	-	-	-	-	308	1,060	
Total Current Liabilities	3,194	5,664	187	2,043	3,549	14,637	1,296	
Noncurrent Liabilities:								
General Obligation Bonds Payable								
(Net of Deferred Refunding Cost, Discounts and Premiums)	13,946	34,436	-	3,907	3,284	55,573	-	
State Revolving Loan Payable	1,565	4,304	-	-	-	5,869	-	
Total Noncurrent Liabilities	15,511	38,740	-	3,907	3,284	61,442	-	
Total Liabilities	18,705	44,404	187	5,950	6,833	76,079	1,296	
NET ASSETS:								
Invested in Capital Assets, Net of Related Debt	35,251	65,664	2,537	13,366	2,659	119,477	6,096	
Restricted for Debt Service	113	264	-	-	-	377	-	
Restricted for Capital Improvements	-	-	-	486	34	520	-	
Unrestricted	3,462	2,654	146	(114)	(2,974)	3,174	11,384	
Total Net Assets	\$ 38,826	68,582	2,683	13,738	(281)	123,548	17,480	

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, 2005
(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	MeadowView Cattails at MeadowView Golf Course Fund	Total Enterprise Funds		
<u>OPERATING REVENUES:</u>								
Charges and Fees	\$ 11,489	11,599	580	250	950	24,868	10,994	
Penalties and Fines	289	181	-	-	-	470	-	
Miscellaneous	126	929	-	17	-	1,072	-	
Total Operating Revenues	11,904	12,709	580	267	950	26,410	10,994	
<u>OPERATING EXPENSES:</u>								
Operating Costs	5,689	3,454	3,176	797	956	14,072	9,023	
Depreciation	1,473	2,728	128	616	272	5,217	1,221	
Total Operating Expenses	7,162	6,182	3,304	1,413	1,228	19,289	10,244	
Operating Income (Loss)	4,742	6,527	(2,724)	(1,146)	(278)	7,121	750	
<u>NONOPERATING REVENUES (EXPENSES):</u>								
Investment Earnings	91	248	4	7	1	351	284	
Interest Expense	(424)	(1,308)	-	(309)	(91)	(2,132)	-	
Gain (Loss) on Disposal of Capital Assets	(9)	1	-	-	-	(8)	30	
Amortization Expense	(32)	(54)	-	(18)	(5)	(109)	-	
Other	8	(3)	-	-	-	5	-	
Total Nonoperating Revenues (Expenses)	(366)	(1,116)	4	(320)	(95)	(1,893)	314	
Income (Loss) Before Transfers	4,376	5,411	(2,720)	(1,466)	(373)	5,228	1,064	
Transfers In	-	40	2,726	2,603	514	5,883	46	
Transfers Out	(1,107)	(920)	-	-	-	(2,027)	-	
Change in Net Assets	3,269	4,531	6	1,137	141	9,084	1,110	
Net Assets, July 1, 2004	35,557	64,051	2,677	12,601	(422)	114,464	16,370	
Net Assets, June 30, 2005	\$ 38,826	68,582	2,683	13,738	(281)	123,548	17,480	

See accompanying notes to the basic financial statements.

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CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds							Governmental Activities - Internal Service Funds
	MeadowView							
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conferece Resort and Convention Center Fund	Catrails at MeadowView Golf Course Fund	Total Enterprise Funds		
\$	11,794	12,187	608	348	958	25,895	10,996	
	(2,399)	(2,123)	(1,599)	(794)	(463)	(7,378)	(7,995)	
	(3,436)	(1,954)	(1,571)	-	(494)	(7,455)	(1,137)	
	5,959	8,110	(2,562)	(446)	1	11,062	1,864	
	(1,107)	(920)	-	-	-	(2,027)	-	
	-	40	2,726	2,603	514	5,883	46	
	(1,107)	(880)	2,726	2,603	514	3,856	46	
	1,625	6,275	-	-	-	7,900	-	
	(2,360)	(6,762)	(102)	(14)	(20)	(9,258)	(810)	
	(2,616)	(5,578)	-	(1,810)	(413)	(10,417)	-	
	(404)	(1,241)	-	(289)	(90)	(2,024)	-	
	-	-	-	-	-	-	35	
	-	-	-	-	-	-	-	
	(3,755)	(7,306)	(102)	(2,113)	(523)	(13,799)	(775)	
	50	-	-	64	25	139	868	
	(91)	(248)	-	(128)	(18)	(485)	(1,361)	
	91	248	5	7	1	352	197	
	50	-	5	(57)	8	6	(296)	
	1,147	(76)	67	(13)	-	1,125	839	
	3,946	15,052	257	111	-	19,366	5,668	
	\$ 5,093	14,976	324	98	-	20,491	6,507	

(Continued)

CASH FLOWS FROM OPERATING ACTIVITIES:

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

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

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

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

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

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from Sales and Maturities of Investments
Purchase of Investments
Interest Received
Net Cash Provided (Used) by Investing Activities
Net Increase (Decrease) in Cash and Cash Equivalents
Cash and Cash Equivalents, July 1, 2004
Cash and Cash Equivalents, June 30, 2005

CITY OF KINGSPORT, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	Business-Type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	MeadowView						
	Water Fund	Sewer Fund	Solid Waste Management Fund	Conference Resort and Convention Center Fund	Cattails at MeadowView Golf Course Fund	Total Enterprise Funds	
\$	4,742	6,527	(2,724)	(1,146)	(278)	7,121	750
	1,473	2,728	128	616	272	5,217	1,221
	(110)	(87)	23	70	10	(94)	(1)
	-	-	-	10	-	10	-
	-	(436)	-	-	-	(436)	-
	(47)	-	-	-	(7)	(54)	(34)
	13	-	-	-	-	13	2
	(177)	(692)	1	4	(6)	(870)	(53)
	-	-	-	-	(2)	(2)	-
	9	(10)	10	-	-	9	-
	11	80	-	-	-	91	-
	45	-	-	-	12	57	(21)
\$	5,959	8,110	(2,562)	(446)	1	11,062	1,864

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

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

Cash with Fiscal Agent	\$	37	-	-	-	-	37	-
Equity in Pooled Cash and Investments		2,494	1,745	324	13	-	4,576	6,109
Restricted Assets - Cash		2,562	13,231	-	85	-	15,878	398
Cash and Cash Equivalents, June 30, 2005	\$	5,093	14,976	324	98	-	20,491	6,507

See accompanying notes to the basic financial statements.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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, 2005
(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 is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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 Dobyys-Bennett High School boys and girls soccer program.

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

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

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

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

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

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

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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 used for the retirement of debt issued to fund construction of the Meadowview Conference Resort and Convention Center and to support the operations of the complex.

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

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

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

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

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

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

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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, recycling, and demolition landfill activities.

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

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

Additionally, the City reports the following fund types:

Internal service funds account for risk management, self-insured health insurance and fleet 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, 2005
(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, 2005
(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, 2005 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, 2005
(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 \$665 and \$1,462, respectively. Of these amounts, \$333 and \$401, 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, 2005
 (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. Compensated absences are recorded for current employees due to City policy allowing for these compensated absences to either be used as paid time off or as a reduction in the number of actual days worked toward years for full retirement. The City records a liability for compensated absences once earned. The recording of this liability is considered to be a fair estimate of the amount the City considers due within one year from the date of these financial statements. This liability for these amounts is reported in governmental, proprietary, and internal service funds. Typically, the liability is liquidated from the general, general purpose school, water, sewer, solid waste, fleet operations & maintenance, insurance reserve, and health insurance 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.

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (amounts expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

8. *Fund equity*

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

9. *Use of estimates*

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

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

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$283,380 difference are as follows:

Governmental funds capital assets	\$ 413,172
Less: accumulated depreciation	<u>(129,792)</u>
Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$ <u>283,380</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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 “other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.” The details of this \$252 difference are as follows:

Deferred bond issuance costs	\$ 344
Less: accumulated amortization	<u>(92)</u>
Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 252</u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$44,142 difference are as follows:

Bonds payable	\$ 43,900
Notes payable	<u>242</u>
Net adjustment to reduce <i>fund balances – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 44,142</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 capital outlays exceeded depreciation of the general fixed assets in the current period.” The details of this \$4,480 difference are as follows:

Capital outlay	\$ 16,241
Depreciation expense	<u>(11,761)</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>\$ 4,480</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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 “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 \$ (168) difference are as follows:

Deferred property taxes as of June 30, 2005	\$ 1,148
Prior years’ property taxes collected during current year	(1316)
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>	\$ (168)

Another element of that reconciliation states that “the net expense of certain activities of internal service funds is reported with governmental activities.” The details of this \$(1,110) difference are as follows:

Investment earnings	\$ 284
Gain on disposals of capital assets	30
Transfers in	46
Operating expenses	(1,470)
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>	\$ (1,110)

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 \$4,981 difference are as follows:

Principal repayments	\$ 7,831
Issuance of general obligation bonds	(2,850)
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>	\$ 4,981

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
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3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary Information

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

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

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

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, debt service, capital projects, community development, special revenue general projects, criminal forfeiture, local law enforcement, federal transit administration, metropolitan planning office, special school projects, and public law 93-380 funds.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

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

B. Excess of expenditures over appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations in the following nonmajor governmental fund:

	<u>Amount</u>
Drug fund	\$ 5

These expenditures over appropriations were funded by greater than anticipated revenues in the case of this fund.

C. Deficit fund equity

The metropolitan planning office fund and Cattails at MeadowView Golf Course fund had deficit fund balances of \$(5) and \$(281), respectively, as of June 30, 2005. 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

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

Custodial Credit Rate Risk

Deposits

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

Investments

The City's investment policy is to ensure the preservation of capital in the overall investment portfolio. The City will emphasize the safety of capital first, maintain sufficient liquidity to meet obligations second, and gain the highest possible yield third. All investments made by the City will be maturing more than two years from the date of issue.

At year end, the City's carrying amount of deposits was \$52,952 and the bank balance was \$55,373. Of the bank balance, \$500 was covered by federal depository insurance with the remaining balance of \$54,873 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments (continued)

Custodial Credit Rate Risk (continued)

The carrying amount of deposits for the IDBK, a discretely presented component unit, was \$690 and the bank balance was \$690. 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, \$316 was covered by the Securities Investor Protection Corporation, and \$274 was collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the IDBK's name.

The carrying amount of deposits for the ECD, also a discretely presented component unit, was \$1,093 and the bank balance was \$1,101. Of the bank balance, \$400 was covered by federal depository insurance or by collateral held by the entity's agent in the ECD's name. Of the remaining balance, \$701 was collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the ECD's name.

At year end, the City's carrying amount for investments was \$10,172 with fair value of \$10,172. Of the fair value balance, \$15 was invested in corporate stock. The remaining balance was invested in State of Tennessee Local Government Investment Pool. 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, 2005.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2005
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of June 30, 2005 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	Capital	Sewer	Solid	Cattails at	Internal	Nonmajor	Total	Component
	School	Projects	Water	Waste	MeadowView	Service	and	Primary	Units
	Purpose			Management	Golf	Funds	Other	Government	Component
	School	Projects	Water	Management	Course	Funds	Funds	Government	Units
Receivables:									
Taxes	\$ 29,811	-	-	-	-	-	-	29,811	-
Accounts	68	-	1,780	49	27	6	-	4,122	43
Intergovernmental	4,023	108	-	-	-	-	2,415	21,342	23
Gross receivables	34,273	108	1,780	49	27	6	2,415	55,275	66
Less: allowances for uncollectibles	(526)	(23)	(94)	(40)	(-)	(-)	(-)	(953)	(-)
Net total receivables	\$ 33,747	14,097	1,686	9	27	6	2,415	54,322	66

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	\$ 62
Uncollectibles related to water sales	5
Uncollectibles related to sewer charges	12
Uncollectibles related to solid waste charges	5
Total uncollectibles of the current fiscal year	\$ 84

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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)	\$ 27,990	27,990
Delinquent property taxes receivable (general fund)	1,148	-
Other taxes receivable (general fund)	240	240
Property taxes receivable (general purpose school fund)	11,957	11,957
Grant drawdowns receivable (general purpose school fund)	4	4
Grant drawdowns prior to meeting all eligibility requirements (school federal projects)	-	96
Receipts for meals not yet served (school nutrition services)	-	<u>17</u>
Total deferred / unearned revenue for governmental funds	<u>\$ 41,339</u>	<u>40,304</u>

Property taxes which are delinquent at year end are earned but not available. The tax year 2005 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, 2005
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2005, 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	\$ 10,765	346	-	(1)	11,110
Construction in Progress	27,574	8,373	(1,021)	-	34,926
Total capital assets, not being depreciated	<u>38,339</u>	<u>8,719</u>	<u>(1,021)</u>	<u>(1)</u>	<u>46,036</u>
Capital assets, being depreciated:					
Buildings	85,958	3,313	-	-	89,271
Improvements other than buildings	9,499	252	-	2	9,753
Equipment	28,547	1,888	(651)	(2)	29,782
Software	155	-	-	-	155
Infrastructure	254,158	2,472	-	-	256,630
Total capital assets, being depreciated	<u>378,317</u>	<u>7,925</u>	<u>(651)</u>	<u>-</u>	<u>385,591</u>
Less accumulated depreciation for:					
Buildings	(31,287)	(4,021)	-	-	(35,308)
Improvements other than buildings	(4,184)	(561)	-	-	(4,745)
Equipment	(16,941)	(2,299)	644	(1)	(18,597)
Software	(106)	(44)	-	-	(150)
Infrastructure	(78,724)	(4,836)	-	209	(83,351)
Total accumulated depreciation	<u>(131,242)</u>	<u>(11,761)</u>	<u>644</u>	<u>208</u>	<u>(142,151)</u>
Total capital assets, being depreciated, net	<u>247,075</u>	<u>(3,836)</u>	<u>(7)</u>	<u>208</u>	<u>243,440</u>
Governmental activities capital assets, net	<u>\$285,414</u>	<u>4,883</u>	<u>(1,028)</u>	<u>207</u>	<u>289,476</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending</u> <u>Balance</u>
Business-type activities:					
Capital assets, not being depreciated:					
<i>Water</i>					
Land	\$ 640	-	-	-	640
Construction in Progress	10,098	1,368	(3,693)	(1)	7,772
<i>Sewer</i>					
Land	516	-	-	-	516
Construction in Progress	9,747	5,414	(1,769)	(1)	13,391
<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>24,815</u>	<u>6,782</u>	<u>(5,462)</u>	<u>(2)</u>	<u>26,133</u>
Capital assets, being depreciated:					
<i>Water</i>					
Buildings and system	61,704	4,682	(85)	(1)	66,300
Equipment and machinery	1,248	-	-	-	1,248
<i>Sewer</i>					
Buildings and system	114,921	3,176	-	-	118,097
Equipment and machinery	1,020	-	(13)	-	1,007
<i>Solid waste management</i>					
Buildings and system	155	-	-	-	155
Improvements other than buildings	1,861	94	-	1	1,956
Equipment and machinery	19	7	-	-	26
<i>Meadowview Conference Resort and Convention Center</i>					
Buildings	21,536	-	-	-	21,536
Improvements other than buildings	165	-	-	-	165
Equipment	852	14	-	1	867
<i>Cattails at Meadowview Golf Course</i>					
Buildings	1,158	-	-	-	1,158
Improvements other than buildings	5,971	-	-	-	5,971
Equipment	<u>354</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>374</u>
Total capital assets, being depreciated	<u>210,964</u>	<u>7,993</u>	<u>(98)</u>	<u>1</u>	<u>218,860</u>

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

C. Capital assets (continued)

Less accumulated depreciation for:

<i>Water</i>					
Buildings and system	(23,480)	(1,439)	54	-	(24,865)
Equipment and machinery	(1,010)	(34)	-	-	(1,044)
<i>Sewer</i>					
Buildings and system	(33,989)	(2,696)	-	-	(36,685)
Equipment and machinery	(929)	(32)	12	-	(949)
<i>Solid waste management</i>					
Buildings and system	(52)	(5)	-	-	(57)
Improvements other than Buildings	(710)	(123)	-	-	(833)
Equipment and machinery	(18)	-	-	-	(18)
<i>Meadowview Conference Resort and Convention Center</i>					
Buildings	(3,466)	(538)	-	-	(4,004)
Improvements other than Buildings	(64)	(19)	-	-	(83)
Equipment	(793)	(59)	-	-	(852)
<i>Cattails at Meadowview Golf Course</i>					
Buildings	(174)	(30)	-	-	(204)
Improvements other than Buildings	(1,335)	(232)	-	-	(1,567)
Equipment	(325)	(10)	-	-	(335)
Total accumulated depreciation	<u>(66,345)</u>	<u>(5,217)</u>	<u>66</u>	<u>-</u>	<u>(71,496)</u>
Total capital assets, being depreciated, net	<u>144,619</u>	<u>2,776</u>	<u>(32)</u>	<u>1</u>	<u>147,364</u>
Governmental activities capital assets, net	<u>\$169,434</u>	<u>9,558</u>	<u>(5,494)</u>	<u>(1)</u>	<u>173,497</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	\$ 258
Economic and physical development	159
Public safety	1,189
Public works	5,319
Culture and recreation	989
Education	<u>3,847</u>
Total depreciation expense – governmental activities	<u>\$ 11,761</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Business-type activities:	
Water	\$ 1,473
Sewer	2,728
Solid waste management	128
MeadowView Conference Resort and Convention Center	616
Cattails at MeadowView Golf Course	<u>272</u>
 Total depreciation expense – business-type activities	 \$ <u>5,217</u>

Construction commitments

The City has active construction projects as of June 30, 2005. 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 \$4,472 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 \$15,187. 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, 2005, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
Capital assets, being depreciated:				
Signs	\$ 56	-	-	56
Improvements other than buildings	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>
Total capital assets, being depreciated	<u>76</u>	<u>-</u>	<u>-</u>	<u>76</u>
Less accumulated depreciation for:				
Signs	(27)	(4)	-	(31)
Improvements other than buildings	<u>(21)</u>	<u>-</u>	<u>-</u>	<u>(21)</u>
Total accumulated depreciation	<u>(48)</u>	<u>(4)</u>	<u>-</u>	<u>(52)</u>
Total capital assets being depreciated, net	<u>28</u>	<u>(4)</u>	<u>-</u>	<u>24</u>
IDBK capital assets, net	\$ <u>28</u>	<u>(4)</u>	<u>-</u>	<u>24</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated -				
Equipment	\$ 405	79	-	484
Total capital assets, being depreciated	<u>405</u>	<u>79</u>	-	<u>484</u>
Less accumulated depreciation for -				
Equipment	(99)	(60)	-	(159)
Total accumulated depreciation	<u>(99)</u>	<u>(60)</u>	-	<u>(159)</u>
Total capital assets being depreciated, net	<u>306</u>	<u>19</u>	-	<u>325</u>
ECD capital assets, net	\$ <u>306</u>	<u>19</u>	-	<u>325</u>

D. Interfund receivables, payables, and transfers

Interfund receivables and payables

The composition of interfund balances as of June 30, 2005, 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)	\$ 3,095
	metropolitan planning office (nonmajor)	82
	community development (nonmajor)	36
	regional sales tax revenue (nonmajor)	648
general purpose school (major)	public law 93-380 (nonmajor)	433
	special school project (nonmajor)	<u>299</u>
Total		\$ <u>4,593</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
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(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

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

Interfund receivables and payables (continued)

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

Due to/from primary government and component units:

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

Interfund transfers

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

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

E. Long-term debt

In prior years, the City defeased certain general obligations and other bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2005, the following bonds outstanding are considered to be defeased:

<u>Date of Refunding</u>		<u>Amount</u>	<u>Issues Refunded</u>
08/28/02	General Obligation	\$ 7,010	1997
03/15/04	General Obligation	5,915	1999, 2000, 2001
03/01/04 & 03/15/04	Water & Sewer System Revenue	<u>16,855</u>	1997, 1999, 2000, 2001
	Total	<u>\$ 29,780</u>	

Governmental Activities:

Notes Payable

The City issued a Note Payable with the State of Tennessee as a Loan for Qualified Zone Academy Projects in November 1999 for \$414 with a maturity date of November 11, 2011. Annual principal payments are \$34 and the interest is variable. As of June 30, 2005, \$241 is outstanding. The City also issued a loan for Qualified Zone Academy Projects in November 2004 for \$3,525 with a maturity date of November 2020. Annual principal payments are \$220 and the interest rate is variable. As of June 30, 2005, none of the 2004 issue had been drawn.

Bonds Payable

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

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

<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, 2005</u>
1997 Public Improvement	01/01, 07/01	02/01/97	13,450	4.150%-5.200%	\$ 2,335
1998 General Obligation Refunding	03/01, 09/01	11/01/98	14,700	4.000%-5.000%	10,200

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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, 2005</u>
1999 General Obligation Refunding and Improvement Bonds	03/01, 09/01	04/01/99	5,975	4.000%-4.500%	1,680
1999 General Obligation Bonds	03/01, 09/01	10/01/99	2,035	4.600%-5.500%	375
2000 General Obligation Bonds	03/01, 09/01	11/21/00	1,630	4.450%-5.100%	315
2001 General Obligation Bonds	04/01, 10/01	11/06/01	2,620	2.300%-4.650%	875
2002A General Obligation Refunding Bonds	01/01, 07/01	08/28/02	12,500	4.000%-4.500%	12,500
2003 General Obligation Bonds	04/01, 10/01	12/01/03	7,900	2.000%-4.200%	7,440
2004 General Obligation Refunding Bonds	03/01, 09/01	03/15/04	5,825	2.200%-5.000%	5,825
2004 General Obligation School Bond	05/01, 11/01	12/06/04	2,850	3.000% - 4.000%	<u>2,850</u>
Total General Obligation Bonds (before deferred debt refunding costs and net premiums of \$ 494)					\$ <u>44,395</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>
2006	\$ 1,140	117	1,257
2007	<u>1,195</u>	<u>60</u>	<u>1,255</u>
	<u>\$ 2,335</u>	<u>177</u>	<u>2,512</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 10,200</u>	<u>549</u>	<u>10,749</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 395	70	465
2007	410	54	464
2008	430	37	467
2009	<u>445</u>	<u>19</u>	<u>464</u>
	<u>\$ 1,680</u>	<u>180</u>	<u>1,860</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 120	18	138
2007	125	12	137
2008	<u>130</u>	<u>6</u>	<u>136</u>
	<u>\$ 375</u>	<u>36</u>	<u>411</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 100	15	115
2007	105	10	115
2008	<u>110</u>	<u>5</u>	<u>115</u>
	\$ <u>315</u>	<u>30</u>	<u>345</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>875</u>	<u>107</u>	<u>982</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>1,731</u>	<u>14,231</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>7,440</u>	<u>2,070</u>	<u>9,510</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>1,944</u>	<u>7,769</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

General Obligation School Bonds, Series 2004, issued December 6, 2004, debt service requirements to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 170	102	272
2007	170	96	266
2008	175	91	266
2009	180	85	265
2010	185	79	264
2011	200	73	273
2012	200	67	267
2013	200	60	260
2014	200	53	253
2015	220	46	266
2016	225	38	263
2017	225	29	254
2018	250	20	270
2019	<u>250</u>	<u>10</u>	<u>260</u>
	<u>\$ 2,850</u>	<u>849</u>	<u>3,699</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>
2006	\$ 8,290	1,752	10,042
2007	7,990	1,443	9,433
2008	7,685	1,116	8,801
2009	7,050	838	7,888
2010	1,625	539	2,164
Next Five Years	8,744	1,711	10,455
Next Five Years	<u>3,011</u>	<u>274</u>	<u>3,285</u>
	<u>\$ 44,395</u>	<u>7,673</u>	<u>52,068</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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, 2005</u>
<u>Water Fund:</u>				
Note Payable – Colonial Heights				
Customers	09/23/85	3,000	-	\$ 70
State Revolving Loan – DWF#98-009	03/25/98	2,000	3.675%	1,674
<u>Sewer Fund:</u>				
State Revolving Loan – SRF#98-119	02/28/99	2,419	3.550%	2,083
State Revolving Loan – SRF#99-123	06/28/99	2,781	3.550%	<u>2,465</u>
Total				<u>\$ 6,292</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:

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

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
 (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>
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>\$ 1,674</u>	<u>411</u>	<u>2,085</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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.

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 117	72	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>\$ 2,083</u>	<u>462</u>	<u>2,545</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 127	89	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>444</u>	<u>4</u>	<u>448</u>
	<u>\$ 2,465</u>	<u>574</u>	<u>3,039</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Notes Payable (continued)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 423	221	644
2007	385	189	574
2008	401	194	595
2009	414	160	574
2010	430	146	576
Next Five Years	2,390	482	2,872
Next Five Years	<u>1,849</u>	<u>75</u>	<u>1,924</u>
	<u>\$ 6,292</u>	<u>1,467</u>	<u>7,759</u>

Bonds Payable

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

	Interest Payable Dates	Issue Date	Amount Authorized and Issued	Interest Rates	Outstanding June 30, 2005
<u>MeadowView Conference</u>					
<u>Resort and Convention</u>					
<u>Center Fund -</u>					
2002 General Obligation Refunding Bond	04/1, 10/1	04/25/02	9,585	3.500%-5.000%	\$ <u>5,880</u>
Total MeadowView Conference Resort and Convention Center Fund (before deferred debt refunding costs \$165 and premiums of (\$ 72)					\$ <u>5,880</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable

	<u>Interest Payable Dates</u>	<u>Issue Date</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 2005</u>
<u>Cattails at MeadowView Golf Course Fund:</u>					
1995 Golf Course-TMBF	Monthly	05/22/95	4,750	Variable	\$ 2,475
1998 Golf Course-TMBF	Monthly	1998	1,450	Variable	<u>1,245</u>
Total Cattails at MeadowView Golf Course Fund					<u>\$ 3,720</u>
<u>Water Fund:</u>					
1978 Waterworks	01/01, 07/01	04/06/78	450	5.000%	\$ 225
1997 Water System Improvement	01/01, 07/01	02/01/97	1,710	4.000%-5.200%	250
1998 Water Refunding	03/01, 09/01	11/01/98	2,145	4.000%-4.125%	1,035
1999 General Obligation Refunding and Improvement for Water	03/01, 09/01	04/01/99	2,820	4.000%-4.650%	790
1999 Water System Improvement	03/01, 09/01	10/01/99	6,120	4.600%-5.500%	1,130
2001 Water System Improvement	04/01, 10/01	11/06/01	2,140	2.300%-4.650%	705
2002 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/12/02	2,725	3.000%-4.350%	2,410
2003 Water and Sewer Revenue and Tax Bonds	04/01, 10/01	12/01/03	1,315	2.000%-4.200%	1,235
2004 Water and Sewer Revenue and Tax Refunding Bonds	03/01, 09/01	03/01/04	4,127	2.000%-5.000%	4,127

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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, 2005</u>
2004 General Obligation Refunding Bonds	03/01, 09/01	03/15/04	2,200	2.200%-5.000%	2,200
2004 Water and Sewer Revenue and Tax Bonds	05/01, 11/01	12/06/04	1,625	2.750%-4.125%	<u>1,625</u>
Total Water Fund (before deferred debt refunding costs of \$602 and net premiums and discounts of (\$671))					\$ <u>15,732</u>
<u>Sewer Fund:</u>					
1997 Sewer System Improvement	01/01, 07/01	02/01/97	3,815	4.000%-5.200%	555
1998 Sewer Refunding	03/01, 09/01	11/01/98	4,880	4.000%-5.000%	3,175
1999 Sewer Refunding	03/01, 09/01	04/01/99	3,155	4.000%-4.650%	885
1999 General Obligation System Improvement for Water	03/01, 09/01	10/01/99	10,245	4.600%-5.500%	1,905
2000 Sewer System Improvement	03/01, 09/01	11/21/00	635	4.450%-5.100%	125
2001 Sewer System Improvement	04/01, 10/01	11/06/01	2,790	2.300%-4.650%	930
2002 Water and Sewer Revenue and Tax Bonds	06/01, 12/01	12/12/02	5,275	3.000%-4.350%	4,660
2003 Water and Sewer Revenue and Tax Bonds	04/01, 10/01	12/01/03	4,585	2.000%-4.200%	4,315

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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, 2005</u>
2004 Water and Sewer Revenue and Tax Refunding Bonds	03/01, 09/01	03/01/04	12,473	2.000%-5.000%	12,103
2004 General Obligation Refunding Bonds	03/01, 09/01	03/15/04	3,010	2.200%-5.000%	3,010
2004 Water and Sewer Revenue and Tax Bonds	12/01, 06/01, 12/06/04		6,275	2.750%-4.125%	<u>6,275</u>
Total Sewer Fund (before deferred debt refunding costs of \$ 1,052 and net premiums and discounts of (\$1,510))					\$ <u>37,938</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>5,880</u>	<u>410</u>	<u>6,290</u>

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

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

E. Long-term debt (continued)

Bonds Payable (continued)

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>TMBF Series</u>		<u>Total</u>
	<u>1998</u>	<u>1995</u>	
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>1,245</u>	<u>2,475</u>	<u>3,720</u>

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

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>225</u>	<u>69</u>	<u>294</u>

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

E. Long-term debt (continued)

Bonds Payable (continued)

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

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 120	13	133
2007	<u>130</u>	<u>6</u>	<u>136</u>
	\$ <u>250</u>	<u>19</u>	<u>269</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 705	28	733
2007	<u>330</u>	<u>7</u>	<u>337</u>
	\$ <u>1,035</u>	<u>35</u>	<u>1,070</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 185	33	218
2007	195	25	220
2008	200	17	217
2009	<u>210</u>	<u>9</u>	<u>219</u>
	\$ <u>790</u>	<u>84</u>	<u>874</u>

CITY OF KINGSPORT, TENNESSEE
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 (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>
2006	\$ 360	54	414
2007	375	38	413
2008	<u>395</u>	<u>19</u>	<u>414</u>
	<u>\$ 1,130</u>	<u>111</u>	<u>1,241</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>
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>\$ 705</u>	<u>86</u>	<u>791</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 2,410</u>	<u>666</u>	<u>3,076</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 1,235</u>	<u>342</u>	<u>1,577</u>

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

E. Long-term debt (continued)

Bonds Payable (continued)

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>1,395</u>	<u>5,522</u>

General Obligation 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>
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>765</u>	<u>2,965</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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 2004, issued December 6, 2004, debt service requirements to maturity are as follows for the Water portion:

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 95	57	152
2007	100	54	154
2008	100	51	151
2009	100	48	148
2010	105	45	150
2011	110	42	152
2012	110	39	149
2013	115	35	150
2014	120	31	151
2015	125	27	152
2016	130	22	152
2017	135	17	152
2018	135	11	146
2019	<u>145</u>	<u>6</u>	<u>151</u>
	<u>\$ 1,625</u>	<u>485</u>	<u>2,110</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 270	28	298
2007	<u>285</u>	<u>14</u>	<u>299</u>
	<u>\$ 555</u>	<u>42</u>	<u>597</u>

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

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 1,325	109	1,434
2007	1,385	51	1,436
2008	<u>465</u>	<u>10</u>	<u>475</u>
	<u>\$ 3,175</u>	<u>170</u>	<u>3,345</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Sewer Refunding Bonds, Series 1999, issued April 1, 1999, debt service requirements to maturity are as follows:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 210	36	246
2007	215	28	243
2008	225	19	244
2009	<u>235</u>	<u>10</u>	<u>245</u>
	\$ <u>885</u>	<u>93</u>	<u>978</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>
2006	\$ 605	92	697
2007	635	62	697
2008	<u>665</u>	<u>33</u>	<u>698</u>
	\$ <u>1,905</u>	<u>187</u>	<u>2,092</u>

The Sewer System Improvement 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>
2006	\$ 40	5	45
2007	40	4	44
2008	<u>45</u>	<u>2</u>	<u>47</u>
	\$ <u>125</u>	<u>11</u>	<u>136</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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:

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 930</u>	<u>114</u>	<u>1,044</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 4,660</u>	<u>1,295</u>	<u>5,955</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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 <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>4,315</u>	<u>1,198</u>	<u>5,513</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 <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>12,103</u>	<u>3,829</u>	<u>15,932</u>

CITY OF KINGSPORT, TENNESSEE
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2005
 (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>
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>1,047</u>	<u>4,057</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 375	220	595
2007	380	210	590
2008	400	198	598
2009	400	186	586
2010	395	174	569
2011	415	162	577
2012	430	149	579
2013	445	134	579
2014	460	119	579
2015	475	102	577
2016	495	84	579
2017	515	65	580
2018	535	44	579
2019	<u>555</u>	<u>23</u>	<u>578</u>
	<u>\$ 6,275</u>	<u>1,870</u>	<u>8,145</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Bonds Payable (continued)

Total annual debt service requirements for enterprise fund bonds, excluding the estimated principal requirements on the TML bonds totaling \$3,720 are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 7,695	2,415	10,110
2007	7,605	2,120	9,725
2008	6,585	1,836	8,421
2009	4,200	1,635	5,835
2010	4,380	1,458	5,838
Next Five Years	22,540	4,335	26,875
Next Five Years	<u>6,545</u>	<u>524</u>	<u>7,069</u>
	<u>\$ 59,550</u>	<u>14,323</u>	<u>73,873</u>

The total on the statement of net assets has been reduced by deferred debt refunding costs of \$1,819 and the net premiums and discounts of (\$2,253).

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, 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	\$ 49,288	2,850	7,743	44,395	8,290
Capital Outlay Note	70	-	70	-	-
Notes Payable-State	<u>276</u>	<u>-</u>	<u>35</u>	<u>241</u>	<u>34</u>
Totals	49,634	2,850	7,848	44,636	8,324
Less: deferred amounts for refunding	(1,057)	-	(58)	(999)	-
Plus: premiums and discounts	<u>542</u>	<u>-</u>	<u>37</u>	<u>505</u>	<u>-</u>
	<u>\$ 49,119</u>	<u>2,850</u>	<u>7,827</u>	<u>44,142</u>	<u>8,324</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Long-term debt (continued)

Business-type activities:

General Obligation Debt	\$ 34,085	-	7,565	26,520	6,451
Water and Sewer Tax					
Revenue Bonds	30,045	7,900	1,195	36,750	1,680
Less: deferred amounts for refunding	(2,128)	-	(309)	(1,819)	-
Plus: Premiums and discounts	<u>2,503</u>	<u>-</u>	<u>250</u>	<u>2,253</u>	<u>-</u>
Total Bonds Payable	64,505	7,900	8,701	63,704	8,131
State Revolving Notes	7,780	-	1,557	6,223	353
Consolidated Utility Payable	<u>140</u>	<u>-</u>	<u>70</u>	<u>70</u>	<u>70</u>
Totals	<u>\$ 72,425</u>	<u>7,900</u>	<u>10,328</u>	<u>69,997</u>	<u>8,554</u>

F. Closure and postclosure costs

The City operates a demolition landfill with a remaining life of approximately 31 years. Upon closure, federal and state laws require the landfill to be monitored for two years at the City's expense. Based upon information received from the State of Tennessee, the expected postclosure costs are immaterial to the solid waste management fund and therefore have not been recorded. The demolition landfill does not fall under the same monitoring guidelines as a sanitation landfill.

5. OTHER INFORMATION:

A. Risk management

The City carries insurance coverage through the Tennessee Municipal League (TML) Risk Management Pool for general liability, automobile, and errors and omissions coverage. Although TML is a risk management pool and the policy contains an assessment clause, no assessment has been levied during the time the City has participated in this program. The City's workers' compensation coverage is self-funded and administered by Tri-State Claims Service. The City carries a specific excess workers' compensation reinsurance agreement through Midwest Employers Reinsurance Corporation. An actuarial study was conducted by the City and completed November 2005 for workers' compensation. A portion of fund balance was reserved based on the high figure of the discounted calculation at 3% for investment income basis. At June 30, 2005, this figure was estimated to be \$2,070. 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, Travelers, Hartford, and Continental Casualty. There has been no significant reduction in insurance coverage from the prior year, and the City has not had any settlements in the last three years, which were not covered by insurance.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

A. Risk management (Continued)

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

Premium equivalents for participation in the self-funded program are established annually based on quotations from the third-party administrator for projected expenses. The City carries its own stop-loss insurance.

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

	<u>Year Ended</u> <u>June 30, 2005</u>	<u>Year Ended</u> <u>June 30, 2004</u>
Claims Accrued, Beginning	\$ 181	105
Claims Incurred	592	712
Claims Paid	<u>(613)</u>	<u>(636)</u>
Claims Accrued, Ending	<u>\$ 160</u>	<u>181</u>

The City's estimate of claims accrued at year end is based on actual claims paid during July, August, and September 2005.

B. Subsequent Events

In December 2005, the City sold \$5,100 of Water and Sewer System Revenue and Tax Bonds, Series 2005, 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, prepaying certain outstanding indebtedness, and to pay costs incident to the issuance and sale of the Water and Sewer Bonds.

The City also sold \$3,600 of General Obligation Bonds, Series 2005, for the purpose of financing certain public works projects, the acquisition of certain other property real and personal, and to pay legal, fiscal, administrative, and engineering costs, and to pay costs incident to the issuance and sale of the General Obligation Bonds.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

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

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

The City received a "Consent Order" from the State of Tennessee dated October 25, 2005, concerning the waste water treatment plant of the City's sewer system. The City must be in full compliance by 2011. The estimated total cost of the project is expected to be determined during FY2006. Currently, the City has a strict schedule for the project to be completed in phases. Each phase has a deadline that the City must meet to avoid an \$18 fine. Thus far, all deadlines have been met. The City plans to fund the project with a State Revolving Loan, which is recorded in the sewer fund, and a General Obligation Bond.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

C. Contingencies (continued)

The Sullivan County Economic Development Partnership (SCEDP) issued \$1,995 Revenue Bond, Series 2005, of which, the City is contingently liable for \$618. The bond proceeds were issued to finance the acquisition of considerable acreage near Tri-Cities Regional Airport for the purpose of establishing a new industrial park. The bonds are secured by the assignment of the revenue from the industrial park. The related liability ("Sullivan County Notes") is on the books of Sullivan County. The SCEDP is responsible for making the bond payments. However, in the event that they default, the City would have to pay off the bonds if they wanted to retain the project. As of June 30, 2005, \$1,995 was outstanding on these bonds.

Discretely presented component unit

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

The IDBK issued \$6,140 Multifamily Housing Revenue Bonds, Series 2003A, and \$100 Multifamily Housing Revenue Bonds, Series 2003B. The bond proceeds were disbursed directly to a non-profit organization (NPO) which will use the funds to finance the acquisition and rehabilitation of a 257-unit multifamily housing project located in Kingsport, Tennessee. The bonds are secured by assignment of the revenue from the project, in accordance with an agreement between the IDBK and the NPO, which was created for the specific purpose of acquiring and operating the aforementioned project. The said project and related liability are on the NPO's books. The NPO is responsible for making the bond payments. However, in the event that the NPO defaults, the IDBK would have to pay off the bonds if they wanted to retain the project. As of June 30, 2005, \$6,120 was outstanding on these bonds.

D. Post-employment health care benefits

The BMA has provided for post-employment health care benefits. All employees (including schools) who retire before the age of 65 receive the same health care benefits at the same cost as current active employees. Currently, the City pays 70% of the lowest premium and the retiree is responsible for the remaining 30%. For employees that retire after attaining the age of 65, the City and Schools purchase a Medicare supplement at no cost to the retiree. All terminated employees, other than retirees, are eligible to continue coverage at their cost under COBRA regulations, which is administered through John Deere as part of the City's change to self-insurance at January 1, 2004. As of June 30, 2005, there were approximately 68 retirees. For the year ended June 30, 2005, approximately \$663 was paid for post-retirement benefits by the City. The City funds the plan on a pay-as-you-go basis. The School retirees are covered under the State of Tennessee Local Education Health Insurance Plan with a portion of the premium reimbursed by the State.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

E. Pension plan

Plan description

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

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

Funding policy

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

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2005 was 13.46% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
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5. OTHER INFORMATION (CONTINUED):

E. Pension plan (continued)

Annual pension cost

For the year ending June 30, 2005, the City's annual pension cost of \$4,072 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2003 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.50% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.00 % annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003 was 20 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, 2005	\$4,072	100.00%	-
June 30, 2004	3,336	100.00%	-
June 30, 2003	3,247	100.00%	-

Required supplementary information

Schedule of Funding Progress for Kingsport

	(a)	(b)	(b) – (a)	(a/b)	(c)	((b-a)/c)
<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a %</u> <u>of Covered</u> <u>Payroll</u>
July 01, 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%

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
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5. OTHER INFORMATION (CONTINUED):

E. Pension plan (continued)

Plan description

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

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

Funding policy

Most teachers are required by state statute to contribute 5.00% of salary to the plan. The employer contribution rate for City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2005 was 5.50% of annual covered payroll. The employer contribution requirement for City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2005, 2004, and 2003 were \$1,412, \$833, \$814, respectively, equal to the required contributions for each year.

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

5. OTHER INFORMATION (CONTINUED):

F. Joint Ventures

Tri-Cities Airport

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

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

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

Audited information as of June 30, 2005 is presented below:

	<u>Tri-Cities Airport Commission</u>
Operating Revenues	\$ 5,740
Operating Expenses	(5,334)
Depreciation	(2,282)
Amortization	(13)
Other Income	483
Capital Contributions	<u>2,672</u>
Change in Net Assets	1,266
Net Assets, July 1	<u>38,112</u>
Net Assets, June 30	\$ <u>39,378</u>
Total Assets	\$ 51,506
Total Liabilities	<u>(12,128)</u>
Total Net Assets	\$ <u>39,378</u>

CITY OF KINGSPORT, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005
(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>179</u>
Total Investment	\$ <u>714</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, 2004 and 2003, the taxes assessed on the above mentioned taxpayer accounted for approximately 28% and 29%, respectively, of total property taxes assessed.

CITY OF KINGSPORT, TENNESSEE
DEBT SERVICE FUND

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

For the Year Ended June 30, 2005

(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	\$ -	-	164	164
Total Revenues	-	-	164	164
<u>EXPENDITURES:</u>				
Principal	7,847	7,847	7,847	-
Interest	2,044	2,044	1,982	62
Bond Issuance Costs	-	55	43	12
Miscellaneous	29	31	15	16
Total Expenditures	9,920	9,977	9,887	90
Deficiency of Revenues Under Expenditures	(9,920)	(9,977)	(9,723)	254
<u>OTHER FINANCING SOURCES -</u>				
Transfers In	9,920	9,977	9,685	292
Total Other Financing Sources	9,920	9,977	9,685	292
Net Change in Fund Balance	-	-	(38)	(38)
Fund Balance, July 1, 2004	71	71	71	-
Fund Balance, June 30, 2005	\$ 71	71	33	(38)

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

(amounts expressed in thousands)

	Special Revenue Funds							Total Special Revenue Funds	Capital Project	Permanent Fund	Total Nonmajor Governmental Funds
	Community Development Fund	Special Revenue General Projects Fund	Public Safety Funds	Transportation Funds	Culture & Recreation Funds	Education Funds	Total Special Revenue Funds				
ASSETS:											
Cash in Bank	-	-	-	-	-	641	641	-	-	641	
Equity in Pooled Cash and Investments	-	28	207	58	268	152	713	13	4	730	
Long-Term Certificates of Deposit	-	-	-	-	-	202	202	-	150	352	
Investments	-	-	63	-	1,921	56	2,040	-	4	2,044	
Due from Other Governments	65	-	-	900	505	945	2,415	-	-	2,415	
Inventories	-	-	-	-	-	164	164	-	-	164	
Total Assets	65	28	270	958	2,694	2,160	6,175	13	158	6,346	

LIABILITIES AND FUND BALANCES:

Liabilities:	
Accounts Payable	27
Due to Other Funds	36
Deferred Revenue	-
Total Liabilities	63
Fund Balances:	
Reserved for Encumbrances	11
Reserved for Inventories	-
Reserved for Perpetual Care	-
Reserved for Projects	-
Unreserved, Undesignated	(9)
Total Fund Balances	2
Total Liabilities and Fund Balances	65

CITY OF KINGSPORT, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2005
 (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				
REVENUES:										
Federal Government	\$ 526	141	108	519	-	5,375	-	-	6,669	
State Government	-	11	-	1,899	2,984	543	-	-	5,437	
Charges for Services	-	-	-	95	49	1,495	-	-	1,639	
Fines and Forfeitures	-	-	122	-	-	-	-	-	122	
Investment Earnings	-	-	3	-	37	8	-	6	48	
Contributions and Donations	-	4	-	-	34	136	-	-	174	
Total Revenues	526	156	233	2,513	3,104	7,557	-	6	14,089	14,095
EXPENDITURES:										
General and Administrative	-	169	3	-	-	-	-	2	174	
School Food Service	-	-	-	-	-	2,544	-	-	2,544	
School Federal Projects	-	-	-	-	-	3,449	-	-	3,449	
Economic and Physical Development	504	-	-	-	-	-	-	-	504	
Public Safety	-	-	83	-	-	-	-	-	83	
Highway Transportation Planning	-	-	-	2,679	-	-	-	-	2,679	
Culture and Recreation	-	-	-	-	97	-	-	-	97	
Education	-	-	-	-	-	1,123	-	-	1,123	
Capital Outlay	5	-	42	391	-	481	-	-	919	
Total Expenditures	509	169	128	3,070	97	7,597	-	2	11,570	11,572
Excess (Deficiency) of Revenues Over (Under) Expenditures	17	(13)	105	(557)	3,007	(40)	-	4	2,519	2,523
OTHER FINANCING SOURCES (USES) -										
Operating Transfers	(26)	27	(18)	774	(3,438)	105	-	-	(2,576)	(2,576)
Net Change in Fund Balances	(9)	14	87	217	(431)	65	-	4	(57)	(53)
Fund Balances, July 1, 2004	11	14	183	174	2,477	1,210	13	154	4,069	4,236
Fund Balances, June 30, 2005	\$ 2	28	270	391	2,046	1,275	13	158	4,012	4,183

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

June 30, 2005

(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	\$ -	-	-	-
Equity in Pooled Cash and Investments	93	111	3	207
Investments	1	-	62	63
Total Assets	<u>94</u>	<u>111</u>	<u>65</u>	<u>270</u>
<u>FUND BALANCES:</u>				
Reserved for Encumbrances	21	-	64	85
Reserved for Projects	73	-	1	74
Unreserved, Undesignated	-	111	-	111
Total Fund Balances	<u>\$ 94</u>	<u>111</u>	<u>65</u>	<u>270</u>

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, 2005
(amounts expressed in thousands)

	Criminal Forfeiture Fund	Drug Fund	Local Law Enforcement Fund	Total Public Safety Funds
<u>REVENUES:</u>				
Federal Government	\$ 81	-	27	108
Fines and Forfeitures	-	122	-	122
Investment Earnings	2	-	1	3
Total Revenues	<u>83</u>	<u>122</u>	<u>28</u>	<u>233</u>
<u>EXPENDITURES:</u>				
General and Administrative	-	3	-	3
Public Safety	3	67	13	83
Capital Outlay	-	19	23	42
Total Expenditures	<u>3</u>	<u>89</u>	<u>36</u>	<u>128</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	80	33	(8)	105
<u>OTHER FINANCING SOURCES (USES) -</u>				
Operating Transfers	-	(30)	12	(18)
Net Change in Fund Balances	80	3	4	87
Fund Balance, July 1, 2004	14	108	61	183
Fund Balance, June 30, 2005	<u>\$ 94</u>	<u>111</u>	<u>65</u>	<u>270</u>

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

June 30, 2005

(amounts expressed in thousands)

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
<u>ASSETS:</u>				
Equity in Pooled Cash and Investments	\$ 46	-	12	58
Due from Other Governments	601	79	220	900
Total Assets	<u>647</u>	<u>79</u>	<u>232</u>	<u>958</u>
<u>LIABILITIES AND FUND BALANCES:</u>				
<u>Liabilities:</u>				
Accounts Payable	355	2	128	485
Due to Other Funds	-	82	-	82
Total Liabilities	<u>355</u>	<u>84</u>	<u>128</u>	<u>567</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	4	30	58	92
Unreserved, Undesignated	288	(35)	46	299
Total Fund Balances	<u>292</u>	<u>(5)</u>	<u>104</u>	<u>391</u>
Total Liabilities and Fund Balances	<u>\$ 647</u>	<u>79</u>	<u>232</u>	<u>958</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, 2005
(amounts expressed in thousands)

	Federal Transit Administration Fund	Metropolitan Planning Office Fund	State Street Aid Fund	Total Transportation Funds
<u>REVENUES:</u>				
Federal Government	\$ 502	17	-	519
State Government	483	142	1,274	1,899
Charges for Services	95	-	-	95
Total Revenues	<u>1,080</u>	<u>159</u>	<u>1,274</u>	<u>2,513</u>
<u>EXPENDITURES:</u>				
Highway Transportation Planning	662	200	1,817	2,679
Capital Outlay	359	2	30	391
Total Expenditures	<u>1,021</u>	<u>202</u>	<u>1,847</u>	<u>3,070</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	59	(43)	(573)	(557)
<u>OTHER FINANCING SOURCES -</u>				
Operating Transfers	99	44	631	774
Net Change in Fund Balances	158	1	58	217
Fund Balance, July 1, 2004	134	(6)	46	174
Fund Balance, June 30, 2005	<u>\$ 292</u>	<u>(5)</u>	<u>104</u>	<u>391</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - CULTURE AND RECREATION

June 30, 2005

(amounts expressed in thousands)

	Regional Sales Tax Revenue Fund	Eastman Annex Tax Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
<u>ASSETS:</u>							
Equity in Pooled Cash and Investments	\$ -	268	-	-	-	-	268
Investments	1,757	-	16	21	110	17	1,921
Due from Other Governments	505	-	-	-	-	-	505
	<u>2,262</u>	<u>268</u>	<u>16</u>	<u>21</u>	<u>110</u>	<u>17</u>	<u>2,694</u>
<u>Total Assets</u>							
<u>LIABILITIES AND FUND BALANCES:</u>							
<u>Liabilities -</u>							
Due to Other Funds	648	-	-	-	-	-	648
	<u>648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>648</u>
<u>Fund Balances:</u>							
Reserved for Projects	-	146	-	-	-	-	146
Unreserved, Undesignated	1,614	122	16	21	110	17	1,900
	<u>1,614</u>	<u>268</u>	<u>16</u>	<u>21</u>	<u>110</u>	<u>17</u>	<u>2,046</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 2,262</u>	<u>268</u>	<u>16</u>	<u>21</u>	<u>110</u>	<u>17</u>	<u>2,694</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, 2005
(amounts expressed in thousands)

	Regional Sales Tax Revenue Fund	Eastman Annex Tax Fund	Steadman Cemetery Fund	Public Library Commission Fund	Bays Mountain Fund	Senior Citizens Advisory Board Fund	Total Culture & Recreation Funds
<u>REVENUES:</u>							
State Government	\$ 2,984	-	-	-	-	-	2,984
Charges for Services	-	-	-	-	-	49	49
Investment Earnings	32	-	-	3	2	-	37
Contributions and Donations	-	-	-	-	31	3	34
Total Revenues	<u>3,016</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>33</u>	<u>52</u>	<u>3,104</u>
<u>EXPENDITURES -</u>							
Culture and Recreation	-	-	-	-	50	47	97
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>47</u>	<u>97</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,016	-	-	3	(17)	5	3,007
<u>OTHER FINANCING USES -</u>							
Operating Transfers	(3,117)	(321)	-	-	-	-	(3,438)
Net Change in Fund Balances	(101)	(321)	-	3	(17)	5	(431)
Fund Balance, July 1, 2004	1,715	589	16	18	127	12	2,477
Fund Balance, June 30, 2005	<u>\$ 1,614</u>	<u>268</u>	<u>16</u>	<u>21</u>	<u>110</u>	<u>17</u>	<u>2,046</u>

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

June 30, 2005

(amounts expressed in thousands)

ASSETS:	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Purvis Soccer Building Fund	Palmer Center Fund	Total Education Funds
Cash in Bank	641	-	-	-	-	641
Equity in Pooled Cash and Investments	131	(77)	98	-	-	152
Long-Term Certificates of Deposit	202	-	-	-	-	202
Investments	-	-	-	-	56	56
Due from Other Governments	-	392	553	-	-	945
Inventories	164	-	-	-	-	164
Total Assets	<u>1,138</u>	<u>315</u>	<u>651</u>	<u>-</u>	<u>56</u>	<u>2,160</u>

LIABILITIES AND FUND BALANCES:

Liabilities:

Accounts Payable	-	16	24	-	-	40
Due to Other Funds	-	299	433	-	-	732
Deferred Revenue	17	-	96	-	-	113
Total Liabilities	<u>17</u>	<u>315</u>	<u>553</u>	<u>-</u>	<u>-</u>	<u>885</u>

Fund Balances:

Reserved for Encumbrances	-	-	47	-	-	47
Reserved for Inventories	164	-	-	-	-	164
Unreserved, Undesignated	957	-	51	-	56	1,064
Total Fund Balances	<u>1,121</u>	<u>-</u>	<u>98</u>	<u>-</u>	<u>56</u>	<u>1,275</u>
Total Liabilities and Fund Balances	<u>\$ 1,138</u>	<u>315</u>	<u>651</u>	<u>-</u>	<u>56</u>	<u>2,160</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2005
(amounts expressed in thousands)

	School Nutrition Services Fund	Special School Projects Fund	Public Law 93-380 Fund	Purvis Soccer Building Fund	Palmer Center Fund	Total Education Funds
<u>REVENUES:</u>						
Federal Government	\$ 1,101	507	3,767	-	-	5,375
State Government	29	514	-	-	-	543
Charges for Services	1,415	80	-	-	-	1,495
Investment Earnings	6	-	-	1	1	8
Contributions and Donations	136	-	-	-	-	136
Total Revenues	2,687	1,101	3,767	1	1	7,557
<u>EXPENDITURES:</u>						
School Food Service	2,544	-	-	-	-	2,544
School Federal Projects	-	-	3,449	-	-	3,449
Education	-	1,123	-	-	-	1,123
Capital Outlay	39	222	220	-	-	481
Total Expenditures	2,583	1,345	3,669	-	-	7,597
Excess (Deficiency) of Revenues Over (Under) Expenditures	104	(244)	98	1	1	(40)
<u>OTHER FINANCING SOURCES (USES) -</u>						
Operating Transfers	-	244	-	(139)	-	105
Net Change in Fund Balances	104	-	98	(138)	1	65
Fund Balance, July 1, 2004	1,017	-	-	138	55	1,210
Fund Balance, June 30, 2005	\$ 1,121	-	98	-	56	1,275

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, 2005
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES:</u>				
Federal Government	\$ -	81	81	-
Investment Earnings	-	-	2	2
Contributions and Donations	8	8	-	(8)
Total Revenues	8	89	83	(6)
<u>EXPENDITURES -</u>				
Public Safety	8	89	3	86
Total Expenditures	8	89	3	86
Net Change in Fund Balance	-	-	80	80
Fund Balance, July 1, 2004	14	14	14	-
Fund Balance, June 30, 2005	\$ 14	14	94	80

CITY OF KINGSPORT, TENNESSEE

DRUG FUND

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

For the Year Ended June 30, 2005

(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fines and Forfeitures	\$ 50	50	122	72
Contributions and Donations	-	64	-	(64)
Total Revenues	50	114	122	8
EXPENDITURES:				
General and Administrative	2	2	3	(1)
Public Safety	48	70	67	3
Capital Outlay	-	12	19	(7)
Total Expenditures	50	84	89	(5)
Excess of Revenues Over Expenditures	-	30	33	3
OTHER FINANCING USES -				
Transfers Out	-	(30)	(30)	-
Total Other Financing Uses	-	(30)	(30)	-
Net Change in Fund Balance	-	-	3	3
Fund Balance, July 1, 2004	108	108	108	-
Fund Balance, June 30, 2005	\$ 108	108	111	3

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, 2005
(amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
<u>REVENUES -</u>				
State Government	\$ 1,339	1,339	1,274	(65)
Total Revenues	1,339	1,339	1,274	(65)
<u>EXPENDITURES:</u>				
Highway Transportation Planning	2,132	2,201	1,817	384
Capital Outlay	10	11	30	(19)
Total Expenditures	2,142	2,212	1,847	365
Excess (Deficiency) of Revenues Over (Under) Expenditures	(803)	(873)	(573)	300
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	803	890	659	231
Transfers Out	-	(17)	(28)	11
Total Other Financing Sources (Uses)	803	873	631	242
Net Change in Fund Balance	-	-	58	58
Fund Balance, July 1, 2004	46	46	46	-
Fund Balance, June 30, 2005	\$ 46	46	104	58

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, 2005
(amounts expressed in thousands)

REVENUES:	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
State Government	\$ 2,975	2,975	2,984	9
Investment Earnings	10	10	32	22
Total Revenues	2,985	2,985	3,016	31
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In	253	253	-	(253)
Transfers Out	(3,238)	(3,238)	(3,117)	121
Total Other Financing Sources (Uses)	(2,985)	(2,985)	(3,117)	(132)
Net Change in Fund Balance	-	-	(101)	(101)
Fund Balance, July 1, 2004	1,715	1,715	1,715	-
Fund Balance, June 30, 2005	\$ 1,715	1,715	1,614	(101)

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, 2005
 (amounts expressed in thousands)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers In	\$ 1,747	1,259	(488)
Transfers Out	(1,747)	(1,580)	167
Total Other Financing Sources (Uses)	<u>-</u>	<u>(321)</u>	<u>(321)</u>
Net Change in Fund Balance	-	(321)	(321)
Fund Balance, July 1, 2004	<u>589</u>	<u>589</u>	<u>-</u>
Fund Balance, June 30, 2005	<u>\$ 589</u>	<u>268</u>	<u>(321)</u>

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, 2005
 (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, 2004	18	18	-
Fund Balance, June 30, 2005	\$ 18	21	3

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

For the Year Ended June 30, 2005
(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	2	1
Contributions and Donations	16	31	15
Total Revenues	<u>17</u>	<u>33</u>	<u>16</u>
<u>EXPENDITURES -</u>			
Culture and Recreation	117	50	67
Total Expenditures	<u>117</u>	<u>50</u>	<u>67</u>
Deficiency of Revenues Under Expenditures	<u>(100)</u>	<u>(17)</u>	<u>83</u>
<u>OTHER FINANCING SOURCES -</u>			
Transfers In	100	-	(100)
Total Other Financing Sources	<u>100</u>	<u>-</u>	<u>(100)</u>
Net Change in Fund Balance	-	(17)	(17)
Fund Balance, July 1, 2004	<u>127</u>	<u>127</u>	<u>-</u>
Fund Balance, June 30, 2005	<u>\$ 127</u>	<u>110</u>	<u>(17)</u>

See Independent Auditors' Report.

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

For the Year Ended June 30, 2005
 (amounts expressed in thousands)

	Budgeted Amounts	Actual	Variance with
	Original	Final	Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Charges for Services	\$ 17	63	(49)
Contributions and Donations	2	2	-
	<u>19</u>	<u>65</u>	<u>(46)</u>
Total Revenues			<u>(46)</u>
<u>EXPENDITURES -</u>			
Culture and Recreation	19	65	47
	<u>19</u>	<u>65</u>	<u>47</u>
Total Expenditures			<u>18</u>
Net Change in Fund Balance	-	-	5
Fund Balance, July 1, 2004	12	12	-
Fund Balance, June 30, 2005	<u>12</u>	<u>12</u>	<u>5</u>

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

For the Year Ended June 30, 2005
(amounts expressed in thousands)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
<u>REVENUES:</u>			
Federal Government	\$ 1,000	1,101	101
State Government	33	29	(4)
Charges for Services	1,580	1,415	(165)
Investment Earnings	17	6	(11)
Contributions and Donations	-	136	136
Total Revenues	2,630	2,687	57
<u>EXPENDITURES:</u>			
School Food Service	2,580	2,544	36
Capital Outlay	50	39	11
Total Expenditures	2,630	2,583	47
Net Change in Fund Balance	-	104	104
Fund Balance, July 1, 2004	1,017	1,017	-
Fund Balance, June 30, 2005	\$ 1,017	1,121	104

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, 2005
(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	139	-	(139)
<u>Total Revenues</u>	<u>139</u>	<u>1</u>	<u>(138)</u>
<u>OTHER FINANCING USES -</u>			
Transfers Out	(139)	(139)	-
<u>Total Other Financing Uses</u>	<u>(139)</u>	<u>(139)</u>	<u>-</u>
<u>Net Change in Fund Balance</u>	<u>-</u>	<u>(138)</u>	<u>(138)</u>
Fund Balance, July 1, 2004	138	138	-
Fund Balance, June 30, 2005	<u>\$ 138</u>	<u>-</u>	<u>(138)</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, 2005
(amounts expressed in thousands)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>REVENUES -</u>			
Investment Earnings	\$ 1	1	-
Total Revenues	1	1	-
<u>EXPENDITURES -</u>			
Capital Outlay	1	-	1
Total Expenditures	1	-	1
Net Change in Fund Balance	-	1	1
Fund Balance, July 1, 2004	55	55	-
Fund Balance, June 30, 2005	<u>\$ 55</u>	<u>56</u>	<u>1</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, 2005
 (amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>REVENUES -</u>				
Investment Earnings	\$ 1	2	6	4
Total Revenues	1	2	6	4
<u>EXPENDITURES -</u>				
General and Administrative	1	2	2	-
Total Expenditures	1	2	2	-
Net Change in Fund Balance	-	-	4	4
Fund Balance, July 1, 2004	154	154	154	-
Fund Balance, June 30, 2005	\$ 154	154	158	4

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

June 30, 2005

(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	\$ 1,353	2,409	2,347	6,109
Long-Term Certificates of Deposit	-	350	-	350
Accounts Receivable	3	-	3	6
Inventories	304	-	-	304
Prepays	-	118	-	118
Total Current Assets	<u>1,660</u>	<u>2,877</u>	<u>2,350</u>	<u>6,887</u>
Capital Assets:				
Land	15	-	-	15
Machinery and Equipment	18,440	-	-	18,440
Less: Accumulated Depreciation	<u>(12,359)</u>	<u>-</u>	<u>-</u>	<u>(12,359)</u>
Total Capital Assets	<u>6,096</u>	<u>-</u>	<u>-</u>	<u>6,096</u>
Other Assets -				
Deposits	-	30	-	30
Total Other Assets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Restricted Assets:				
Cash in Bank	398	-	-	398
Investments	5,365	-	-	5,365
Total Restricted Assets	<u>5,763</u>	<u>-</u>	<u>-</u>	<u>5,763</u>
Total Assets	<u>13,519</u>	<u>2,907</u>	<u>2,350</u>	<u>18,776</u>
<u>LIABILITIES:</u>				
Current Liabilities:				
Accounts Payable	39	118	-	157
Benefits Payable	-	160	900	1,060
Compensated Absences Payable	68	10	1	79
Total Current Liabilities	<u>107</u>	<u>288</u>	<u>901</u>	<u>1,296</u>
Total Liabilities	<u>107</u>	<u>288</u>	<u>901</u>	<u>1,296</u>
<u>NET ASSETS:</u>				
Invested in Capital Assets	6,096	-	-	6,096
Unrestricted	<u>7,316</u>	<u>2,619</u>	<u>1,449</u>	<u>11,384</u>
Total Net Assets	<u>\$ 13,412</u>	<u>2,619</u>	<u>1,449</u>	<u>17,480</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, 2005
(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	\$ 4,237	1,826	4,931	10,994
Total Operating Revenue	4,237	1,826	4,931	10,994
<u>OPERATING EXPENSES:</u>				
Personnel Services and Benefits	930	148	39	1,117
Materials and Supplies	1,922	1	1	1,924
Contractual Services	68	30	256	354
Insurance	-	427	248	675
Insurance Claims	-	1,056	3,857	4,913
Depreciation	1,221	-	-	1,221
Miscellaneous	40	-	-	40
Total Operating Expenses	4,181	1,662	4,401	10,244
Operating Income	56	164	530	750
<u>NONOPERATING REVENUES:</u>				
Gain on Disposals of Capital Assets	30	-	-	30
Investment Earnings	197	57	30	284
Income before Transfers	283	221	560	1,064
Operating Transfers	46	-	-	46
Change in Net Assets	329	221	560	1,110
Net Assets, July 1, 2004	13,083	2,398	889	16,370
Net Assets, June 30, 2005	\$ 13,412	2,619	1,449	17,480

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	Fleet Operations & Maintenance Fund	Insurance Reserve Fund	Health Insurance Fund	Total Internal Service Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from Customers and Users	\$ 4,236	1,828	4,932	10,996
Payments to Suppliers	(2,153)	(1,437)	(4,405)	(7,995)
Payments to Employees	(929)	(169)	(39)	(1,137)
Net Cash Provided by Operating Activities	<u>1,154</u>	<u>222</u>	<u>488</u>	<u>1,864</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES -</u>				
Advances from Other Funds	46	-	-	46
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Purchases of Capital Assets	(810)	-	-	(810)
Proceeds from Sales of Capital Assets	35	-	-	35
Net Cash Used by Capital and Related Financing Activities	<u>(775)</u>	<u>-</u>	<u>-</u>	<u>(775)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Proceeds from Sales and Maturities of Investments	781	57	30	868
Purchase of Investments	(1,361)	-	-	(1,361)
Interest Received	197	-	-	197
Net Cash Provided (Used) by Investing Activities	<u>(383)</u>	<u>57</u>	<u>30</u>	<u>(296)</u>
Net Increase in Cash and Cash Equivalents	42	279	518	839
Cash and Cash Equivalents, July 1, 2004	1,709	2,130	1,829	5,668
Cash and Cash Equivalents, June 30, 2005	<u>\$ 1,751</u>	<u>2,409</u>	<u>2,347</u>	<u>6,507</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Operating Income	\$ 56	164	530	750
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	1,221	-	-	1,221
(Increase) Decrease in Assets:				
Accounts Receivable	(2)	-	1	(1)
Inventories	(34)	-	-	(34)
Prepays	-	2	-	2
Increase (Decrease) in Liabilities:				
Accounts Payable	(88)	78	(43)	(53)
Benefits Payable	-	(21)	-	(21)
Compensated Absences Payable	1	(1)	-	-
Net Cash Provided by Operating Activities	<u>\$ 1,154</u>	<u>222</u>	<u>488</u>	<u>1,864</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	\$ 1,353	2,409	2,347	6,109
Restricted Assets - Cash in Bank	398	-	-	398
Cash and Cash Equivalents, June 30, 2005	<u>\$ 1,751</u>	<u>2,409</u>	<u>2,347</u>	<u>6,507</u>

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	<u>Industrial Development Board</u>	<u>Emergency Communications District</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from Customers and Users	\$ (1)	411
Payments to Suppliers	(62)	(303)
Net Cash Provided (Used) by Operating Activities	<u>(63)</u>	<u>108</u>
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>		
Purchases of Capital Assets	-	(40)
Grants	-	20
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>(20)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from Sales and Maturities of Investments	327	-
Purchases of Investments	(415)	-
Interest Received	6	13
Net Cash Provided (Used) by Investing Activities	<u>(82)</u>	<u>13</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(145)	101
Cash and Cash Equivalents, July 1, 2004	<u>520</u>	<u>992</u>
Cash and Cash Equivalents, June 30, 2005	<u>\$ 375</u>	<u>1,093</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO</u> <u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (40)	65
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4	59
Increases in Assets:		
Accounts Receivable	(1)	-
Due from Other Governments	-	(12)
Land Held for Sale or Development	(22)	-
Prepaid Items	-	(7)
Increase (Decrease) in Accounts Payable	(4)	3
Net Cash Provided (Used) by Operating Activities	<u>\$ (63)</u>	<u>108</u>

See Independent Auditors' Report.

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

June 30, 2005 and 2004
(amounts expressed in thousands)

	2005	2004
<u>Governmental Funds Capital Assets:</u>		
Land	\$ 11,095	10,750
Buildings	89,271	85,958
Improvements other than Buildings	9,753	9,499
Equipment	11,342	10,589
Software	155	155
Infrastructure	256,630	254,158
Construction in Progress	34,926	27,574
Total Governmental Funds Capital Assets	413,172	398,683
 <u>Investments in Governmental Funds Capital Assets by Source:</u>		
General Obligation Bonds	319,894	319,256
Contributions from Municipalities	31	31
Federal Grants	3,458	3,045
State Grants	263	189
County Grants	64	64
Federal Revenue Sharing	261	261
General Fund Revenue	13,971	13,550
Gifts	7,715	5,648
Special Revenue Funds	28,828	25,572
Operating Revenue	3,649	3,381
Capital Lease Purchase	111	111
Notes Payable	1	1
Construction in Progress	34,926	27,574
Total Governmental Funds Capital Assets	\$ 413,172	398,683

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.

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

June 30, 2005

(amounts expressed in thousands)

Function and Activity	Land	Buildings	Improvements		Equipment	Software	Infrastructure	Construction in Progress	Total
			Buildings	other than Buildings					
<u>General Government:</u>									
General Government	\$ 3,266	599	22	67	-	-	-	2,138	6,092
City Manager	-	-	21	-	-	-	-	-	21
Finance	-	-	-	36	-	-	-	-	36
Information Services	-	-	-	1,371	-	-	-	-	1,371
Geographic Information	-	-	-	113	-	-	-	-	113
Total General Government	3,266	599	43	1,587	-	-	-	2,138	7,633
<u>Economic and Physical Development:</u>									
Development Services	-	651	46	35	-	-	-	28	760
Transportation	-	638	30	1,272	-	-	-	246	2,186
Engineering	-	-	-	39	-	-	-	-	39
Total Economic and Physical Development	-	1,289	76	1,346	-	-	-	274	2,985
<u>Public Safety:</u>									
Police	91	4,411	59	581	-	-	-	-	5,142
Fire	218	2,139	207	631	-	-	-	315	3,510
Communication	-	67	-	67	-	-	-	-	134
Central Dispatch	-	-	78	2,168	-	-	-	-	2,246
Total Public Safety	309	6,617	344	3,447	-	-	-	315	11,032

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

June 30, 2005

(amounts expressed in thousands)

Function and Activity	Improvements other than Buildings					Construction in Progress	Total
	Land	Buildings	Equipment	Software	Infrastructure		
<u>Public Works:</u>							
General and Administrative	-	315	5	-	342	-	695
Sanitation	-	-	-	-	-	-	14
Streets	-	-	637	-	2,042	4,699	7,566
Maintenance	-	-	-	-	-	-	58
Bridges System	-	-	-	-	5,759	1,441	7,200
Highways System	-	-	-	-	244,065	1	244,066
Total Public Works	-	315	642	-	252,208	6,141	259,599
<u>Culture and Recreation:</u>							
Senior Citizens	-	3,872	-	7	-	-	3,879
Recreation	4,611	7,564	2,062	411	-	7,532	22,180
Bays Mountain	504	862	316	156	-	17	1,855
Allandale	502	345	160	264	-	-	1,271
Library	133	3,621	-	104	4,422	-	8,280
Total Culture and Recreation	5,750	16,264	2,538	942	4,422	7,549	37,465
<u>Education</u>	1,770	64,187	6,110	3,727	-	18,509	94,458
Total Governmental Funds Capital Assets	\$ 11,095	89,271	9,753	11,342	256,630	34,926	413,172

† 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, 2005

(amounts expressed in thousands)

Function and Activity	Governmental Funds Capital Assets July 1, 2004	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2005
<u>General Government:</u>					
General Government	\$ 5,419	708	(35)	-	6,092
City Manager	21	-	-	-	21
Finance	36	-	-	-	36
Information Services	1,371	-	-	-	1,371
Geographic Information	113	-	-	-	113
Total General Government	<u>6,960</u>	<u>708</u>	<u>(35)</u>	<u>-</u>	<u>7,633</u>
<u>Economic and Physical Development:</u>					
Development Services	732	28	-	-	760
Transportation	1,801	623	(238)	-	2,186
Engineering	39	-	-	-	39
Total Economic and Physical Development	<u>2,572</u>	<u>651</u>	<u>(238)</u>	<u>-</u>	<u>2,985</u>
<u>Public Safety:</u>					
Police	5,120	131	(109)	-	5,142
Fire	3,094	555	(139)	-	3,510
Communication	134	-	-	-	134
Central Dispatch	2,246	-	-	-	2,246
Total Public Safety	<u>10,594</u>	<u>686</u>	<u>(248)</u>	<u>-</u>	<u>11,032</u>
<u>Public Works:</u>					
General and Administrative	695	-	-	-	695
Sanitation	14	-	-	-	14
Streets	5,172	2,481	(87)	-	7,566
Maintenance	58	-	-	-	58
Bridges System	6,393	1,214	(407)	-	7,200
Highways System	244,065	1	-	-	244,066
Total Public Works	<u>256,397</u>	<u>3,696</u>	<u>(494)</u>	<u>-</u>	<u>259,599</u>
<u>Culture and Recreation:</u>					
Senior Citizens	3,879	-	-	-	3,879
Recreation	19,924	2,262	(6)	-	22,180
Bays Mountain	1,601	254	-	-	1,855
Allandale	1,271	98	(98)	-	1,271
Library	8,280	59	(59)	-	8,280
Total Culture and Recreation	<u>34,955</u>	<u>2,673</u>	<u>(163)</u>	<u>-</u>	<u>37,465</u>
<u>Education</u>	<u>87,205</u>	<u>7,420</u>	<u>(167)</u>	<u>-</u>	<u>94,458</u>
Total Governmental Funds Capital Assets	<u>\$ 398,683</u>	<u>15,834</u>	<u>(1,345)</u>	<u>-</u>	<u>413,172</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.

CITY OF KINGSPORT, TENNESSEE
ENTERPRISE FUNDS

SCHEDULE OF OPERATING COSTS

For the Year Ended June 30, 2005

(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	\$ 561	167	-	-	-	728
Supplies	-	1	-	-	-	1
Contractual Services	114	381	-	4	24	523
Accounting and Finance	117	19	5	11	40	192
Insurance	18	8	-	5	8	39
Subsidies and Contributions	33	14	-	299	-	346
Base Management Fee	-	-	-	94	28	122
Taxes and Permits	-	-	-	15	-	15
Other	160	-	-	1	22	183
Total General and Administrative	1,003	590	5	429	122	2,149
Operations:						
Personnel Services	688	681	-	-	-	1,369
Supplies	361	226	-	-	-	587
Contractual Services	492	389	164	368	114	1,527
Distribution System Maintenance	2,293	-	-	-	-	2,293
Collection System Maintenance	-	1,568	-	-	-	1,568
Reading, Service and Maintenance of Meters	852	-	-	-	-	852
Landfill Operations and Services	-	-	631	-	-	631
Waste Collection Services	-	-	598	-	-	598
Organic Refuse Services	-	-	1,466	-	-	1,466
Recycling Services	-	-	312	-	-	312
Golf Pro Shop	-	-	-	-	347	347
Golf Grounds	-	-	-	-	292	292
Food and Beverage	-	-	-	-	58	58
Utilities	-	-	-	-	23	23
Total Operations	4,686	2,864	3,171	368	834	11,923
Total Operating Costs	\$ 5,689	3,454	3,176	797	956	14,072

See Independent Auditors' Report.

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2004	Cash Receipts	Expend- itures	Balance June 30, 2005
<u>SCHOOL NUTRITION SERVICES FUND:</u>						
Pass-Through Tennessee Department of Education:						
10.555	National School Lunch Program	U.S. Department of Agriculture	\$ (121)	985	864	-
10.553	School Breakfast Program	U.S. Department of Agriculture	-	237	237	-
Pass-Through Tennessee Department of Agriculture:						
10.550	Commodity Supplemental Feeding	U.S. Department of Agriculture	88	221	190	119 ***
Total School Nutrition Services Fund			(33)	1,443	1,291	119
<u>PUBLIC LAW 93-380 FUND:</u>						
Pass-Through Tennessee Department of Education:						
84.010	Title I, Project 03-01	U.S. Department of Education	(58)	58	-	-
84.010	Title I, Project 03-21	U.S. Department of Education	(16)	43	27	-
84.010	Title I, Project 04-01	U.S. Department of Education	(83)	157	74	-
84.010	Title I, Project 04-21	U.S. Department of Education	-	1,362	1,519	(157) *
84.010	Title I, Project 05-01	U.S. Department of Education	-	91	91	-
84.027	IDEA Part B, 03-21	U.S. Department of Education	-	162	162	-
84.027	IDEA Part B, 04-01	U.S. Department of Education	24	31	55	-
84.027	IDEA Part B, 04-21	U.S. Department of Education	-	-	208	(208) *
84.027	IDEA Part B, 05-01	U.S. Department of Education	(66)	968	872	96 **
84.048	Carl Perkins, 2004	U.S. Department of Education	-	79	13	-
84.048	Carl Perkins, 2005	U.S. Department of Education	-	79	142	(63) *
84.173	Pre-School, 05-01	U.S. Department of Education	-	46	46	-
84.298	Title V, 2003	U.S. Department of Education	-	2	2	-
84.298	Title V, 2004	U.S. Department of Education	-	6	10	(4) *
84.298	Title V, 2005	U.S. Department of Education	-	30	49	(19) *
84.365	Title III, 2004	U.S. Department of Education	(1)	11	10	-
84.365	Title III, 2005	U.S. Department of Education	-	4	10	(6) *
84.367	Title II A, 05-01	U.S. Department of Education	-	247	321	(74) *
84.367	Title II, 2003	U.S. Department of Education	-	3	3	-
84.367	Title II, 2004	U.S. Department of Education	(45)	192	147	-
84.367	Title II D, 05-01	U.S. Department of Education	-	6	25	(19) *
84.366	Title IV, 04-21	U.S. Department of Education	-	-	1	(1) *
84.366	Title IV, 05-01	U.S. Department of Education	-	42	44	(2) *
84.999	Drug Fund, 2004	U.S. Department of Education	-	2	2	-
Total Public Law 93-380 Fund			(245)	3,621	3,833	(457)

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

CITY OF KINGSPOUR, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2004	Cash Receipts	Expend- itures	Balance June 30, 2005
<u>SPECIAL SCHOOL PROJECTS FUND:</u>						
Direct Programs:						
84.287	Community of Learners/Z-03-013004 / Z-04-015946 / Z-05-021726	U.S. Department of Education	(67)	227	292	(132) *
Pass-Through Tennessee Department of Education:						
84.196	Education for Homeless Children & Youth/Z-04-100580	U.S. Department of Education	(14)	34	36	(16) *
84.276	Reading Excellence/Z-03-011063	U.S. Department of Education	(194)	260	66	-
84.184	Community Services/Z-03-015095-00 / Z-05-021787-00	U.S. Department of Education	(16)	24	18	(10) *
84.278	Education Edge/Z-97-082540	U.S. Department of Education	76	115	191	-
84.184	Safe Schools	U.S. Department of Education	(22)	24	32	(30) *
64.116	Vocational Rehabilitation	U.S. Department of Education	(17)	61	64	(20) *
84.360	Dropout Prevention Program/GC-02-09426	U.S. Department of Education	-	-	6	(6) *
84.349	Early Childhood Program/Z-04-18348 / Z-05-022141	U.S. Department of Education	(33)	120	130	(43) *
84.349	Early Childhood Program/Z-03-015024	U.S. Department of Education	(1)	1	-	-
84.349	Family Resource/Z-04-017602 / Z-05-021421	U.S. Department of Education	(4)	45	49	(8) *
93.556	Families First	U.S. Department of Health and Human Services	-	19	23	(4) *
93.561	Job Opportunities and Basic Skills Training- Families First/Z-04-016525	U.S. Department of Health and Human Services	(2)	2	-	-
84.215	Smaller Learning Communities	U.S. Department of Education	(44)	44	2	(2) *
84.318	Ed Tech- Title II/Z-04-020851	U.S. Department of Education	(2)	2	67	(67) *
Total Special School Projects Fund			<u>(340)</u>	<u>978</u>	<u>976</u>	<u>(338)</u>
<u>SPECIAL REVENUE GENERAL PROJECTS FUND:</u>						
Direct Programs:						
16.710	School Resource Officer	U.S. Department of Justice	(4)	4	-	-
83.554	Federal Emergency Management Agency / EMW-2003-FG-08332	U.S. Department of Homeland Security	-	47	47	-
Pass-through Tennessee Department of Transportation:						
20.507	East Kingsport Comprehensive Transportation	U.S. Department of Transportation	(1)	1	-	-
Pass-through Kingsport Housing and Redevelopment Authority:						
14.854	Riverview Substation	U.S. Department of Housing and Urban Development	(3)	3	-	-
16.710	Universal Hiring Program/ 2003 UMWX-0216	U.S. Department of Justice	-	57	57	-

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

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Balance June 30, 2004	Cash Receipts	Expend- itures	Balance June 30, 2005
<u>SPECIAL REVENUE GENERAL PROJECTS FUND (CONTINUED):</u>					
Pass-through Tennessee Department of State, Office of Secretary of State:					
19.599	Public Library Services	-	36	36	-
Pass-through Tennessee Department of State, Office of Library and Archives:					
19.599	Public Library Services / Z-06-024665	-	9	9	-
Total Special Revenue General Projects Fund					
<u>COMMUNITY DEVELOPMENT FUND:</u>					
Direct Programs:					
14.218	Community Development Block Grants	(57)	486	481	(52) *
Total Community Development Fund					
<u>FEDERAL TRANSIT ADMINISTRATION FUND:</u>					
Direct Programs:					
20.507	FTA Capital/Operating/Planning TN-90-X207	-	69	69	-
20.507	FTA Capital/Operating/Planning TN-90-X218	-	158	252	(94) *
20.507	FTA Capital/Operating/Planning TN-90-X177	(5)	17	12	-
20.507	FTA Capital/Operating/Planning TN-90-X201	-	59	169	(110) *
Total Federal Transit Administration Fund					
<u>CAPITAL PROJECTS FUND:</u>					
Direct Programs:					
83.554	Federal Emergency Management Agency / EMW-2003-FG-08332	-	269	269	-
Pass-Through First Tennessee Development District:					
11.300	Regional Center for Applied Technology/GC-01-08930	29	39	68	-
Pass-Through Tennessee Department of Transportation:					
20.219	Surface Transportation Program	-	470	578	(108) *
20.507	Regional Center for Applied Technology	(5)	66	61	-

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

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2004	Cash Receipts	Expend- itures	Balance June 30, 2005
<u>CAPITAL PROJECTS FUND (CONTINUED):</u>						
	Pass-through Tennessee Department of State, Office of Secretary of State: 19.599 Public Library Services for the Disadvantaged	U.S. Department of State	-	8	8	-
	Total Capital Projects Fund		24	852	984	(108)
<u>GENERAL FUND:</u>						
Direct Programs:						
	16.710 Patrol Division Safety Supplies	U.S. Department of Justice	-	6	6	-
	Pass-Through First Tennessee Department of Health and Human Services: 93.044 Senior Center - KINGS-2005-HOT-11 Title III Part B	U.S. Department of Health and Human Services	-	25	25	-
	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)	63	31	-
<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	(3)	30	-	27 **
	Total Local Law Enforcement Fund		(3)	30	-	27
<u>METROPOLITAN PLANNING OFFICE FUND:</u>						
	Pass-Through Tennessee Department of Transportation: 20.205 FHWA Project No. SPR-PL-1-(176)	Federal Highway Administration	8	26	51	(17) *
	20.205 FHWA Project No. SPR-PL-1-(188)	Federal Highway Administration	-	61	88	(27) *
	20.207 FTA Capital/ Operating/ Planning Section 8	U.S. Department of Transportation	1	31	33	(1) *

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

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

CFDA Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2004	Cash Receipts	Expend- itures	Balance June 30, 2005
<u>METROPOLITAN PLANNING OFFICE FUND (CONTINUED):</u>						
Pass-through Tennessee Department of Transportation (Continued):						
20.207	FTA Capital/ Operating/ Planning GG-04-10966	U.S. Department of Transportation	(4)	8	4	-
20.207	FTA Capital/ Operating/ Planning VA	U.S. Department of Transportation	2	2	2	2 **
Total Metropolitan Planning Office Fund			7	128	178	(43)
Total Federal Awards			\$ (727)	\$ 8,061	\$ 8,425	\$ (1,091)

* 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.

CITY OF KINGSFORD, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2005
(amounts expressed in thousands)

State Grant Number	Program Name/Grant Number	Grantor Agency	Balance June 30, 2004	Cash Receipts	Expenditures	Balance June 30, 2005
SPECIAL SCHOOL PROJECTS FUND:						
GG-04-10442	One Room Drop in School 04	Tennessee Department of Education	\$ -	14	-	-
GC-05-11308	One-Room Drop-In School 05	Tennessee Department of Education	(14)	39	53	(14) *
GG-03-09576	Truancy Intervention Program 2003	Tennessee Department of Children's Services	-	6	-	-
GG-04-10384	Truancy Intervention Program 2004	Tennessee Department of Children's Services	(6)	-	30	(28) *
GC-05-11467	HIV Educational Materials	Tennessee Department of Education	2	6	6	-
	Total Special School Projects Fund		(18)	65	89	(42)
FEDERAL TRANSIT ADMINISTRATION FUND:						
GG-05-11375-00	Project #TN-90-207 Operating	Tennessee Department of Transportation	-	17	17	-
GG-901-11375	Project #TN-90-218 Operating	Tennessee Department of Transportation	-	41	68	(27) *
GG-01-08930	Project #TN-90-177 Capital	Tennessee Department of Transportation	(1)	10	23	(14) *
GG-01-08944	Project #TN-90-X177 Capital/Operating	Tennessee Department of Transportation	(2)	2	-	-
GG-05-11382-00	Project #TN-90-X218 Capital/Operating	Tennessee Department of Transportation	-	7	158	(151) *
GG-03-09744-00	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	-	54	-	-
GG-04-10503-00	Project #TN-90-207 Capital/Operating	Tennessee Department of Transportation	(54)	32	213	(205) *
GG-04-10504-00	Project #TN-82-901-9650	Tennessee Department of Transportation	(24)	3	-	-
GG-04-10504-00	Project #TN-90-207 Capital	Tennessee Department of Transportation	(3)	6	3	-
TBA	Project #82-901-9630 Capital/Operating	Tennessee Department of Transportation	(3)	108	-	-
	Total Federal Transit Administration Fund		(108)	281	483	(397)
COMMUNITY DEVELOPMENT FUND:						
Z-01-98335	Emergency Shelter Grant	Tennessee Department of Human Services	(12)	44	45	(13) *
	Total Community Development Fund		(12)	44	45	(13)
GENERAL FUND:						
N/A	KINGS-2000-OTH-11		-	-	-	-
	Total General Fund		(27)	27	-	-
SPECIAL REVENUE GENERAL PROJECT FUND:						
N/A	Library Services / Z-06-025800	Tennessee Department of Library and Archives	-	2	2	-
	Total Special Revenue General Project Fund		-	2	2	-
	Total State Awards		(252)	419	619	(452)

* 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		
2005	\$ 30,687	\$ 27,005	\$ 2,738	\$ 68,039	\$ 524	\$ 1,366	\$ 971	\$ 131,330	
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, 1996 through 2001, not available.

**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		Total	
												Conference Resort and Convention Center	Cattails at Meadowview Golf Course		
2005	\$ 4,687	\$14,767	\$	3,065	\$11,416	\$4,456	\$2,002	\$	\$7,618	\$7,545	\$ 3,304	1,740	\$	1,323	\$ 116,197
2004	6,571	13,918		2,829	12,844	4,294	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	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	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, 1996 through 2001, not available.

CITY OF KINGSFORT, 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
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
2005	48,415	350	3,669	443	49,907	911	731	104,426

Source: City of Kingsport Finance Department

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

	General Government	Public Safety	Development Services	Public Works	Leisure Services	Education	Capital Outlay	Debt Service		Total
								Principal	Interest	
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	6,003	13,085	2,556	7,900	3,022	48,581	10,048	11,060	2,411	104,666
2005	6,414	13,890	2,948	7,493	3,726	51,437	11,933	7,847	2,040	107,728

Source: City of Kingsport Finance Department

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
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
2005	2004	26,617	25,794	96.9%	26,687	100.3%	1,795

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, 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	Assessed Value	Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value	Assessed Value	Estimated Appraisal Value			
1996	1995	\$ 495,064	\$ 1,602,090	\$ 250,194	\$ 833,981	\$ 32,734	\$ 59,516	\$ 777,992	\$ 2,493,587			31.17%	2.31	\$ 17,974		
1997	1996	514,521	1,667,486	250,874	836,248	33,761	61,384	799,156	2,565,118			31.15%	2.51	19,991		
1998	1997	592,960	1,947,227	304,776	1,015,921	35,707	64,922	933,443	3,028,070			30.83%	2.30	21,469		
1999	1998	611,817	2,009,412	308,430	1,028,099	37,274	67,770	957,521	3,105,281			30.84%	2.39	22,914 (2)		
2000	1999	619,811	2,041,385	289,112	1,054,196	33,217	60,394	942,140	3,155,975			29.85%	2.39	22,523 (3)		
2001	2000	635,061	2,090,213	280,452	1,023,039	35,563	64,660	951,076	3,177,912			29.93%	2.39	22,828 (4)		
2002	2001	729,306	2,390,997	307,946	1,026,487	39,512	71,840	1,076,764	3,489,324			30.86%	2.22	23,911 (5)		
2003	2002	735,782	2,411,608	306,104	1,020,347	44,088	80,160	1,085,974	3,512,115			30.92%	2.29	24,869		
2004	2003	767,724	2,500,849	337,980	1,126,600	43,993	78,379	1,149,697	3,705,828			31.02%	2.29	26,332 (6)		
2005	2004	782,646	2,544,307	332,088	1,106,949	46,710	84,928	1,161,444	3,736,184			31.09%	2.29	26,617 (7)		

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

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

- Note 1: Includes only the property assessed by the State of Tennessee - Office of State Assessed Properties. Any locally assessed public utility property is included with all other real property assessments. Prior to tax year 1996, the assessed values for public utilities were provided by the State of Tennessee - Public Service Commission.
- Note 2: The tax rate is \$2.39 per \$100 of assessed value, equalized to \$2.46 for that portion of Kingsport inside Hawkins County. The last reappraisal of property in Hawkins County was in tax year 1996; therefore, a sales ratio adjustment was made by the State of Tennessee. The last reappraisal of property in Sullivan County was in tax year 1997. The tax levy inside Sullivan County is \$22,123 and inside Hawkins County is \$791. The 1998 property tax levy included \$7 in a special assessment for code violations that has no corresponding 1998 assessment. The 1999 tax levy included \$5 in a special assessment for code violations that has no corresponding 1999 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.
- Note 7: 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 \$25,605 and inside Hawkins County is \$996. The 2004 property tax levy included \$16 in a special assessment for code violations that has no corresponding 2004 assessment.

Source: City of Kingsport Finance Department

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

Fiscal Year Ended June 30	Kingsport 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
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
2005	2.29	2.67	2.53

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
PROPERTY TAX RECEIVABLE
 June 30, 2005
 (amounts expressed in thousands)

YEAR OF TAX ROLL	PROPERTY TAX RECEIVABLE June 30, 2004	TAX LEVY	LATE LISTINGS & DISCOVERIES	RELEASES & ABATEMENTS	COLLECTIONS	PROPERTY TAX RECEIVABLE June 30, 2005
1994	\$ 8	-	-	(7)	(1)	-
1995	14	-	-	-	(1)	13
1996	17	-	-	-	(1)	16
1997	19	-	-	-	(3)	16
1998	23	-	-	-	(2)	21
1999	44	-	-	-	(7)	37
2000	114	-	-	-	(31)	83
2001	240	-	1	-	(84)	157
2002	375	-	-	-	(172)	203
2003	1,016	-	10	(9)	(591)	426
2004	-	26,455	190	(28)	(25,794)	823
TOTAL ALL YEARS	\$ 1,870	26,455	201	(44)	(26,687)	1,795
	2004 TOTAL LEVY	\$ 26,455	190	(28)		
		190				
		(28)				
		<u>\$ 26,617</u>				

Source: City of Kingsport Finance Department

This table does not include an estimated \$27,990 for Tax Year 2005. These property taxes are accrued and revenue deferred for entity-wide financial statements only.

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

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
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
2005	-	-	0%	66	-	66

Total sewer assessment receivable is \$102 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. Receivable is recorded in the Sewer Fund.

Source: City of Kingsport Finance Department

CITY OF KINGSFORT, TENNESSEE
TOP TEN TAXPAYERS

June 30, 2005

(amounts expressed in thousands)

Taxpayer	Type of Business	Taxes Levied	Assessed Valuation For Tax Year 2004	% of Total Assessed Valuation
Eastman Chemical Company	Manufacturer of Chemicals, Fibers, and Plastics	\$ 7,557	\$ 329,989	28.41%
Weyerhaeuser Company	Paper Manufacturer	379	16,543	1.42%
Kingsport Power Company	Public Utility	365	15,919	1.37%
Quebecor World Inc.	Book Manufacturer	350	15,306	1.32%
United Inter-Mountain Telephone	Public Utility	328	14,319	1.23%
Fort Henry Mall	Retail Merchants	262	11,455	0.99%
Wal Mart Properties/Real Estate	Retail Merchant	214	9,349	0.80%
Mountain State Health	Hospital	199	8,686	0.75%
Wellmont Health System/ Holston Valley Health Care	Medical/Hospital	181	7,895	0.68%
AFG Industries, Inc.	Glass Manufacturer	<u>168</u>	<u>7,345</u>	<u>0.63%</u>
		<u>\$ 10,003</u>	<u>\$ 436,806</u>	<u>37.60%</u>

Source: City of Kingsport Finance Department

CITY OF KINGSFORT
TOP TEN WATER CUSTOMERS
June 30, 2005
(amounts expressed in thousands)

Customer Name	Type of Business	Usage	Revenue	Revenue as % of FY05 Water Sales
Eastman Chemical	Manufacturer of Chemicals, Fibers, and Plastics	801,174	\$ 1,093	9.86%
Weyerhaeuser Company	Manufacturer of Paper	134,928	191	1.72%
Wellmont Health System/ Holston Valley Health Care	Medical/Hospital	67,555	94	0.85%
Quebecor World, Inc.	Manufacturer of Books	64,129	88	0.79%
Pet Dairy, Inc.	Manufacturer of Dairy Products	41,349	56	0.51%
Kingsport Housing Authority	Governmental Housing	34,828	54	0.49%
Royal Ordnance of North America, Inc.	Manufacturer of Munitions	39,596	54	0.49%
AFG Industries, Inc.	Manufacturer of Glass Products	26,459	48	0.43%
Indian Path Medical Center	Medical/Hospital	25,681	35	0.31%
Autumn Chase Apartments LLC	Residential Rental Property	18,707	25	0.23%
Total		1,254,406	\$ 1,738	15.68%

CITY OF KINGSFORT
TOP TEN SEWER CUSTOMERS
June 30, 2005
(amounts expressed in thousands)

Customer Name	Type of Business	Usage	Revenue	Revenue as % of FY05 Sewer User Fees
Eastman Chemical	Manufacturer of Chemicals, Fibers, and Plastics	199,521	\$ 1,160	10.96%
Wellmont Health System/ Holston Valley Health Care	Medical/Hospital	46,639	271	2.56%
Kingsport Housing Authority	Governmental Housing	34,828	203	1.92%
Pet Dairy, Inc.	Manufacturer of Dairy Products	23,010	134	1.26%
Quebecor World, Inc.	Manufacturer of Books	22,401	130	1.23%
Indian Path Medical Center	Medical/Hospital	18,726	109	1.03%
Autumn Chase Apartments LLC	Residential Rental Property	18,707	109	1.03%
Cabana Apartments, Inc.	Residential Rental Property	13,379	78	0.73%
Weyerhaeuser Company	Manufacturer of Paper	11,902	69	0.66%
Model City Apartments	Residential Rental Property	11,712	68	0.64%
Total		400,825	\$ 2,331	22.02%

Source: City of Kingsport Finance Department

CITY OF KINGSFORT, TENNESSEE
STATEMENT OF LEGAL DEBT MARGIN
June 30, 2005
(amounts expressed in thousands)

Assessed Value - Tax Year, 2004	<u>\$ 1,161,444</u>
Debt Limit - 20% of Assessed Value	232,289
Outstanding Bonded Indebtedness (Excluding general obligation payable from the revenues of the Water and Sewer Funds)	<u>50,275</u>
Legal Debt Margin - June 30, 2005	<u><u>\$ 182,014</u></u>

Limitation on Borrowing Power

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

Bond Rating: "Moody's" A-1

Source: City of Kingsport Finance Department

CITY OF KINGSFORT, TENNESSEE
RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
FISCAL YEARS 1996 THROUGH 2005
(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
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
2005	44	1,161,444	2004	50,275	4.33	1

1. For fiscal years 1996, 1997, 1998 and 2000 the population figures used were 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 GOVERNMENTAL EXPENDITURES
FISCAL YEARS 1996 THROUGH 2005
(amounts expressed in thousands)

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service	Total General Expenditures	Ratio of Debt Service To General Expenditures (Per Cent)
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%
2005	7,847	2,040	9,887	107,728	9.18%

(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, 2005
(amounts expressed in thousands)

Name of Governmental Unit	Net Debt Outstanding	Percentage Applicable to this Governmental Unit	City of Kingsport's Share of debt
City of Kingsport	\$ 50,275 *	100.00%	\$ 50,275
Total Direct Debt	50,275	100.00%	50,275
Sullivan County	26,845	43.78%	11,753
Hawkins County	12,695	6.80%	863
Total Overlapping Debt	39,540	50.58%	12,616
Total Direct and Overlapping Debt	<u>\$ 89,815</u>		<u>\$ 62,891</u>

* Includes Conference Center General Obligation Bonded Debt

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
COMBINED SCHEDULE OF UTILITY FUND REVENUE BOND COVERAGE
FISCAL YEARS 1996 THROUGH 2005
(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		
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
2005	24,613	9,144	15,469	8,173	1,732	9,905	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

Table 17

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

Fiscal Year Ending <u>June 30</u>	(1) (4) <u>Population</u>	(1) (3) Per Capita Personal <u>Income</u>	(1) (4) Median <u>Age</u>	(2) School <u>Enrollment</u>	(1) (5) Unemployment <u>Rate</u>
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	25,299	*	6,412	5.90%
2004	44,231	*	*	6,382	5.50%
2005	44,070	*	*	6,377	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, 2005

Table 19
 Page 1 of 2

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)	441
<u>Area - Square Miles:</u>	45.43 square miles
<u>City of Kingsport Facilities and Services:</u>	
Miles of Streets	<u>Miles</u> 436
Number of Street lights	9,600
<u>FIRE PROTECTION:</u>	
Number of Stations	6
Number of Employees:	
Fire Personnel	94
Other	<u>2</u>
Total	96
Operating Statistics for July 1, 2004 thru June 30, 2005:	
Calls for Service	5,775
Inspections	2,507
Fire Loss	\$4,063,555
<u>POLICE PROTECTION:</u>	
Number of Employees:	
Officers Sworn	102
Other	<u>57</u>
Total	159
Operating Statistics for July 1, 2004 thru June 30, 2005:	
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, 2005

Number of instructors	526
Average Daily Attendance	6,042
Average Daily Membership	6,377

SEWER FUND:

Number of service connections	21,944
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	36,484
Number of active customers	33,285
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:

	Inside City
First 2,000 gal	3.14 per 1,000 gal
Next 13,000 gal	2.53 per 1,000 gal
Next 35,000 gal	1.95 per 1,000 gal
Over 50,000 gal	1.33 per 1,000 gal

	Outside City
First 1,000 gal	12.93 per 1,000 gal
Next 9,000 gal	5.61 per 1,000 gal
Next 10,000 gal	5.08 per 1,000 gal
Next 70,000 gal	4.71 per 1,000 gal
Next 100,000 gal	3.86 per 1,000 gal
Over 190,000 gal	3.62 per 1,000 gal

Sewer Rates:

	Inside City	Outside City
	5.81 per 1,000 gal	6.79 per 1,000 gal

Facilities and services not included in the reporting entity:

Cable Television System:

Miles of service	980
Number of satellite receiving stations	1

Hospitals:

Number of hospitals	2
Number of patient beds	870

CITY OF KINGSFORT, TENNESSEE
SCHEDULE OF BONDS PAYABLE - FUTURE REQUIREMENTS
JUNE 30, 2005
 (amounts expressed in thousands)

Fiscal Year	REVENUE AND GENERAL OBLIGATION BONDS										Combined Bonds and Interest
	General Obligation Bonds		City of Kingsport		Sewage Disposal Bonds		Cattails Golf Course Bonds		Meadowview Convention Center Bonds and		
	Principal	Interest	Tri-county Water Bonds	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2006	\$ 8,324	\$ 1,750	\$ 1,925	\$ 657	\$ 3,960	\$ 1,541	\$ 2,316	\$ 322	\$ 20,795		
2007	8,024	1,441	1,535	590	4,115	1,391	2,414	233	19,743		
2008	7,720	1,115	1,242	534	3,298	1,252	2,530	130	17,821		
2009	7,084	839	1,295	487	2,905	1,083	511	66	14,270		
2010	1,660	539	1,355	432	3,025	1,025	539	51	8,626		
2011	1,734	481	1,420	374	3,155	898	569	36	8,667		
2012	1,780	418	1,475	312	3,290	762	105	20	8,162		
2013	1,820	352	1,350	247	3,040	618	110	17	7,554		
2014	1,885	273	1,420	185	3,175	482	117	14	7,551		
2015	1,410	189	1,210	119	3,005	338	123	11	6,405		
2016	1,100	128	695	63	2,095	202	130	8	4,421		
2017	895	86	485	37	1,375	119	137	4	3,138		
2018	950	49	250	16	945	62	-	-	2,272		
2019	250	10	145	6	555	22	-	-	988		
	<u>\$ 44,636</u>	<u>\$ 7,670</u>	<u>\$ 15,802</u>	<u>\$ 4,059</u>	<u>\$ 37,938</u>	<u>\$ 9,795</u>	<u>\$ 9,601</u>	<u>\$ 912</u>	<u>\$ 130,413</u>		

	Principal	Interest	Total
General Obligation Revenue and General Obligation	\$ 44,636	\$ 7,670	\$ 52,306
	63,341	14,766	78,107
TOTAL	<u>\$ 107,977</u>	<u>\$ 22,436</u>	<u>\$ 130,413</u>

Source: City of Kingsport Finance Department

CITY OF KINGSPORT, TENNESSEE
SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS
For the Fiscal Year Ended June 30, 2005

NAME	TITLE	ANNUAL SALARY	AMOUNT OF SURETY BOND
A. Ray Griffin, Jr.	City Manager	\$ 111,300	\$ 5,000
J. Michael Bilingsley	City Attorney	98,100	-
James H. Demming	City Recorder/Chief Financial Officer	92,200	385,000
Keith E. Smith	City Treasurer	70,400	200,000
Richard Kitzmiller	Director of Schools	101,000	-
Mark E. Addington	Chief of Police	86,800	-
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

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CITY OF KINGSPORT, TN
SCHEDULE OF INSURANCE IN FORCE
June 30, 2005
(amounts expressed in thousands)

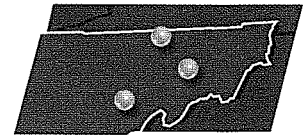
Type of Coverage/ Insurance Carrier	Policy Number	Policy Period	Details of Coverage	Claim Limits	Annual Premiums
<u>Comprehensive General Liability</u> TML Risk Management Pool	TML-21300	7/1/05 - 7/1/06	General Liability Auto Liability Auto Physical Damage Errors and Omissions	\$ 3,000 3,000 replacement 3,000	\$ 177
Midwest Employers Reinsurance Corp.	EWC 005902 (reinsurance agreement)	1/1/05 - 1/1/06	Worker's Compensation	Statutory	81
<u>Government Crime</u> St. Paul / U.S. Fidelity & Guarantee Co.	406CG6920	1/1/05 - 1/1/06	Employee Blanket Dishonesty (City)	250	1
St. Paul / U.S. Fidelity & Guarantee Co.	406CH3614	7/1/04 - 7/1/07 (annual renewal)	Employee Blanket Dishonesty (Schools)	500	1
<u>Unemployment Compensation</u>	Self insured				
<u>Property and Casualty</u> Continental Casualty Ins. Co	RMP271010211	12/31/04 - 12/31/05	Buildings and Contents	108,938	105
Travelers Insurance Co./ BB&T/ KDC	710X3600-660	2/13/05 - 2/13/06	Justice Center Commercial/ Gen Property	5,928	9
Hartford Insurance Co.	20MSCYQ7488	5/26/05 - 5/26/06	Grand Piano - Allandale		1
<u>Boiler and Machinery</u> The Cincinnati Insurance Co.	BEP2646328	1/1/05 - 1/1/06	Boilers	100	4
<u>Public Officials Bond</u> St. Paul / U.S. Fidelity & Guarantee Co. RLI	400MQ3028 RSB2003698	8/1/04 - 8/1/05 4/30/05 - 4/30/06	Bond - Treasurer (K. Smith) Bond - Treasurer (K. Smith) (State of Tennessee Schools)	200 1,044	1 5
St. Paul / U.S. Fidelity & Guarantee Co. St. Paul / U.S. Fidelity & Guarantee Co. St. Paul / U.S. Fidelity & Guarantee Co. CNA Insurance Company	400NS5672 400KF0756 104476426 58368775	3/15/05 - 3/15/06 10/1/04 - 10/1/05 1/1/05 - 12/31/06 4/4/05 - 4/4/06	Bond - Recorder (J. Demming) Bond - City Manager (R. Griffin) Bond - City Judge (J.R. Boatwright) Blanket Notary Errors and Omissions	385 5 1 25	2 - - 1

CITY OF KINGSFORT, TN
SCHEDULE OF INSURANCE IN FORCE
June 30, 2005
(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	10/4/04 - 10/4/05	Contractor's Equipment Damage	1,024	9
Stadium General Liability/ Hunter Wright Property - D.B. High School Indiana Insurance Company	CBP9566738	3/8/05 - 3/8/06	General Liability/ Scoreboard/ Public Address system	2,000	2
Total Premium					<u>\$ 399</u>

Source: City of Kingsport

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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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 2, 2005. We did not audit the basic financial statements of the Emergency Communications District, a discretely presented component unit, which represents 17 percent, 17 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, 2005. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses

Compliance and Other Matters

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

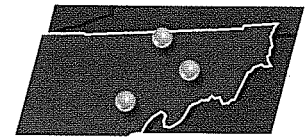
We noted certain other matters that we reported to management of the City in a separate letter dated December 2, 2005.

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

Blackburn Childers and Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC

December 2, 2005



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, 2005. 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, 2005.

Internal Control Over Compliance

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

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

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

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

December 2, 2005

CITY OF KINGSPORT, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

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 17 percent, 17 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. No reportable conditions or material weaknesses are reported in the independent auditors' report on compliance and on internal control over financial reporting, based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance, material to the financial statements of the City, were disclosed during the audit.
4. No reportable conditions disclosed during the audit of the major federal award programs were reported in the independent auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion 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
ISTEA	20.219
FTA	20.507
Homeland Security	83.554
Title I	84.010

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, 2005

Section II - Financial Statement Findings

Current Year Findings –

There are no current year findings.

Prior Year Findings Implemented:

- 04-1 Reconciliation of Fund Balance / Retained Earnings
- 04-2 Trade-in Fixed Asset Acquisitions / Disposals

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.